



FEDERAL RESERVE BANK *of* KANSAS CITY

June 29, 2016

Supervision and Regulation (SR) Letter 16-11: Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$50 Billion

Attention: Chief Executive Officer of Each Tenth District State Member Bank, and Holding Company

In Brief: The Federal Reserve released an update to supervisory guidance for assessing risk management at supervised institutions with less than \$50 billion in total consolidated assets. The guidance clarifies supervisory expectations for the roles and responsibilities of the board of directors and senior management for an institution's risk management. The guidance updates, and supersedes, SR letter 95-51 "Rating the Adequacy of Risk Management and Internal Controls at State Member Banks and Bank Holding Companies" for organizations with less than \$50 billion in total consolidated assets. The guidance also extends applicability to savings and loan holding companies with less than \$50 billion in total consolidated assets.

Highlights: The letter provides guidelines for the supervisory assessment of the overall effectiveness of an institution's risk management and its formal or informal systems for identifying, measuring, monitoring, and controlling the entire spectrum of risks facing an institution. While the letter updates and clarifies guidance contained in SR 95-51, the risk management rating requirements and definitions utilized for the assignment of supervisory ratings remain unchanged. The evaluation of risk management includes primary consideration of the following elements of a sound risk management system:

- Board and senior management oversight
- Policies, procedures, and limits
- Risk monitoring and management information systems
- Internal controls

Each of these elements is described further, including specific distinction of the roles and responsibilities of the board of directors and senior management. Additionally, the guidance includes a list of considerations to be assessed by examiners as part of the overall assessment of risk management. A central theme of the guidance is that an institution's risk management processes are expected to evolve in sophistication commensurate with the institution's asset growth, complexity, and risk. Larger or more complex organizations should have more sophisticated risk management processes that address the full range of risks regardless of where the activity is conducted in the organization. For small community banking organizations engaged solely in traditional banking activities and whose senior management is actively involved in the details of day-to-day operations, less complex risk management systems may be adequate.

Contact: Please direct any questions concerning the new guidance to your Federal Reserve Bank of Kansas City Central Point of Contact at (800) 333-1010.

Internet Link: A copy of the Federal Reserve Supervision and Regulation Letter SR 16-11 is available on the Board's public web site at: <http://www.federalreserve.gov/bankinforeg/srletters/sr1611.htm>