

Board of Governors of the Federal Reserve System

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# The Board Can Enhance Certain Governance Processes Related to Reviewing and Approving Supervisory Proposals



**Office of Inspector General**

Board of Governors of the Federal Reserve System  
Consumer Financial Protection Bureau



Executive Summary, 2022-SR-B-017, December 7, 2022

## The Board Can Enhance Certain Governance Processes Related to Reviewing and Approving Supervisory Proposals

### Findings

The Board of Governors of the Federal Reserve System can enhance certain governance processes related to reviewing and approving supervisory proposals. We determined that the Board used varying approaches for informing and consulting Board members about planned Supervision and Regulation Letters (SR Letters). By enhancing the processes for these activities and developing guidance on how to document those consultations, the Board may enhance its ability to obtain Board member input on planned SR Letters. We also determined that the Board's approach for soliciting public feedback on these proposals is not clearly defined. We acknowledge that varying factors affect the Board's decision to solicit public comment on an SR Letter. However, establishing a framework for determining when and how to solicit public comment may provide Board officials and staff with a more consistent approach to making this decision and enhance the Board's ability to obtain input from the public when it chooses to do so.

Further, the Board can clarify how delegated actions related to stress testing proposals will be handled in the absence of a Committee on Supervision and Regulation (CSR) chair or a vice chair for supervision and how some of the Board's operations should be executed in the absence of a vice chair for supervision. Although the Board has developed interim guidance on these matters, updating the delegations of authority related to stress testing proposals and the CSR's governing documents will better position the Board to handle transitions between senior leadership. In addition, we believe the Board should document certain activities conducted by the CSR. Recording the CSR's guidance and concurrence on supervision and regulation matters will increase the transparency and overall effectiveness of the committee's activities.

Finally, the agency can clarify certain information posted to its public website regarding Board of Governors votes. Enhancing the clarity of this information could increase the public's understanding of the agency's actions.

### Recommendations

Our report contains recommendations designed to enhance the effectiveness of the Board's processes and practices for reviewing and approving supervisory proposals. In its response to our draft report, the Board concurs with our recommendations and outlines actions to address each recommendation. We will follow up to ensure that the recommendations are fully addressed.

### Purpose

We conducted this evaluation to assess the effectiveness of the Board's processes and practices for reviewing and approving supervisory proposals. The scope of our evaluation included SR Letters issued from January 1, 2019, through June 30, 2021, and stress testing scenarios and results issued from January 1, 2020, through June 30, 2021.

### Background

The Board develops and implements policies, guidance, and programs, including SR Letters and stress testing. SR Letters are guidance documents addressing significant supervision policy and procedural matters. Through its stress testing program, the Board develops hypothetical scenarios and evaluates the resilience of large banks by estimating their losses, revenues, expenses, and resulting capital levels under those scenarios.

*Organizational governance* involves processes and structures for decisionmaking, accountability, controls, and behaviors designed to accomplish an organization's objectives. The agency has established processes and structures that may be used by Board members to review and approve supervisory proposals, including Board of Governors votes and standing committees such as the CSR, which is chaired by the vice chair for supervision.



Recommendations, 2022-SR-B-017, December 7, 2022

## The Board Can Enhance Certain Governance Processes Related to Reviewing and Approving Supervisory Proposals

### Finding 1: The Board Can Enhance Its Processes for Informing and Consulting Board Members on Planned SR Letters

Number	Recommendation	Responsible office
1	Develop, in consultation with the Board of Governors, a dashboard or similar tool for Board members that forecasts planned supervisory policy and guidance proposals. As part of this effort, assign responsibilities for maintaining and updating the dashboard or tool and establish a frequency for distributing the dashboard or tool.	Division of Supervision and Regulation
2	Update the Policy Issuance Processing Form template to provide guidance on how to document Board member and Board committee consultation on supervisory policy and guidance proposals.	Division of Supervision and Regulation

### Finding 2: The Board Can Clarify Its Approach for Soliciting Feedback From the Public on Planned SR Letters

Number	Recommendation	Responsible office
3	Issue internal guidance on the process for soliciting public comment on supervisory policy and guidance proposals that defines <ol style="list-style-type: none"><li>the types of supervisory proposals that should be submitted for public comment.</li><li>the options for soliciting public comment on a proposal.</li><li>the factors that should be considered when determining whether to seek comment and, if the Board decides to solicit public comment on a supervisory proposal, which option to use.</li><li>the approval process for whether and how to solicit public comment.</li></ol>	Division of Supervision and Regulation and Legal Division

### Finding 3: The Board Can Clarify How Delegated Actions Related to Stress Testing Proposals Are to Be Handled in the Absence of a CSR Chair or a Vice Chair for Supervision

Number	Recommendation	Responsible office
4	Update, in consultation with the Board of Governors, the director of FS, and the general counsel, the delegations of authority related to the stress testing program to clarify how actions should be delegated when there is no vice chair for supervision or CSR chair.	Division of Supervision and Regulation

#### Finding 4: The Board Can Clarify How Some Operations Are to Be Executed in the Absence of a Vice Chair for Supervision

Number	Recommendation	Responsible office
5	Update, in consultation with the Board of Governors, the director of S&R, and the general counsel, the CSR charter to state how the committee should operate in the absence of a vice chair for supervision and a CSR chair, including specifying who is responsible for setting the strategic direction and priorities of the committee and developing committee meeting agendas.	Office of the Secretary
6	Update, in consultation with the Board of Governors, the <i>Board Organization and Procedures</i> policy to state who will fill the role of oversight governor for S&R if the Board chair has not appointed one.	Office of the Secretary

#### Finding 5: The Board Should Document Certain Activities Conducted by the CSR

Number	Recommendation	Responsible office
7	Establish a process to document CSR meetings, including describing what guidance or concurrence was provided to Board staff.	Division of Supervision and Regulation

#### Finding 6: The Board Can Clarify Certain Information Posted to the Board's Public Website Regarding Board of Governors Votes

Number	Recommendation	Responsible office
8	Update the division's procedures for posting information to the public website to provide clear guidance on how to describe and categorize the actions voted on by the Board of Governors and the types of documents that should be linked in a press release.	Division of Board Members
9	Assess the information on the public website regarding Board of Governors votes to determine whether the information provided clearly describes the actions on which the Board of Governors voted, and make clarifications as needed.	Division of Board Members




**Office of Inspector General**

Board of Governors of the Federal Reserve System  
Consumer Financial Protection Bureau

**MEMORANDUM**

**DATE:** December 7, 2022

**TO:** Distribution List

**FROM:** Michael VanHuysen   
Associate Inspector General for Audits and Evaluations

**SUBJECT:** OIG Report 2022-SR-B-017: *The Board Can Enhance Certain Governance Processes Related to Reviewing and Approving Supervisory Proposals*

We have completed our report on the subject evaluation. We conducted this evaluation to assess the effectiveness of the Board of Governors of the Federal Reserve System’s processes and practices for reviewing and approving supervisory proposals.

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

We appreciate the cooperation that we received from the Board during our evaluation. Please contact me if you would like to discuss this report or any related issues.

- cc: Andreas Lehnert  
Jennifer Burns  
Arthur Lindo  
Lisa Ryu  
Shannon Kelly  
Anna Lee Hewko  
William Bassett  
Bora Durdu  
Luca Guerrieri  
Asad Kudiya  
Julie Anthony  
Nawsheen Rabbani  
Laura Olsen  
Eric Kollig  
Laura Shipley  
Ryan Lordos

Jherylris Herron  
Ricardo A. Aguilera  
Cheryl Patterson

*Distribution:*

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

Ann E. Misback, Secretary of the Board

Michelle A. Smith, Assistant to the Board, Chief of Staff, and Director, Division of Board Members

Mark E. Van Der Weide, General Counsel



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# Introduction

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## Objective

Our objective for this evaluation was to assess the effectiveness of the Board of Governors of the Federal Reserve System’s processes and practices for reviewing and approving supervisory proposals.<sup>1</sup> The scope of our evaluation included Supervision and Regulation Letters (SR Letters) and joint SR/Consumer Affairs Letters (SR/CA Letters), including SR Letters announcing policy statements, interagency guidance and statements, and updates to Federal Financial Institutions Examination Council (FFIEC)<sup>2</sup> examination manuals that were issued from January 1, 2019, through June 30, 2021.<sup>3</sup> Our scope also included stress testing scenarios and results issued from January 1, 2020, through June 30, 2021.<sup>4</sup>

During our scope period, the Board issued 58 SR Letters, 3 sets of stress testing scenarios, and 3 sets of stress testing results. We reviewed the processes and practices that the Board used to review and approve these supervisory proposals. Our scope did not include Advisory Letters (AD Letters), guidance only applicable to consumer compliance supervisory functions, Board examination manuals, rulemaking, enforcement actions, supervisory ratings, or the sensitivity analysis the Board released in June 2020.<sup>5</sup> Appendix A describes our scope and methodology in greater detail.

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<sup>1</sup> For the purposes of our report, we refer to Supervision and Regulation Letters, stress testing scenarios, and stress testing results as *supervisory proposals*.

<sup>2</sup> The FFIEC is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Consumer Financial Protection Bureau and to make recommendations to promote uniformity in the supervision of financial institutions. The Board, along with the other federal financial regulatory agencies that comprise the FFIEC and a committee composed of five representatives of state supervisory agencies, sometimes issues interagency guidance or statements and updates to the FFIEC examination manuals that provide examiners with guidance on supervising financial institutions.

<sup>3</sup> For the purposes of our report, we refer to these collectively as *SR Letters*.

<sup>4</sup> In June 2020, the Board released the results of a sensitivity analysis in conjunction with the results of its annual supervisory stress test. The sensitivity analysis, “Assessment of Bank Capital during the Recent Coronavirus Event,” assessed the resilience of firms under a range of plausible downside scenarios stemming from the COVID-19 pandemic and the imposition of associated containment measures.

<sup>5</sup> AD Letters advise examination and supervisory staff of guidance, supervisory procedures, and other information pertinent to executing the Board’s supervisory function.

# Background

## *The Board's Role in Supervision*

The Board plays a significant role in supervising and regulating U.S. financial institutions. Through its oversight, the Board seeks to ensure that the institutions under its authority operate in a safe and sound manner and comply with all applicable federal laws and regulations.<sup>6</sup>

As part of its mission to supervise and regulate the U.S. financial institutions under its authority, the Board develops and implements policies, guidance, and programs, including the following:

- **SR Letters:** SR Letters are guidance documents that address significant policy and procedural matters related to the Board's supervisory responsibilities.<sup>7</sup> Some SR Letters may contain substantive guidance, whereas others may serve as a cover letter for other forms of supervisory policy and guidance, such as policy statements, interagency statements and guidance, or updates to FFIEC examination manuals. These documents cover the full spectrum of supervisory topics, from the detailed and specific, such as the electronic process for collecting fingerprints for background investigations, to macro topics, such as the rating system for the supervision of large financial institutions (LFIs). Most SR Letters are available on the Board's public website.
- **Stress Testing:** The Board develops hypothetical scenarios and conducts supervisory stress testing to evaluate the resilience of large banks by estimating their losses, revenues, expenses, and resulting capital levels under those scenarios.<sup>8</sup> The Board must notify financial institutions of the scenarios it will use to conduct its stress tests and publish the scenarios annually on or before February 15.<sup>9</sup> In addition, the Board must publicly disclose an annual summary of its supervisory stress test results by June 30.<sup>10</sup> The Board uses its scenarios and firm-provided data to project the stress test results, which include revenues, expenses, losses, pretax net income, and capital ratios under adverse economic and financial conditions. The Board uses the stress test results to help determine each firm's capital requirements for the coming year, known as a firm's *stress capital buffer*.<sup>11</sup>

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<sup>6</sup> By law, the Board is responsible for supervising and regulating the following segments of the financial industry: state member banks; bank holding companies; savings and loan holding companies; nonbank subsidiaries of bank holding companies and of savings and loan holding companies; Edge Act and Agreement corporations; branches and agencies of foreign banking organizations operating in the United States and their parent banks; designated financial market utilities; and officers, directors, employees, and certain other categories of individuals associated with the above banks, companies, and organizations.

<sup>7</sup> For the purposes of our report, we use *SR Letter* to refer to both the SR Letter itself as well as any other forms of supervisory policy and guidance that may be attached to or announced by the SR Letter.

<sup>8</sup> The Board publishes a minimum of two different stress test scenarios, including baseline and severely adverse conditions. The Board may also include additional scenario components or additional scenarios to capture different effects of adverse events on revenue, losses, and capital. For example, the market shock is a scenario component of the severely adverse scenario that only applies to institutions with significant trading activity and their subsidiaries. 12 C.F.R. part 252, appendix A.

<sup>9</sup> 12 C.F.R. part 252, appendix A(1)(b).

<sup>10</sup> 12 C.F.R. § 252.46.

<sup>11</sup> In March 2020, the Board adopted a final rule establishing the stress capital buffer requirement to simplify its capital rules for large banks by integrating the Board's stress test results with its nonstress capital requirements. 12 C.F.R. § 225.8.

In addition, the Board has rulemaking authority for the financial institutions under its supervisory responsibility. When using this rulemaking authority, the Board must follow the notice and comment rulemaking process as outlined in the Administrative Procedure Act to create a new rule.<sup>12</sup> Agencies must publish notices of proposed and final rules<sup>13</sup> in the *Federal Register*.<sup>14</sup> After an agency provides notice of a proposed rule, it must provide the public an opportunity to comment on the proposal, and the agency must address any comments it receives before issuing a final rule.<sup>15</sup> A *rule*—also referred to as a *regulation*—is generally an agency statement designed to implement or interpret an existing law.<sup>16</sup> Rules are outside the scope of this evaluation.

The Board may also issue an enforcement action against a supervised institution to compel the institution’s management to address issues or concerns identified through the supervisory process or other means. In 2019, we issued a report on the Board’s processes for issuing and terminating enforcement actions.<sup>17</sup> In that report, we found, among other things, that the Board could clarify certain aspects of these processes, including Board members’ roles in approving the issuance and termination of enforcement actions.<sup>18</sup> Enforcement actions are also outside the scope of this evaluation.

## Organizational Governance

*Organizational governance* involves processes and structures for decisionmaking, accountability, controls, and behaviors designed to accomplish an organization’s objectives.<sup>19</sup> A strong governance system can enable an organization to achieve its objectives efficiently and effectively.

Because organizations vary in terms of purpose, culture, and legal and regulatory requirements, no one governance system will fit the needs of every organization. As such, governance literature published by a

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<sup>12</sup> Administrative Procedure Act, Pub. L. No. 79–404, 60 Stat. 237 (1946).

<sup>13</sup> A *proposed rule* includes a draft of the regulatory requirements, an explanation and justification of the proposed requirements, and an invitation for comments from the public. A *final rule* includes an explanation of the rule’s requirements and a discussion of how the agency addressed the comments received for the proposed rule.

<sup>14</sup> The *Federal Register* is a daily publication of the U.S. government and is used to announce executive orders, federal agency regulations having general applicability and legal effect, proposed agency rules, and other documents required by statute to be published.

<sup>15</sup> The Administrative Procedure Act does not specify a minimum length of time an agency must allow for public comment on proposed rules. 5 U.S.C. § 553(c). However, agencies typically use 30-, 60-, or 90-day comment periods. See National Archives, Office of the Federal Register FAQs, “How can I use the Federal Register to affect Federal rulemaking?” The Board often allows the public to comment on proposed rules for 60 days; the period may be longer or shorter depending on the circumstances.

<sup>16</sup> 5 U.S.C. § 551(4). In 2021, the Board adopted a final rule codifying the *Interagency Statement Clarifying the Role of Supervisory Guidance*. According to this statement, a rule has the force and effect of law. Supervisory guidance does not have the force and effect of law; rather, it describes the Board’s supervisory expectations or priorities and articulates the agency’s general views on a topic. 12 C.F.R. part 262, appendix A.

<sup>17</sup> Office of Inspector General, *The Board Can Enhance Its Internal Enforcement Action Issuance and Termination Processes by Clarifying the Processes, Addressing Inefficiencies, and Improving Transparency*, [OIG Report 2019-SR-B-013](#), September 25, 2019.

<sup>18</sup> All the recommendations from this report are closed.

<sup>19</sup> Dean Bahrman, *Evaluating and Improving Organizational Governance*, The Institute of Internal Auditors Research Foundation, publisher, and Internal Audit Foundation, copyright holder, 2011.

variety of entities, including the Basel Committee on Banking Supervision and the Institute of Internal Auditors, often describes principles that can provide a basic framework for organizational governance.

According to the Basel Committee on Banking Supervision, an effective organizational governance system includes effective communication between senior management and an organization's board of directors and documentation of committee mandates, working procedures, and deliberations, among other elements.<sup>20</sup>

The Institute of Internal Auditors found that an effective organizational governance system includes well-defined roles, responsibilities, and accountabilities; consistent, transparent, and well-documented procedures; and clear and accurate communication to stakeholders, among other elements.<sup>21</sup>

In 2017, our office issued a report on the Board's organizational governance structures and processes, focusing on agencywide administrative and other functions.<sup>22</sup> For this evaluation, we assessed the effectiveness of the Board's processes and practices for reviewing and approving supervisory proposals, including its organizational governance structures and processes for conducting this work.

## **Legal and Regulatory Requirements Affecting the Board's Governance**

Several laws guide the Board's governance system.

### **Federal Reserve Act**

The Federal Reserve Act explains the purposes, structure, and functions of the Board and outlines aspects of its operations and accountability.<sup>23</sup>

#### **Structure**

The act establishes the Board of Governors, comprising seven governors, also known as Board members, who are nominated by the president and confirmed by the United States Senate for 14-year terms.<sup>24</sup> It also requires that the president designate, with the advice and consent of the Senate, one chair of the Board of Governors to serve as the active executive officer and one vice chair of the Board of Governors to serve in the absence of the chair.<sup>25</sup>

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<sup>20</sup> Basel Committee on Banking Supervision, *Guidelines: Corporate Governance Principles for Banks*, July 2015.

<sup>21</sup> Dean Bahrman, *Evaluating and Improving Organizational Governance*.

<sup>22</sup> Office of Inspector General, *The Board's Organizational Governance System Can Be Strengthened*, [OIG Report 2017-FMIC-B-020](#), December 11, 2017. In 2019, our office summarized key insights from this 2017 report more broadly, highlighting practices and considerations that other organizations can use to strengthen their governance system. See Office of Inspector General, [Strengthening Organizational Governance](#), February 14, 2019.

<sup>23</sup> Federal Reserve Act of 1913, Pub. L. No. 63-43, 38 Stat. 251 (1913).

<sup>24</sup> 12 U.S.C. § 241. *Board* refers to the federal agency serving as the main governing body of the Federal Reserve System and headed by the Board of Governors. *Board of Governors* refers to the seven-member body responsible for running the Board.

<sup>25</sup> 12 U.S.C. § 242.

## Authority to Delegate Most Functions

The act also authorizes the Board of Governors to delegate any of its functions, except those relating to rulemaking or pertaining principally to monetary and credit policies, to members or employees of the Board or the Federal Reserve Banks.<sup>26</sup>

## Dodd-Frank Wall Street Reform and Consumer Protection Act

In 2010, Congress enacted the Dodd-Frank Act.<sup>27</sup> It amended the Federal Reserve Act by requiring the president to designate, with the advice and consent of the United States Senate, a second vice chair, the vice chair for supervision, to oversee the supervision and regulation of Board-supervised financial institutions and to develop related policy recommendations.<sup>28</sup>

## Government in the Sunshine Act

The Sunshine Act requires that “meetings of an agency” be open to the public unless 1 or more of 10 exemptions apply.<sup>29</sup> The act applies to federal agencies headed by a collegial body composed of two or more individual agency members, a majority of whom are appointed by the president with the advice and consent of the United States Senate. A gathering of agency members constitutes a meeting if (1) a quorum of agency members is present and (2) deliberations determine or result in the joint conduct or disposition of official agency business.<sup>30</sup> When both of these requirements are met, the agency must follow certain procedural steps, including public notification of the time, place, and subject of all open meetings and public notification of when a meeting will be closed.

## The Board’s Governance System

The Board has established processes and structures to help execute its duties. These processes and structures may be used by the Board members and Board officials to review and approve supervisory proposals.

## Board of Governors Meetings and Votes

The Board of Governors conducts meetings about twice a month to cover the regulatory, monetary policy, and other responsibilities of the Board. In compliance with the Sunshine Act, these meetings are open to the public unless closed under legal exemptions. The Board of Governors also conducts some

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<sup>26</sup> 12 U.S.C. § 248(k). According to the Board’s *Rules Regarding Delegation of Authority*, certain actions are delegated by the Board of Governors to an individual Board member or to Board officials. 12 C.F.R. part 265.

<sup>27</sup> Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010).

<sup>28</sup> The position of vice chair for supervision was created in 2010 but remained vacant until 2017. The Board’s first vice chair for supervision served in that role from October 2017 to October 2021. Although the vice chair for supervision’s term ended in October 2021, he remained a member of the Board of Governors until December 2021.

<sup>29</sup> Government in the Sunshine Act, Pub. L. No. 94-409, 90 Stat. 1241 (1976).

<sup>30</sup> In 2017, the Board amended the definition of *quorum* to mean four members of the Board of Governors, except that if three or fewer Board members are in office, a quorum consists of all Board members currently in office. In addition, this amendment states that in an emergency situation, a quorum of the Board of Governors consists of a majority of Board members in office. The Board’s *Rules of Organization* states that an emergency situation exists when action on a matter is necessary to prevent, correct, or mitigate serious harm to the economy or the stability of the financial system, and action is required before the full Board of Governors can convene. 82 Fed. Reg. 55496 (Nov. 22, 2017).

business by notation vote, in which material circulates electronically among the Board members for written comment and vote.

## Standing Committees

The Board of Governors committee structure comprises seven standing committees and one standing subcommittee.<sup>31</sup> Each standing committee consists of up to three Board members, one of whom is designated by the Board chair to serve as committee chair. Each standing committee has a charter outlining the committee's purpose and responsibilities. The jurisdiction of one of the standing committees and the standing subcommittee includes reviewing supervisory proposals.

- The **Committee on Supervision and Regulation (CSR)**, through its chair—the vice chair for supervision—informs and advises the Board of Governors on supervisory and regulatory matters affecting financial institutions for which the Board has specific statutory authority. As the CSR chair, the vice chair for supervision sets the strategic direction and priorities of the committee. The committee provides guidance to Board staff and advice to the Board of Governors on the development and interpretation of regulations, policies, and supervisory actions, although the committee's charter does not state that the CSR must review all supervisory proposals.
- The **Subcommittee on Smaller Regional and Community Financial Institutions** is a subcommittee of the CSR that provides guidance to staff and makes recommendations to the CSR on supervisory and regulatory matters related to safety and soundness issues that have broad implications for the smaller regional and community financial institutions for which the Board has specific statutory authority.

## Divisions

Five of the Board's divisions play key roles in supporting the review and approval process for supervisory proposals.<sup>32</sup>

- The **Division of Supervision and Regulation (S&R)** is responsible for leading the Board's supervisory activities. In this role, S&R is responsible for (1) developing regulations and guidance for financial institutions subject to the Board's supervisory authority as well as internal guidance for supervisory staff through its Policy Group<sup>33</sup> and (2) creating, overseeing, and executing supervision programs that promote the safety and soundness of Board-supervised institutions and the financial stability of the U.S. economy, including the supervisory stress testing program, through its Supervision Group. The director of S&R, or a designee, serves as the secretariat of the CSR. The secretariat, working with the CSR chair, implements the CSR's operating procedures, handles meeting logistics, and captures and disseminates key information.

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<sup>31</sup> This committee structure is documented in the *Board Organization and Procedures* policy. This policy states that standing committees are not authorized to act or make final or preliminary decisions on behalf of the Board of Governors or to submit recommendations to the Board of Governors.

<sup>32</sup> The Division of Consumer and Community Affairs participates in the review and approval of joint SR/CA Letters, but its role is outside the scope of this evaluation.

<sup>33</sup> The director of S&R or a designee issues SR Letters. An official in the Legal Division stated that the Board considers the authority to issue supervisory guidance an inherent function of the director of S&R. Interviewees in the Legal Division noted that they are not aware of any delegations of authority related to issuing supervisory policy and guidance.

- The **Division of Financial Stability (FS)** is responsible for identifying and analyzing risks to financial stability and for developing and evaluating macroprudential policy responses to those risks. Further, FS plays a key role in the Board’s scenario design for the supervisory stress tests.
- The **Office of the Secretary** oversees Board of Governors meetings, agendas, and minutes; administers the notation voting process; and manages the Board’s records management program.
- The **Legal Division** provides legal advice and services to the Board to meet its responsibilities in all aspects of its mission, purposes, and functions, including the Board’s supervisory and regulatory responsibilities.
- The **Division of Board Members**, which includes the seven Board members, is responsible for overseeing, directing, and supervising the execution of the Board’s goals, objectives, and projects involving monetary policy, supervision and regulation policy, and managerial policy. Within the division, two groups support the Board’s communication to the public.
  - The Public Affairs Office provides the public with information concerning the Board’s actions and works to increase the public’s understanding of the Board’s functions, responsibilities, and policy goals.
  - The Public Information Outreach Program executes initiatives to expand the Board’s outreach and to build and sustain various communication platforms, including the Board’s public website and social media platforms, to educate and inform the public.

## Oversight Governors

The chair of the Board of Governors can designate a Board member to serve as an oversight governor for each division of the Board. The CSR charter states that the committee chair shall serve as the oversight governor for S&R at the chair of the Board’s discretion. Oversight governors have authority to monitor the operations and activities of their respective divisions.



# Finding 1: The Board Can Enhance Its Processes for Informing and Consulting Board Members on Planned SR Letters

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We found that the Board used varying approaches for informing and consulting Board members on planned SR Letters and that S&R is documenting those consultations inconsistently. While the Board noted that it follows the approach described in the CSR charter by deferring to the vice chair for supervision to inform the other CSR members of relevant developments, CSR members cited the benefits of having additional insight into supervisory policy and guidance proposals. We believe that the Board could benefit from developing a dashboard or similar tool to forecast for Board members supervisory policy and guidance proposals under development. Establishing such a tool would give Board members the flexibility to assess when they would like to provide input and would enhance the agency's ability to obtain Board members' perspectives on these proposals. In addition, by developing guidance for documenting Board member consultation on these proposals, S&R staff may improve the clarity of their communications to S&R leadership regarding their consultations with Board members.

## The Board Used Varying Approaches for Informing and Consulting Board Members Regarding Planned SR Letters

The Dodd-Frank Act established the position of vice chair for supervision to oversee the supervision and regulation of Board-supervised financial institutions and to develop related policy recommendations. In addition, the CSR charter states that the vice chair for supervision will serve as the chair of the committee and that the CSR chair will keep committee members and, as appropriate, the Board chair and other Board members informed of relevant developments. As a division responsible for developing guidance for financial institutions and internal guidance for supervisory staff, S&R plays an important role in informing the CSR chair about planned SR Letters, which helps the CSR chair execute their responsibilities.

We assessed the approaches that the Board used to inform and consult Board members on the SR Letters issued during the scope of our evaluation and found that they varied. Board members were informed and consulted during CSR meetings as well as during meetings or informal communications with Board members and their advisors.<sup>34</sup>

For example, one of the SR Letters in our scope was discussed in various channels, namely in CSR meetings, in a meeting between the vice chair for supervision and S&R officials, and in emails from an

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<sup>34</sup> Each Board member generally has one or more advisors on rotation from one of the Board's divisions. These dedicated advisors are typically senior staff or Board officials.



S&R official to the vice chair for supervision.<sup>35</sup> An interviewee stated that two CSR members asked for additional information regarding this guidance and as a result, S&R staff prepared another briefing for the CSR. S&R staff also revised the proposed guidance based on feedback from a Board member and provided another Board member with a memorandum addressing their questions.

In contrast, another SR Letter in our scope was not discussed in a CSR meeting. According to a Board member, the vice chair for supervision directed S&R to share information on this proposal with the other Board members. Another interviewee noted that the vice chair for supervision spoke with another Board member directly to address any concerns regarding this proposal.

All three CSR members observed inconsistencies in the types of supervisory proposals that staff bring to Board members for consultation. For example, one Board member noted that there is not a clear set of issues that staff bring to them for consultation. Another Board member noted that they are sometimes not informed of the supervisory proposals that are under development. According to an interviewee, the Board issued at least one of the SR Letters in our scope without the knowledge of the vice chair for supervision. The interviewee attributed this issue to a misunderstanding regarding which proposals warranted Board member consultation and stated that after the vice chair for supervision clarified that he would like to be informed of all SR Letters, there were no further issues of this kind.

Additionally, all three CSR members observed that supervisory proposals are often fully developed by the time they are shared with Board members, noting that this makes it difficult for Board members to provide input on a proposal. For example, one Board member stated that SR Letters are usually shared with them shortly before issuance. Another Board member stated that it is difficult to provide input on interagency guidance when Board staff have already negotiated the language with other agencies.

## ***Board Officials and Staff Cited Various Considerations for Informing and Consulting Board Members on Planned SR Letters***

Interviewees noted various considerations for informing and consulting Board members on planned SR Letters. Multiple interviewees cited the importance of having a flexible approach for Board staff to inform and consult Board members on supervisory policy and guidance proposals. For example, one interviewee cited that flexibility is important because of the potential for urgent priorities to emerge. Another interviewee noted that Board members' schedules may restrict their capacity to be involved in these proposals.

In addition, interviewees noted that Board members' involvement in the development of an SR Letter can vary widely. According to one interviewee, Board members and their advisors are not typically involved in the development of a proposal unless the Board member is a sponsor of the proposal. For example, S&R initiated one of the SR Letters during our scope period at the request of the vice chair for supervision, and the vice chair reviewed a draft of the document.

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<sup>35</sup> As previously noted, our scope includes SR Letters issued from January 1, 2019, through June 30, 2021, and stress testing scenarios and results issued from January 1, 2020, through June 30, 2021. Therefore, any references to the review and approval of these proposals by the vice chair for supervision refer to the vice chair for supervision in office at that time.

According to multiple interviewees, the decision to consult Board members is made on a case-by-case basis and there is ambiguity regarding which matters should be sent to the Board members for consultation or approval. Interviewees also noted that the Legal Division is sometimes involved in determining whether the Board members should be consulted on SR Letters and that when making these determinations, Board officials consider factors such as the materiality of the proposal, how controversial the content of the SR Letter might be, or how salient the proposal might be in the eyes of the public and the press.

Interviewees also noted that the vice chair for supervision plays a key role in determining whether other Board members are informed of or consulted on these proposals and if so, the method for conducting that outreach. Additionally, Board officials and staff play an important role in monitoring, tracking, and informing stakeholders of planned SR Letters and other policy projects, which aids the vice chair for supervision in executing their responsibilities. For example, S&R established the Policy Operating Committee to set and adjust the priorities and timelines for policy development projects in consultation with the director and deputy directors of the division. The Policy Operating Committee's charter states that it maintains an ongoing record of policy-related projects, resources, and timelines for issuance, and monitors the progress and resource needs of projects.

For policy proposals, S&R staff complete project charters and submit those charters to the Policy Operating Committee for review. If the committee approves the project charter, S&R initiates the policy project. As part of its efforts to monitor policy projects, the Policy Operating Committee maintains an internal calendar that forecasts when policy and guidance, such as SR Letters, are expected to be issued. An S&R official stated that the director of S&R refers to the internal calendar to aid their briefings with the vice chair for supervision, and the CSR secretariat uses the calendar during meetings with the vice chair for supervision's advisor.

## ***The Board Can Provide Board Members With Enhanced Transparency on Planned SR Letters***

As previously noted, all three CSR members, including the vice chair for supervision, observed inconsistencies in the types of supervisory proposals that staff bring to Board members for consultation and shared that providing input on proposals after they have been fully developed is difficult. In addition, according to interviewees, Board members and their advisors must sometimes proactively seek to learn about and provide input regarding supervisory policy and guidance proposals. For example, one Board member requested monthly briefings from S&R's Policy Group, which is responsible for developing regulations and guidance. Further, according to multiple interviewees, Board members' advisors play a key role in communicating and consulting Board members on planned SR Letters or other supervisory proposals. For example, one CSR member stated that they are most often informed of supervisory proposals through their advisor. However, interviewees noted that these advisors must sometimes contact S&R officials or the vice chair for supervision's advisor to learn of planned supervisory proposals. Further, two CSR members' advisors stated that providing Board members with access to a tool, such as a dashboard or a calendar, that has up-to-date information on the supervisory proposals that S&R is developing would be helpful.

After reviewing a preliminary draft of this finding, the Board noted that it follows the approach described in the CSR charter and the direction of the vice chair for supervision in keeping committee members and

other Board members informed of planned SR Letters. The charter states that the CSR chair will keep the committee members informed of developments relevant to the committee; however, it does not define what developments are relevant to the committee and does not state that such a development should be substantive, rather than process focused. Further, the CSR charter states that the committee reviews and provides Board staff with guidance on regulations, guidance documents, and policy statements.

Because CSR members indicated a need for more insight or transparency on supervisory policy and guidance proposals, we believe that the Board should develop a dashboard or similar tool to provide Board members enhanced transparency regarding pending proposals. Further, we believe that the Board is well positioned to use existing resources, such as the internal calendar developed by the Policy Operating Committee, to develop a dashboard or tool for the Board members. Moreover, such a tool may provide Board members with the flexibility to assess when they would like to provide input and may enhance the Board's ability to obtain Board members' perspectives on these proposals.

## **S&R Does Not Consistently Document Consultations With Board Members on Planned SR Letters**

We found that S&R staff are not consistently documenting consultations with Board members and Board committees on planned SR Letters. S&R staff must complete a Policy Issuance Processing Form prior to issuing each SR Letter. This form provides the approval history of an SR Letter, among other information, so that the director of S&R understands who has reviewed the SR Letter prior to approving its issuance. Although the Policy Issuance Processing Form template includes a field to note review by Board members and Board committees, the template does not provide guidance on how to document this review.

In our analysis of the processing forms for the 58 SR Letters issued during our scope period, we found that S&R staff documented Board member and Board committee consultations inconsistently. For example, some forms cite that the CSR, a Board member or their advisor, or the full Board of Governors reviewed an SR Letter but provide varying levels of detail regarding that review, such as

- stating that the CSR or a Board member reviewed the SR Letter on a specific date
- describing a Board member's advisor reviewing the SR Letter without providing additional information on whether the advisor was reviewing the SR Letter on behalf of the Board member
- citing communication to a Board member or their advisor but not providing any information regarding whether the Board member or their advisor provided any input on the SR Letter or were simply made aware that the SR Letter was being issued
- stating that the full Board of Governors reviewed the proposal but not providing any additional information on how the Board members were consulted

Some forms indicate that Board member and Board committee consultation was not applicable. However, some forms do not include any information in that field, thereby providing no indication of whether Board members were consulted or whether consultation was deemed unnecessary.

By developing guidance on how to document Board member consultation on these proposals, S&R staff may improve the clarity of their communications to S&R leadership regarding these consultations. Further, S&R leadership may be able to evaluate whether Board members are being consulted effectively.

## Recommendations

We recommend that the director of S&R

1. Develop, in consultation with the Board of Governors, a dashboard or similar tool for Board members that forecasts planned supervisory policy and guidance proposals. As part of this effort, assign responsibilities for maintaining and updating the dashboard or tool and establish a frequency for distributing the dashboard or tool.
2. Update the Policy Issuance Processing Form template to provide guidance on how to document Board member and Board committee consultation on supervisory policy and guidance proposals.

## Management Response

In its response to our draft report, the Board concurs with our recommendations. To address recommendation 1, the Board states that by the end of the first quarter of 2024, under direction from the vice chair for supervision, it will develop a dashboard or similar tool for Board members that forecasts planned supervisory policy and guidance proposals. The Board notes that it will consult with the CSR, as well as other Board members, as appropriate, on the dashboard or tool and will update the tool periodically.

To address recommendation 2, the Board states that by the end of the first quarter of 2024, it will update the template to provide guidance on how to document Board member and Board committee consultation on supervisory policy and guidance proposals.

## OIG Comment

The actions described by the Board appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.



## Finding 2: The Board Can Clarify Its Approach for Soliciting Feedback From the Public on Planned SR Letters

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We found that the Board’s approach for soliciting public comment on planned SR Letters is not clearly defined. Specifically, the Board used a variety of approaches to solicit public comment on some of the SR Letters in our scope. According to the Institute of Internal Auditors, procedures should be documented, provide accountability and consistency, and ensure quality and transparency. We attribute this issue to a lack of clear guidance outlining the Board’s approach for soliciting public comment on planned SR Letters. We acknowledge that there may be various factors involved in the Board’s decision to solicit public comment on an SR Letter. However, we believe that defining the general approach for determining when and how to solicit public comment may provide Board officials and staff with a framework to use when making this decision and enhance the Board’s ability to obtain input on planned SR Letters from the public when it chooses to do so.

### The Board Does Not Have a Defined Approach for Soliciting Public Comment on Planned SR Letters

We found that the Board does not have a defined approach for soliciting public comment on planned SR Letters. The Board is not legally required to solicit public comment on supervisory guidance and has generally issued SR Letters without soliciting public comment; however, a former vice chair for supervision supported putting significant supervisory guidance out for comment to provide greater transparency to the public.<sup>36</sup>

Interviewees identified some considerations that the Board uses to determine whether it should solicit public comment on supervisory guidance, such as SR Letters. For example, one interviewee noted that the Board may solicit comment in certain subject areas to understand whether the guidance would achieve its intended objectives. Another interviewee noted that the Board does not solicit comment on “less controversial” SR Letters. However, multiple interviewees stated that the decision to solicit public comment is made on a case-by-case basis. Multiple interviewees also noted that the decision to solicit public comment on supervisory guidance is often made through consultation with S&R and Legal Division officials and staff.

We found that the Board solicited public comment on some of the SR Letters in our scope but did not have a defined approach for doing so. For example, in August 2017, the Board solicited public comment through the *Federal Register* on proposed guidance regarding supervisory expectations for board of directors’ effectiveness and provided the public with a 60-day comment period. However, the Board did not publish the final guidance in the *Federal Register*. Instead, the Board published the final guidance on

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<sup>36</sup> Speech by former Vice Chair for Supervision Randal Quarles at the American Bar Association Banking Law Committee Meeting, “Spontaneity and Order: Transparency, Accountability, and Fairness in Banking Supervision,” January 17, 2020.

its public website as SR 21-3, *Supervisory Guidance on Board of Directors' Effectiveness*, and SR 21-4, *Inactive or Revised SR Letters Related to the Federal Reserve's Supervisory Expectations for a Firm's Boards of Directors*.<sup>37</sup> In addition, the Board published a summary of the public comments it received and the subsequent revisions it made to the guidance on its website. An interviewee informed us that typically, the Board would have published the final version of the guidance in the *Federal Register*, along with a detailed explanation of the comments that were received on the draft guidance and the Board's response to those comments. The interviewee stated that the summary that the Board published on its website included an abbreviated description of what would have been published in the *Federal Register*, with a much shorter description of the comments the Board received and less discussion of the Board's response.

In another instance, the Board solicited public comment on an SR Letter through its public website. In November 2020, the Board issued a press release announcing the latest version of its *Supervision and Regulation Report*. The Board included a draft of SR 20-30, *Firms Subject to the LISCC Supervisory Program*, as part of this press release and invited the public to provide input on the draft during a 30-day comment period.<sup>38</sup> An S&R official noted that the vice chair for supervision believed that seeking public comment on draft guidance through the *Federal Register* would be appropriate when such guidance communicates supervisory expectations. The official explained that in this situation, because SR 20-30 does not address supervisory expectations, the vice chair for supervision preferred to use the public website to solicit comment.

We also found that the Board solicited public comment on proposed rules or supervisory policy and guidance proposals that were later announced in SR Letters. For example, in August 2017, the Board solicited public comment through the *Federal Register* on a proposed rule for the LFI rating system. After finalizing the rule, S&R issued SR 19-3, *Large Financial Institution (LFI) Rating System*, which provided an overview of the rule, in February 2019. In another instance, in February 2018, the Board invited public comment through the *Federal Register* on proposed amendments to its process for appeals of material supervisory determinations and its ombudsman policy. After publishing a final version of the policy in the *Federal Register* in March 2020, the Board issued SR 20-28, *Internal Appeals Process for Material Supervisory Determinations and Policy Statement Regarding the Ombudsman for the Federal Reserve System*, in December 2020.

In addition, we found that the Board used different approval processes for these approaches. When the Board published these proposals in the *Federal Register*, the Board of Governors had voted to approve the publication prior to their issuance. In contrast, interviewees told us that when the Board used its public website to solicit comment on SR 20-30 or to address the comments it received on its proposed guidance on supervisory expectations for board of directors' effectiveness, the vice chair for supervision selected that approach. An interviewee in the Legal Division stated that they believe that the current practice of having the Board of Governors vote to publish proposals in the *Federal Register* is effective.

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<sup>37</sup> See appendix C for a list of the SR Letters cited in this report.

<sup>38</sup> LISCC stands for Large Institution Supervision Coordinating Committee. S&R organizes its oversight activities into supervisory portfolios that are generally based on institutions' total asset size. The LISCC portfolio includes the largest, most systemically important financial institutions supervised by the Board.

Governance principles state that procedures should be documented and communicated to all personnel in the organization.<sup>39</sup> Further, procedures should provide accountability and consistency and ensure quality and transparency.

The Board does not have guidance on what types of supervisory proposals should be submitted for public comment or, if the Board decides to solicit public comment, which approach it should use and who should approve that decision. In 2021, Board staff identified various approaches for issuing guidance for public notice and comment as well as exceptions for seeking public comment. As part of this effort, staff noted that memorializing the Board's general approach may provide staff with more concrete principles against which to analyze whether future supervisory guidance proposals would benefit from public comment. Ultimately, the Board did not adopt these approaches. In February 2022, an S&R official stated that staff have continued using the existing practices of (1) issuing supervisory guidance without public comment except under certain circumstances and (2) using the *Federal Register* to solicit public comment.

We acknowledge that there may be varying factors involved in the Board's decision to solicit public comment on an SR Letter. However, we believe that defining the general approach for determining when and how to solicit public comment may provide Board officials and staff with a framework to use when making this decision. Further, defining the approach for soliciting public comment may make it easier for the public to understand where to find and comment on these proposals and enhance the Board's ability to obtain input on planned SR Letters from the public when it chooses to do so.

## Recommendation

We recommend that the director of S&R and the general counsel

3. Issue internal guidance on the process for soliciting public comment on supervisory policy and guidance proposals that defines
  - a. the types of supervisory proposals that should be submitted for public comment.
  - b. the options for soliciting public comment on a proposal.
  - c. the factors that should be considered when determining whether to seek comment and, if the Board decides to solicit public comment on a supervisory proposal, which option to use.
  - d. the approval process for whether and how to solicit public comment.

## Management Response

In its response to our draft report, the Board concurs with our recommendation. The Board states that by the end of the second quarter of 2024, it will issue internal guidance on the process for soliciting public comment on supervisory policy and guidance proposals that addresses the factors in the recommendation.

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<sup>39</sup> Dean Bahrman, *Evaluating and Improving Organizational Governance*.

## OIG Comment

The actions described by the Board appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.





## **Finding 3: The Board Can Clarify How Delegated Actions Related to Stress Testing Proposals Are to Be Handled in the Absence of a CSR Chair or a Vice Chair for Supervision**

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We found that the Board has an established process for consulting Board members on stress testing proposals; however, the Board’s delegations of authority for stress testing proposals do not address how these proposals are to be handled when there is no CSR chair or vice chair for supervision. According to the Institute of Internal Auditors, an effective governance system includes well-defined roles, responsibilities, and accountabilities. Further, the assignment of authority and responsibility must be documented and communicated to all personnel. Although the Board has developed guidance on this matter, we believe that updating the delegations of authority would provide clear guidance regarding how actions related to stress testing proposals are to be handled when the Board does not have a CSR chair or vice chair for supervision.

### **The Board Has an Established Process for Consulting Board Members on Stress Testing Proposals**

We assessed the approaches used to consult the Board members on the stress testing proposals issued from January 1, 2020, through June 30, 2021, and found that the agency has an established process for conducting these consultations.<sup>40</sup> Specifically, S&R and FS staff briefed Board members on stress testing proposals that were issued during our scope period using briefing slides and other handouts. We found that Board members received briefings on stress testing proposals individually or in groups of two to three.<sup>41</sup>

For the stress testing scenarios, we found that the Board members were briefed 1–2 months prior to the public disclosure date. During these briefings, FS and S&R staff presented two to three scenario options to the Board members.

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<sup>40</sup> In late 2020, the Board conducted an additional round of stress testing because of the economic uncertainty associated with the COVID-19 pandemic. Therefore, during our scope period of January 1, 2020, through June 30, 2021, the Board conducted three rounds of stress testing, issuing three sets of stress testing scenarios and three sets of stress testing results.

<sup>41</sup> Four or more Board members constitute a quorum for the purposes of the Sunshine Act, and in such cases, the Board must comply with certain procedural steps described in the act. During the period of our review, the Board of Governors consisted of four or more members. As such, meetings of three Board members or fewer did not constitute a quorum for the purposes of the Sunshine Act.

For the stress testing results, we found that S&R staff briefed Board members a few weeks prior to the public disclosure date. We also found that for two of the sets of stress testing results in our scope, a Board member declined a briefing and opted instead to review the briefing materials and contact S&R staff with any questions. Multiple interviewees indicated that the Board members are briefed on the stress testing results for informational purposes because the results are not subject to change.

## The Board’s Delegations of Authority Do Not Address How Stress Testing Proposals Are to Be Handled in the Absence of a CSR Chair or a Vice Chair for Supervision

The Board has delegated authority for certain actions under its stress testing rules to the director of S&R. Some of these actions require the concurrence of the CSR chair or the vice chair for supervision or consultation with the Board of Governors, or they are made jointly with the director of FS.<sup>42</sup> For example:

- The directors of S&R and FS may jointly, with the concurrence of the CSR chair, develop and issue stress testing scenarios.
- The director of S&R may, with the concurrence of the CSR chair and after consultation with the Board of Governors, provide a company with a summary of the results of the Board’s analyses.
- The director of S&R may, with the concurrence of the CSR chair and after consultation with the Board of Governors and the director of FS, determine the content and timing of the public disclosure of the results of the Board’s analyses of a company.
- The directors of S&R and FS may, with the concurrence of the vice chair for supervision, notify firms subject to the Board’s capital plan rule of its stress capital buffer requirement.

However, we found that the delegations of authority do not explain how these actions are to be conducted when there is no CSR chair or vice chair for supervision. In October 2021, the Board announced that upon the conclusion of the vice chair for supervision’s term on October 13, 2021, the CSR would operate without a chair until a new vice chair for supervision takes office and that only matters on which all CSR members agree would move forward to the full Board of Governors.<sup>43</sup> In November 2021, the Board developed interim guidance, *Oversight of S&R Division & Matters*, that describes how the responsibilities of the vice chair for supervision are to be fulfilled when there is no vice chair for supervision and no CSR chair. An S&R official stated that this guidance was shared with division staff. According to the document, when there is no CSR chair, each CSR member must concur with stress testing proposals.

Governance principles suggest that in an effective organizational governance framework, the roles, responsibilities, and accountabilities are defined and who has the authority to act on behalf of an

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<sup>42</sup> The Board’s delegations allow the CSR chair and the directors of S&R and FS to have a designee act on their behalf.

<sup>43</sup> The former vice chair for supervision remained a member of the Board of Governors until December 25, 2021.

organization and under what circumstances is clear. Governance principles also state that the assignment of authority and responsibility must be documented in writing and communicated to all personnel.<sup>44</sup>

Although the Board has developed guidance regarding how the delegations of authority for the stress testing program are to work when there is no vice chair for supervision or CSR chair, it has not updated its delegations of authority to reflect these changes. We believe that as a result, the Board could lack clarity regarding how certain delegated actions related to stress testing proposals are to be handled when there is no vice chair for supervision or CSR chair. Further, we believe that the Board will likely encounter this situation again: Because the vice chair for supervision must be appointed by the president and confirmed by the United States Senate before the 4-year term starts, there will likely be a gap between the end date of an outgoing vice chair for supervision's term and the date that the incoming vice chair for supervision is sworn in. For example, the former vice chair for supervision's term ended on October 13, 2021, and the position remained vacant until July 19, 2022. Thus, we believe it is critical for the Board to update its delegations of authority and clarify how actions related to the stress testing program are to be handled if there is no vice chair for supervision or CSR chair.

## Recommendation

We recommend that the director of S&R

4. Update, in consultation with the Board of Governors, the director of FS, and the general counsel, the delegations of authority related to the stress testing program to clarify how actions should be delegated when there is no vice chair for supervision or CSR chair.

## Management Response

In its response to our draft report, the Board concurs with our recommendation. The Board states that by the end of the first quarter of 2024, it will update, in consultation with the Board of Governors and relevant division directors, the delegations of authority related to the stress testing program to clarify how actions should be delegated when there is no vice chair for supervision or CSR chair.

## OIG Comment

The actions described by the Board appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.

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<sup>44</sup> Dean Bahrman, *Evaluating and Improving Organizational Governance*.



## Finding 4: The Board Can Clarify How Some Operations Are to Be Executed in the Absence of a Vice Chair for Supervision

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We found that the Board has not documented the way in which certain operations are to be executed in the absence of a vice chair for supervision and a CSR chair. Specifically, the *Committee on Supervision and Regulation Charter* does not provide guidance related to the absence of a CSR chair and the *Board Organization and Procedures* policy does not state who serves as the oversight officer for S&R if there is no CSR chair. According to the Basel Committee on Banking Supervision, committee charters or other governance documents should describe their mandate, scope, and working procedures. Although the Board has developed interim guidance on this topic, this guidance does not describe who is responsible for setting the strategic direction and priorities of the CSR. Clearly defining this information in the CSR's governing documents will improve the committee's overall effectiveness in informing and advising the Board of Governors and Board staff on supervisory and regulatory matters and will better position the Board to handle senior leadership transitions.

### Board Guidance Can Clarify How Some Agency Operations Are to Be Carried Out in the Absence of a Vice Chair for Supervision

The Dodd-Frank Act established the position of vice chair for supervision to oversee the supervision and regulation of Board-supervised financial institutions and to develop related policy recommendations. We identified two internal governing documents maintained by the Office of the Secretary that include information pertaining to the role of the vice chair for supervision:

- The *Committee on Supervision and Regulation Charter* states that all committee members, including the CSR chair, are designated by the Board chair, provided that, if there is a vice chair for supervision serving on the Board of Governors, that person serves as the committee chair. The charter also explains that the CSR chair serves as the oversight governor for S&R. In addition, the charter states that the CSR chair is responsible for setting the strategic direction and priorities of the committee and for consulting with the director of S&R or a designee on setting meeting agendas and determining meeting frequency.<sup>45</sup>
- The *Board Organization and Procedures* policy states that the Board chair delegates to the oversight governor for each division the authority to monitor the operations and activities of their respective division. Additionally, the policy states that the chairs of the standing committees that oversee particular Board divisions serve as the oversight governors for those divisions.

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<sup>45</sup> Interviewees stated that officials in S&R and the Legal Division work with the advisor to the CSR chair to develop meeting agendas, but that the CSR chair approves or vetoes agenda items.

Neither of the CSR governing documents describes how the responsibilities of the vice chair for supervision are to be fulfilled if the position is vacant or if the Board chair has not appointed an oversight governor. We acknowledge, however, that the CSR operated without a chair from October 2021 to July 2022.

The Board developed interim guidance in November 2021, *Oversight of S&R Division & Matters*, that describes how the responsibilities of the vice chair for supervision are to be fulfilled when there is no vice chair for supervision and no CSR chair. Specifically, the document states that the Board's chief operating officer will serve as the oversight officer for S&R. The document also outlines procedures for how the Board will consider rules in the absence of a CSR chair and instructs staff to follow these procedures for material supervisory guidance. Specifically, the document states that S&R will only send material supervisory guidance to the Board of Governors if each of the CSR members indicates that they would support approval of the draft guidance, which is the same process outlined for approving proposed or final rules. However, this guidance does not include information on who is responsible for setting the strategic direction and priorities of the committee, which may include developing CSR meeting agendas, when there is no vice chair for supervision and no CSR chair.

Further, the composition of the CSR has changed since the Board developed its interim guidance. In October 2021, the CSR comprised three Board members, but by late 2021, two Board members had stepped down from the committee. Therefore, in addition to operating without a vice chair for supervision and committee chair, the CSR operated with only one Board member from late 2021 to July 2022.

Governance principles state that committees should have a charter or other governance documents that sets out the committee's mandate, scope, and working procedures.<sup>46</sup> This guidance should include how the committee will report to the full board and what is expected of committee members.

We acknowledge the Board's effort to develop interim guidance outlining its expectations for the execution of these operations during an extended period without a vice chair for supervision; however, the Board has not (1) updated the CSR's charter to reflect these changes or provided guidance on who is responsible for setting the strategic direction and priorities of the committee, including how the committee's meeting agendas will be established without a chair, or (2) updated the *Board Organization and Procedures* policy to state that the chief operating officer will serve as the S&R oversight officer if the Board chair has not appointed an oversight governor.

We believe that clearly defining in its governing documents how some of the Board's operations are to be conducted in the absence of a vice chair for supervision would improve the effectiveness of the CSR in informing and advising the Board of Governors and Board staff on supervisory and regulatory matters and will better position the Board to handle future transitions.

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<sup>46</sup> Basel Committee on Banking Supervision, *Guidelines: Corporate Governance Principles for Banks*.

## Recommendations

We recommend that the secretary of the Board

5. Update, in consultation with the Board of Governors, the director of S&R, and the general counsel, the CSR charter to state how the committee should operate in the absence of a vice chair for supervision and a CSR chair, including specifying who is responsible for setting the strategic direction and priorities of the committee and developing committee meeting agendas.
6. Update, in consultation with the Board of Governors, the *Board Organization and Procedures* policy to state who will fill the role of oversight governor for S&R if the Board chair has not appointed one.

## Management Response

In its response to our draft report, the Board concurs with our recommendations. To address recommendation 5, the Board states that by the end of the first quarter of 2024, it will update, in consultation with the Board of Governors and the relevant division directors, the CSR charter to state how the committee should operate in the absence of a vice chair for supervision and a CSR chair.

To address recommendation 6, the Board states that by the end of the first quarter of 2024, it will update, in consultation with the Board of Governors, the policy to state who will fill the role of oversight governor for S&R if the Board chair has not appointed one.

## OIG Comment

The actions described by the Board appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.



## Finding 5: The Board Should Document Certain Activities Conducted by the CSR

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We found that the Board does not document certain activities conducted by the CSR. The *Committee on Supervision and Regulation Charter* states that the CSR will provide guidance and its concurrence regarding the sharing of supervision and regulation matters requiring agency action with the full Board of Governors for approval and that the committee's secretary shall implement the committee's operating procedures, handle meeting logistics, and capture and disseminate key information. However, neither the charter nor the operating procedures outline a process for documenting the committee's deliberations, including the guidance and concurrence it provides to Board staff. We attribute this issue to the CSR lacking a process for documenting minutes or summaries of its meetings. We believe that documenting these activities will allow the Board to assess whether the CSR is effectively fulfilling the responsibilities in its charter and will increase the transparency and overall effectiveness of the committee's activities related to informing and advising the Board of Governors and Board staff on supervisory and regulatory matters.

### Documenting Certain Activities Conducted by the CSR Could Improve the Committee's Effectiveness

According to the *Committee on Supervision and Regulation Charter*, the CSR chair determines when a matter is ready to proceed to the full Board of Governors. The charter also explains that the committee shall

- meet as frequently as deemed necessary by the committee chair to carry out its responsibilities
- provide Board staff with guidance and its concurrence regarding the sharing of supervision and regulation matters requiring agency action with the full Board of Governors for approval
- maintain records of its activities in accordance with the Board's Record Retention Schedule

The charter also states that the director of S&R or a designee shall serve as the secretary of the committee but is not a member of the committee. The secretary, in working with the committee chair, shall implement the committee's operating procedures, handle meeting logistics, and capture and disseminate key information.

Most CSR discussions during our scope period were about rulemaking activities, but there were instances in which the committee discussed supervisory policy and guidance proposals. For example, we found that the committee discussed one of the SR Letters in our scope. We also found that the CSR discussed other types of supervisory policy and guidance that were announced in SR Letters, such as a rule, an interagency policy statement, and interagency guidance. In some instances, the materials sent to Board members when requesting their vote stated that the CSR believed the matter was ready for consideration by the Board of Governors. However, there are no minutes or meeting summaries from those discussions. In March 2021, we requested summaries or minutes from CSR meetings that occurred from January 1,

2019, through February 26, 2021. In response to our request, the Board explained that no such documents exist.

Neither the charter nor the operating procedures outline a process for documenting the committee's deliberations, including the guidance and concurrence it provides to Board staff. We attribute this to the CSR lacking a process for documenting minutes or summaries of its meetings.

We believe that documenting certain activities conducted by the CSR will allow the Board to assess whether the CSR is effectively fulfilling the responsibilities in its charter and will increase the transparency and overall effectiveness of the committee's activities related to informing and advising the Board of Governors and Board staff on supervision and regulation matters.

## Recommendation

We recommend that the director of S&R

7. Establish a process to document CSR meetings, including describing what guidance or concurrence was provided to Board staff.

## Management Response

In its response to our draft report, the Board concurs with our recommendation. The Board states that by the end of the first quarter of 2024, it will establish a process to document CSR meetings, including describing what guidance or concurrence was provided to Board staff.

## OIG Comment

The actions described by the Board appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.





## Finding 6: The Board Can Clarify Certain Information Posted to the Board’s Public Website Regarding Board of Governors Votes

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We found that some of the information on the Board’s public website does not clearly describe the actions voted on by the Board of Governors. According to the Institute of Internal Auditors, communication and reporting to stakeholders must be accurate, clear, and complete. Further, an organization’s board of directors should ensure that the organization has an effective process that is consistently followed for preparing communications for dissemination to stakeholders. The Division of Board Members’ procedures for publishing information to the public website do not provide clear guidance on how to describe the actions voted on by the Board of Governors. By enhancing the guidance on how to describe Board of Governors votes on its public website, the Board could improve the clarity of the information it provides to the public regarding these actions.

### The Board Can Clarify Information on Its Public Website Regarding Board of Governors Votes

We found that the Board can clarify certain information on its public website regarding Board of Governors votes. The Board posts voting information on its public website on the “Board Votes” webpage. This webpage includes the date a vote occurred, the action title and category of the vote, and how each Board member voted.<sup>47</sup> Each action title links to a press release with additional details. In some instances, the press releases provide links to memorandums, *Federal Register* notices, or other documents that provide additional details regarding the actions voted on by the Board of Governors.

We evaluated documentation associated with votes on the supervisory proposals in our scope, including briefing materials, memorandums, voting records, and meeting minutes, to identify the actions on which the Board of Governors voted. We found that some of the information on the public website did not clearly describe the actions voted on by the Board of Governors during our scope period.

For example, in June 2020 the Board of Governors voted to approve (1) the public disclosure of a summary of the results of the additional sensitivity analysis conducted because of COVID-19 pandemic–related events; (2) the delegation of authority to the directors of S&R and FS, with the concurrence of the vice chair for supervision, to make modifications to the public disclosure as a result of the quality assurance process; (3) the notification to firms of their stress capital buffer requirements; and (4) the delegation of authority to the directors of S&R and FS, with the concurrence of the vice chair for supervision, to notify each firm of its final stress capital buffer requirements and confirmation of its final

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<sup>47</sup> Vote categories include areas such as supervisory matters, proposed rules, proposed guidance, requests for comment, policy statements, interim final rules, and final rules.

planned capital distributions.<sup>48</sup> However, the “Board Votes” webpage and the linked press release do not detail all of these matters.<sup>49</sup> Further, while the linked press release accurately states that the Board issued the results of its 2020 stress tests, the release of the June 2020 stress test results was not one of the four matters voted on by the Board of Governors.<sup>50</sup> We believe that because the “Board Votes” webpage links to this press release, the public may infer that the Board of Governors voted to release the 2020 stress test results.

In June 2021, the Board of Governors voted to approve to delegate to the directors of S&R and FS, with the concurrence of the vice chair for supervision, the authority (1) to provide a firm with notice of its stress capital buffer requirement and an explanation of the results of the supervisory stress test and (2) to provide a firm with its final stress capital buffer requirement and confirmation of its final planned capital distributions. However, neither the action title on the “Board Votes” webpage nor the linked press release, “Federal Reserve Board Releases Results of Annual Bank Stress Tests, Which Show Large Banks Continue to Have Strong Capital Levels and Could Continue Lending to Households and Businesses During Severe Recession,” describe that the Board of Governors voted on these delegations of authority. Instead, the information on the “Board Votes” webpage and the linked press release describe the results of the Board’s stress tests and the stress capital buffer framework. While the Board of Governors voted in June 2020 and in June 2021 on actions related to the supervisory stress testing program, an interviewee in the Legal Division noted that it did not vote to release the stress testing results. Further, the same interviewee added that the information on the “Board Votes” webpage regarding these votes is unclear and should be clarified.

Further, we found instances in which the actions voted on by the Board of Governors were miscategorized on the “Board Votes” webpage. For example, in August 2017 the Board of Governors voted to invite public comment on two proposals regarding corporate governance and a rating system for LFIIs.<sup>51</sup> Although these matters are categorized as *proposed rules* on the “Board Votes” webpage, we found that the proposal regarding corporate governance was proposed supervisory guidance. The press release linked to the action title for this vote does not describe whether these two proposals are proposed rules or proposed guidance.

In another instance, we found that in March 2020, the Board of Governors voted to approve a final interagency policy statement on allowances for credit losses and final interagency guidance on credit risk

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<sup>48</sup> As previously noted, in June 2020, the Board released the results of a sensitivity analysis in conjunction with the results of its annual supervisory stress test. The sensitivity analysis assessed the resilience of firms under a range of plausible downside scenarios stemming from the COVID-19 pandemic and the imposition of associated containment measures.

<sup>49</sup> Neither the action title on the “Board Votes” webpage nor the linked press release, “Federal Reserve Board releases results of stress tests for 2020 and additional sensitivity analyses conducted in light of the coronavirus event,” describe that the Board of Governors delegated authority to make modifications as a result of the quality assurance process to the public disclosure or to notify firms of its final stress capital buffer requirements and confirmation of its final planned capital distributions.

<sup>50</sup> As previously noted, the Board delegated to the director of S&R, with the concurrence of the CSR chair and after consultation with the Board of Governors and the director of FS, the authority to determine the content and timing of the public disclosure of the results of the Board’s analyses of a company.

<sup>51</sup> In some instances, the Board of Governors voted on a proposal years before the issuance of the associated SR Letter. We searched all public and nonpublic votes from January 1, 2016, to June 30, 2021, to identify any votes associated with the supervisory proposals in our scope.

review systems. However, these actions were miscategorized as *proposed guidance* on the “Board Votes” webpage.

According to the Institute of Internal Auditors, communication and reporting to stakeholders must be accurate, clear, and complete.<sup>52</sup> Further, an organization’s board of directors should ensure that the organization has an effective process that is consistently followed for preparing communications for dissemination to stakeholders.

We believe that the issues we found with the information on the Board’s public website stem from a lack of clear guidance on how to describe these votes. The Division of Board Members’ Public Affairs Office developed procedures in August 2013 on how to disseminate press releases. In February 2022, the Public Affairs Office updated these procedures to include instructions on how to incorporate Board of Governors votes into the information it provides to the Public Information Outreach group, which is responsible for posting information to the public website. The updated procedures instruct Public Affairs Office staff to inform the Public Information Outreach group of the date and the final tally of any votes related to the item announced in the press release. However, neither the 2013 nor the updated 2022 procedures provide any guidance on how to describe actions voted on by the Board of Governors. Further, while both the 2013 and the 2022 procedures instruct Public Affairs Office staff to send any documents accompanying the press release to the Public Information Outreach group, neither document provides guidance on what types of documents should be included.

Further, the Public Information Outreach group’s procedures for publishing information on the public website state that the headline from the relevant press release will serve as the action title on the “Board Votes” webpage. Therefore, the existing procedures related to posting information on the “Board Votes” webpage do not provide clear guidance on how to describe or categorize the actions voted on by the Board of Governors or what types of documents to link to the press release describing the vote.

By enhancing the guidance on how to describe Board of Governors votes on its public website, the Board could improve the clarity of the information it provides to the public regarding these actions.

## Recommendations

We recommend that the director of the Division of Board Members

8. Update the division’s procedures for posting information to the public website to provide clear guidance on how to describe and categorize the actions voted on by the Board of Governors and the types of documents that should be linked in a press release.
9. Assess the information on the public website regarding Board of Governors votes to determine whether the information provided clearly describes the actions on which the Board of Governors voted, and make clarifications as needed.

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<sup>52</sup> Dean Bahrman, *Evaluating and Improving Organizational Governance*.

## Management Response

In its response to our draft report, the Board concurs with our recommendations. To address recommendation 8, the Board states that earlier this year, it began updating the Division of Board Members' procedures for posting information to the Board's public website to provide clear guidance on how to describe and categorize the actions voted on by the Board of Governors and the types of documents that should be linked in a press release. The Board states that it will complete that work by the end of the second quarter of 2023.

To address recommendation 9, the Board states that in October 2022, it began an assessment of the information on the public website regarding Board of Governors votes to determine whether the information provided clearly describes the actions on which the Board of Governors voted and will make clarifications as needed. The Board states that it will complete that work by the end of the second quarter of 2023.

## OIG Comment

The actions described by the Board appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.



# Appendix A: Scope and Methodology

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We initiated this evaluation to assess the effectiveness of the Board’s processes and practices for reviewing and approving supervisory proposals. The scope of our evaluation included SR Letters and joint SR/CA Letters, including SR Letters announcing policy statements, interagency guidance and statements, and updates to FFIEC examination manuals that were issued from January 1, 2019, through June 30, 2021. Our scope also included stress testing scenarios and results issued from January 1, 2020, through June 30, 2021. During our scope period, the Board issued 58 SR Letters, 3 sets of stress testing scenarios, and 3 sets of stress testing results. We reviewed the processes and practices that the Board used to review and approve these supervisory proposals. Our scope did not include AD Letters, guidance only applicable to consumer compliance supervisory functions, Board examination manuals, rulemaking, enforcement actions, supervisory ratings, or the sensitivity analysis the Board released in June 2020.

To accomplish our objective, we analyzed policies, procedures, and guidance related to the review and approval of the supervisory proposals in our scope, such as the *Board Organization and Procedures* policy, the *Development and Review Checklist for SR and AD Letters*, and delegations of authority related to the supervisory stress testing program. We assessed documentation, such as charters, meeting agendas and summaries, and briefing materials, from the CSR and its subcommittee from January 1, 2018, to June 30, 2021. We analyzed work plans, prioritization calendars, processing forms, and project charters related to the 58 SR Letters in our scope. We also assessed 2020 and 2021 stress testing materials, including scenarios and results, meeting invitations, meeting agendas, emails, briefing materials, and memorandums.

To conduct benchmarking, we reviewed documentation from certain federal agencies that are led by a board or a commission about the agency’s processes for reviewing and approving supervisory policy and guidance proposals.

As part of our evaluation, we sought to understand the extent to which the Board of Governors voted to approve the supervisory proposals in our scope. We obtained and reviewed information, including voting records, briefing materials, memorandums, meeting minutes, and press releases, on Board of Governors public and nonpublic votes conducted from January 1, 2016, through June 30, 2021, that were related to the supervisory proposals in our scope. We analyzed votes during this time frame because, in some instances, the Board of Governors voted on a proposal years before the issuance of the associated SR Letter.

During our fieldwork, we identified indicators that some of the information on the Board’s website did not clearly reflect the items on which the Board of Governors voted. Therefore, we analyzed the Board’s public website to determine whether it clearly described the Board of Governors votes.

We conducted more than 30 interviews of Board officials and staff to gain their perspectives on the Board’s processes for reviewing and approving supervisory proposals. We interviewed the following:

- each of the three Board members on the CSR as of February 2021 and their advisors
- S&R officials who oversee the development of SR Letters and the stress testing results

- officials or staff in S&R involved in the development of 23 of the SR Letters in our scope
- officials and staff in FS responsible for the development of the stress testing scenarios
- officials and staff in the Legal Division responsible for reviewing supervisory proposals
- officials and staff in the Office of the Secretary who oversee Board of Governors meetings, agendas, minutes, and notation voting summaries
- staff in the Division of Board Members who are responsible for posting information on Board of Governors votes to the Board's public website

We conducted our fieldwork from May 2021 through July 2022. 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: Glossary of Terms

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<b>Board</b>	Federal agency serving as the main governing body of the Federal Reserve System and headed by the Board of Governors.
<b>Board of Governors</b>	Seven-member body, appointed by the president with the advice and consent of the United States Senate, responsible for running the Board.
<b><i>Federal Register</i></b>	Daily publication of the U.S. government used to announce executive orders, federal agency regulations having general applicability and legal effect, proposed agency rules, and other documents required by statute to be published.
<b>oversight governor</b>	Board member designated by the chair of the Board of Governors to monitor the operations and activities of a division.
<b>rule/regulation</b>	Agency statement designed to implement or interpret an existing law.
<b>standing committee</b>	Committee or subcommittee comprising up to three Board members responsible for overseeing the Board's work.
<b>stress capital buffer</b>	A firm's capital requirements for the coming year.
<b>stress testing results</b>	Firms' projected revenues, expenses, losses, pretax net income, and capital ratios under adverse economic and financial conditions.
<b>stress testing scenarios</b>	Sets of hypothetical conditions that the Board uses to assess the strength and resilience of firms' capital in various economic and financial environments.
<b>Supervision and Regulation Letter</b>	Guidance document that addresses significant policy and procedural matters related to the Board's supervisory responsibilities.



# Appendix C: Description of SR Letters Cited in the Report

Table C-1. Description of SR Letters Cited in the Report

SR Letter	Overview
<i>SR 19-3: Large Financial Institution (LFI) Rating System</i>	This SR Letter provides an overview of the LFI rating system, which represents a supervisory evaluation of whether a firm possesses sufficient financial and operational strength and resilience to maintain safe-and-sound operations and comply with laws and regulations, including those related to consumer protection, through a range of conditions.
<i>SR 20-28: Internal Appeals Process for Material Supervisory Determinations and Policy Statement Regarding the Ombudsman for the Federal Reserve System</i>	This SR Letter announces a policy statement describing revisions to the Board’s internal appeals process for material supervisory determinations and its ombudsman policy. Specifically, the Board amended its appeals process to improve and expedite the process and amended its ombudsman policy to formalize many of its current practices.
<i>SR 20-30: Financial Institutions Subject to the LISCC Supervisory Program</i>	This SR Letter describes categories of financial institutions that are subject to LISCC supervision. S&R organizes its oversight activities into supervisory portfolios that are generally based on institutions’ total asset size. The LISCC portfolio includes the largest, most systemically important financial institutions supervised by the Board.
<i>SR 21-3: Supervisory Guidance on Board of Directors’ Effectiveness</i>	This SR Letter clarifies the key attributes of effective boards of directors at LFIs to ensure that they can provide effective oversight of the firm and maintain the firm’s safety and soundness and the continued financial and operational resilience of its consolidated operations.
<i>SR 21-4: Inactive or Revised SR Letters Related to the Federal Reserve’s Supervisory Expectations for a Firm’s Boards of Directors</i>	This SR Letter identifies which existing SR Letters the Board revised or rescinded to align with SR 21-3. The Board issued SR 21-4 in conjunction with SR 21-3.

Source: OIG analysis of Board documentation.



# Appendix D: Management Response



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

November 21, 2022

Mr. Michael VanHuysen  
Associate Inspector General  
For Audit and Evaluations  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551

Dear Mr. VanHuysen:

Thank you for the opportunity to comment on your draft report, *The Board Can Enhance Certain Governance Processes Related to Reviewing and Approving Supervisory Proposals*. We appreciate the effort that the Office of the Inspector General (OIG) put into this report, and we look forward to implementing the recommendations that are designed to enhance the effectiveness of the Board's processes and practices for reviewing and approving supervisory proposals.

**Finding 1: The Board Can Enhance Its Processes for Informing and Consulting Board Members on Planned SR Letters**

*Recommendation 1: Develop, in consultation with the Board of Governors, a dashboard or similar tool for Board members that forecasts planned supervisory policy and guidance proposals. As part of this effort, assign responsibilities for maintaining and updating the dashboard or tool and establish a frequency for distributing the dashboard or tool.*

Management Response: We concur with the recommendation. By the end of 1Q2024, under the direction from the Vice Chair for supervision, we will develop a dashboard or similar tool for Board members that forecasts planned supervisory policy and guidance proposals. The dashboard or tool will incorporate consultations with the Committee on Supervision and Regulation, as well as other Board members, as appropriate, and will be updated periodically.

*Recommendation 2: Update the Policy Issuance Processing Form template to provide guidance on how to document Board member and Board committee consultation on supervisory policy and guidance proposals.*

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[www.federalreserve.gov](http://www.federalreserve.gov)

Management Response: We concur with the recommendation. By the end of 1Q2024, we will update the template to provide guidance on how to document Board member and Board committee consultation on supervisory policy and guidance proposals.

**Finding 2: The Board Can Clarify Its Approach for Soliciting Feedback from the Public on Planned SR Letters**

*Recommendation 3: Issue internal guidance on the process for soliciting public comment on supervisory policy and guidance proposals that defines*

- a. the types of supervisory proposals that should be submitted for public comment.*
- b. the options for soliciting public comment on a proposal.*
- c. the factors that should be considered when determining whether to seek comment and, if the Board decides to solicit public comment on a supervisory proposal, which option to use.*
- d. the approval process for whether and how to solicit public comment.*

Management Response: We concur with the recommendation. By the end of 2Q2024, we will issue internal guidance on the process for soliciting public comment on supervisory policy and guidance proposals that addresses the factors in the recommendation.

**Finding 3: The Board Can Clarify How Delegated Actions Related to Stress Testing Proposals Are to Be Handled in the Absence of a CSR Chair or a Vice Chair for Supervision**

*Recommendation 4: Update, in consultation with the Board of Governors, the director of FS, and the general counsel, the delegations of authority related to the stress testing program to clarify how actions should be delegated when there is no vice chair for supervision or CSR chair.*

Management Response: We concur with the recommendation. By the end of 1Q2024, we will update, in consultation with the Board of Governors and relevant division directors, the delegations of authority related to the stress testing program to clarify how actions should be delegated when there is no Vice Chair for Supervision or CSR chair.

**Finding 4: The Board Can Clarify How Some Operations Are to Be Executed in the Absence of a Vice Chair for Supervision**

*Recommendation 5: Update, in consultation with the Board of Governors, the director of S&R, and the general counsel, the CSR charter to state how the committee should operate in the absence of a vice chair for supervision and a CSR chair, including specifying who is responsible for setting the strategic direction and priorities of the committee and developing committee meeting agendas.*

Management Response: We concur with the recommendation. By the end of 1Q2024, we will update, in consultation with the Board of Governors and the

relevant division directors, the CSR charter to state how the committee should operate in the absence of a Vice Chair for Supervision and a CSR chair.

*Recommendation 6: Update, in consultation with the Board of Governors, the Board Organization and Procedures policy to state who will fill the role of oversight governor for S&R if the Board chair has not appointed one.*

Management Response: We concur with the recommendation. By the end of 1Q2024, we will update, in consultation with the Board of Governors, the policy to state who will fill the role of oversight governor for S&R if the Board chair has not appointed one.

**Finding 5: The Board Should Document Certain Activities Conducted by the CSR**

*Recommendation 7: Establish a process to document CSR meetings, including describing what guidance or concurrence was provided to Board staff.*

Management Response: We concur with the recommendation. By the end of 1Q2024, we will establish a process to document CSR meetings, including describing what guidance or concurrence was provided to Board staff.

**Finding 6: The Board Can Clarify Certain Information Posted to the Board's Public Website Regarding Board of Governors Votes**

*Recommendation 8: Update the division's procedures for posting information to the public website to provide clear guidance on how to describe and categorize the actions voted on by the Board of Governors and the types of documents that should be linked in a press release.*

Management Response: We concur with the recommendation. Earlier this year, we began the process to update the division's procedures for posting information to the public website to provide clear guidance on how to describe and categorize the actions voted on by the Board of Governors and the types of documents that should be linked in a press release and will complete that work by the end of 2Q2023.

*Recommendation 9: Assess the information on the public website regarding Board of Governors votes to determine whether the information provided clearly describes the actions on which the Board of Governors voted, and make clarifications as needed.*

Management Response: We concur with the recommendation. In October 2022, we began our assessment of the information on the public website regarding Board member votes to determine whether the information provided clearly describes the actions on which the Board members voted, and make clarifications as needed. We will complete this work by the end of 2Q2023.

We agree with the conclusion of the report, and we are developing full action plans to address the findings and recommendations, meeting the commitments contained within this response. As indicated in the title and body of the report, enhancing the processes and practices for reviewing and approving supervisory proposals are important for the Board's effectiveness. We look forward to addressing the OIG's recommendations, and, to the extent our implementation plans change, will discuss those changes with the OIG and how the recommendations will continue to be addressed.

Sincerely,

*Michael S. Gibson (signed)*

Michael S. Gibson  
Director  
Division of Supervision & Regulation

*Mark E. Van Der Weide (signed)*

Mark E. Van Der Weide  
General Counsel  
Legal Division

*Ann E. Misback (signed)*

Ann E. Misback  
Secretary  
Office of the Secretary

*Michelle A. Smith (signed)*

Michelle A. Smith  
Assistant to the Board  
Division of Board Members



# Abbreviations

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<b>AD Letter</b>	Advisory Letter
<b>CSR</b>	Committee on Supervision and Regulation
<b>FFIEC</b>	Federal Financial Institutions Examination Council
<b>FS</b>	Division of Financial Stability
<b>LFI</b>	large financial institution
<b>LISCC</b>	Large Institution Supervision Coordinating Committee
<b>S&amp;R</b>	Division of Supervision and Regulation
<b>SR Letter</b>	Supervision and Regulation Letter
<b>SR/CA Letter</b>	Joint SR/Consumer Affairs Letter

## Report Contributors

Lindsay Taylor, Project Lead and Auditor  
Kamry Bennett, Auditor  
Safal Bhattarai, Auditor  
Candace Jordan, Auditor  
Taylor Winzenburg, Auditor  
Caitlin Romano, Senior Attorney  
Michael Zeitler, OIG Manager, Supervision and Regulation  
Laura Shakarji, Senior OIG Manager for Supervision and Regulation  
Michael VanHuysen, Associate Inspector General for Audits and Evaluations

## Contact Information

### General

Office of Inspector General  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Mail Center I-2322  
Washington, DC 20551

Phone: 202-973-5000

Fax: 202-973-5044

### Media and Congressional

[OIG.Media@frb.gov](mailto:OIG.Media@frb.gov)



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OIG Hotline  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Mail Center I-2322  
Washington, DC 20551

Phone: 800-827-3340

Fax: 202-973-5044