



Regulatory Alert

Financial Services Regulatory Insight Center



January 2018

Guidance for Management

Federal Reserve proposes guidance setting forth supervisory expectations for management relevant to assessing governance and controls in large financial institutions

Key points

The proposed guidance for senior management:

- Outlines supervisory expectations related to risk management at large financial institutions, distinguishing between senior management that reports directly to the board and business line management.
- Is part of a larger initiative to establish a new rating system for large financial institutions.
- Would, along with the Federal Reserve's proposed supervisory expectations for boards of directors, inform the agency's assessment of a large financial institution's governance and controls.

Summary

The Federal Reserve Board (Federal Reserve) has [proposed](#) core principles for effective senior management, business line management, and independent risk management (IRM) and controls (collectively, Management Guidance) that would apply to large financial institutions (LFIs). The proposed Management Guidance builds upon two outstanding proposals released last summer that together would establish a new supervisory rating system for LFIs and outline new supervisory expectations for effective boards of directors.

As proposed, the Management Guidance would apply to LFIs, including: domestic bank holding companies and savings and loan holding companies with \$50 billion or more in total consolidated assets; non-bank SIFIs; the

combined branch and non-branch U.S. operations of foreign banks (FBOs) with \$50 billion or more in combined U.S. assets; and the state member bank subsidiaries of any of these organizations.

The core principles in the proposed Management Guidance are divided into three parts:

1. *Core Principles for Senior Management*, where "senior management" is defined as the core group of individuals directly accountable to the board of directors for the sound and prudent day-to-day management of the organization. Key responsibilities of senior management include overseeing the activities of the business lines (individually and collectively) and the IRM and system of controls. Senior management is responsible



for implementing the organization's strategy and risk tolerance as approved by the board.

- For an FBO, "senior management" can refer to individuals located inside or outside the United States who are accountable to the IHC board, U.S. risk committee, or global board of directors with respect to the U.S. operations.

2. *Core Principles for the Management of Business Lines*, including critical operations, where "business line management" is defined as the core group of individuals responsible for the prudent day-to-day management of the business line and who report directly to senior management. Business line management responsibilities include executing activities consistent with the organization's strategy and risk tolerance, identifying and managing risk, providing sufficient resources and infrastructure, and ensuring the an appropriate system of internal control and accountability is in place. Business line managers may also serve as senior management.

- For an LISCC firm, the core principles would apply to all business lines. For an LFI that is not a LISCC firm, the core principles would apply to any business line where a significant control disruption, failure, or loss event could result in a material loss of revenue, profit, or franchise value, or result in significant consumer harm.
- For FBOs, the core principles apply only to U.S. operations though risks outside of the United States that may impact the FBO's U.S. operations should be considered.

3. *Core Principles for Independent Risk Management and Controls*, which address IRM (including Compliance), internal controls, and internal audit as well as responsibilities for the chief risk officer (CRO) and the chief audit executive (CAE). The IRM, system of internal controls, and internal audit function should be commensurate with the size, complexity, and risk profile of the organization.

- The proposed guidance for IRM builds upon the framework set forth in Regulation YY (Enhanced Prudential Standards). The IRM function would be expected to evaluate the organization's risk tolerance; establish enterprise-wide risk limits and monitor adherence to those limits; identify, measure, and aggregate risks; provide an independent assessment of the organization's risk profile; and provide risk reports to the board and senior management.
 - For an FBO, the proposed guidelines apply to the U.S. CRO and the U.S. risk committee for the combined U.S. operations.
- For internal controls, the proposed Management Guidance expands upon the expectation for internal controls described in SR letter 12-17. An organization should demonstrate that the system is consistent with all applicable laws and regulations, including consumer protection, and is regularly evaluated, tested, and monitored.
- The proposed core principles for internal audit rely on existing guidance. The internal audit function should examine, evaluate, and perform independent assessments of the organization's risk management and internal control systems and report findings to senior management and the organization's audit committee.
 - For an FBO, the internal audit function for the combined U.S. operations should have appropriate independent oversight.

Comments on the proposed Management Guidance are due no later than March 15, 2018. The comment period for each of the earlier proposals has been extended to February 15, 2018 to allow the three proposals to be evaluated together.

KPMG's Regulatory Alert on the proposed LFI rating system is available [here](#), and on the proposed guidance for boards is available [here](#).

Contact

Amy Matsuo

Principal and National Lead

Financial Services Regulatory Risk Practice

T: 919-664-7302

E: amatsuo@kpmg.com

Contributing authors:

Amy Matsuo, Principal and National Lead,
Regulatory Insights

Karen Staines, Director, Financial Services
Regulatory Insight Center

Phil MacFarlane, Associate Director, Financial
Services Regulatory Insight Center

kpmg.com/socialmedia



All information provided here is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the facts of the particular situation.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

© 2018 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the U.S.A. NDPPS 592774