



Executive Summary:

The Board Can Improve the Effectiveness of Continuous Monitoring as a Supervisory Tool

2017-SR-B-005

March 29, 2017

Purpose

We assessed the effectiveness of continuous monitoring as a supervisory activity for large, complex financial institutions, including Large Institution Supervision Coordinating Committee (LISCC) firms and large banking organizations (LBOs).

Background

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

The Board has delegated the authority to supervise these institutions to the Federal Reserve Banks, which assign teams of examiners and risk specialists to supervise the institutions' day-to-day operations. The supervision teams use continuous monitoring—an activity less formal than an examination—to develop and maintain an understanding of an institution and keep apprised of recent developments that may affect its risk profile.

Findings

Although the Board and the Reserve Banks have multiple documents that address the expectations for certain aspects of continuous monitoring, the Board has not issued guidance that harmonizes these expectations across its supervisory portfolios and the Reserve Banks. Such guidance could outline the preferred analytical approach and documentation practices for this activity across the LISCC and LBO supervisory portfolios and minimize the variability that we noted for continuous monitoring activities across the Reserve Banks we visited. Although we noted certain best practices for executing continuous monitoring during our evaluation, those practices have not been broadly implemented across the System. As a result, supervisory guidance issued by the Board could help to foster more consistent execution of this supervisory activity throughout the System and maximize its effectiveness.

Recommendations

Our report provides recommendations to improve the effectiveness of continuous monitoring. In the response to our draft report, the Director of the Board's Division of Supervision and Regulation concurs with our recommendations and outlines progress that has been made to address specific recommendations. We will follow up to ensure that the recommendations are fully addressed.