

## Press Release

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October 16, 2008

### Federal Reserve issues guidance for consolidated supervision of bank holding companies and combined U.S. operations of foreign banking organizations

For immediate release

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The Federal Reserve on Thursday issued enhanced guidance that refines and clarifies its programs for the consolidated supervision of bank holding companies and the combined U.S. operations of foreign banking organizations (FBOs). The Federal Reserve also released guidance clarifying supervisory expectations with respect to firmwide compliance risk management.

While initiation of these efforts predated the recent period of considerable strain in the financial markets, these enhanced approaches to consolidated supervision and firmwide compliance risk management emphasize several elements that should support a more resilient financial system.

The Federal Reserve continues to work, both independently and in conjunction with other supervisors and functional regulators, on a number of initiatives to strengthen supervisory approaches and reinforce expectations for sound practices in response to market events.

"This supervisory guidance on consolidated supervision and compliance risk management will better equip our supervisory staff, working closely with other U.S. and foreign supervisors and regulators, to understand and assess the full range and scope of a banking organization's

operations and risks," said Federal Reserve Board Governor Randall S. Kroszner.

"This guidance should not only provide greater clarity regarding our longstanding responsibilities as a consolidated supervisor, but is also responsive to ongoing developments in the financial sector. The objectives of fostering financial stability and deterring or managing financial crises will be furthered by the Federal Reserve having a more complete view of firmwide risks and controls," Governor Kroszner said.

The continuing growth in the size and complexity of many banking organizations exposes these firms to a wide array of potential risks, while at the same time making it more challenging for a single supervisor to have a comprehensive perspective on the firm as a whole. In this regard, the consolidated supervision guidance is designed to foster consistent Federal Reserve supervisory practices and assessments across institutions with similar activities and risks.

The guidance describes how Federal Reserve staff develops an understanding and assessment of the consolidated operations of a bank holding company and the U.S. operations of an FBO through continuous monitoring activities, discovery reviews, and testing activities, as well as through interaction with, and reliance to the fullest extent possible on, other relevant supervisors and functional regulators.

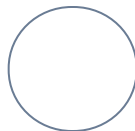
The separate compliance risk management guidance endorses the principles set forth in the April 2005 paper issued by the Basel Committee on Banking Supervision entitled *Compliance and the compliance function in banks*. This guidance clarifies certain Federal Reserve supervisory policies regarding compliance risk management programs and oversight at large banking organizations with complex compliance profiles.

The supervisory guidance on both consolidated supervision and compliance risk management is attached.

[SR Letter 08-8/CA Letter 08-11](#)

[SR Letter 08-9/CA Letter 08-12](#)

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