Evaluation Report
2026-SR-B-011
July 22, 2026

Board of Governors of the Federal Reserve System

# The Board's and Reserve Banks' Practices for Following Up on Safety and Soundness Findings for Large and Foreign Banking Organizations

Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Executive Summary, 2026-SR-B-011, July 22, 2026

# The Board's and Reserve Banks' Practices for Following Up on Safety and Soundness Findings for Large and Foreign Banking Organizations

## Finding

Federal Reserve System supervisory staff did not finalize validation of large and foreign banking organizations' (LFBO) remediation efforts for most horizontal findings we reviewed until several months after the institutions submitted their remediation materials. While guidance from the Board of Governors of the Federal Reserve System's Division of Supervision and Regulation (S&R) does not specify timing expectations for closing supervisory findings, we believe closing findings several months after institutions submit their remediation materials is untimely.

We primarily attribute the delays that our team detected to supervisory staff not finalizing their review of institutions' remediation efforts until the next annual horizontal review.

In October 2025, S&R issued principles limiting the circumstances in which horizontal reviews will occur. The Board also outlined when supervisory staff should rely on an institution's internal audit function to validate finding remediation instead of performing their own separate testing. Under the revised approach, supervisory staff will prioritize validating remediation activities for LFBOs with internal audit functions that do not have a satisfactory rating.

In addition, we identified a matter for management consideration related to challenges with the tracking and reporting capabilities in the system of record used to document supervisory findings and follow-up work.

## Recommendations

We do not have any recommendations because of S&R's recent changes to its LFBO portfolio's supervisory approach. We describe those changes in our finding. Because our report does not contain recommendations, the Board chose not to provide an official management response.

## Purpose

We assessed the effectiveness of the Board's and Federal Reserve Banks' practices for following up on supervisory findings that address safety and soundness issues in the LFBO portfolio. Our scope included (1) safety and soundness supervisory findings issued by the System from January 1, 2023, through December 31, 2024, to LFBOs with over $100 billion in consolidated assets and (2) all open supervisory findings issued to these institutions, regardless of issuance date, as of February 28, 2025.

## Background

Reserve Banks assign a dedicated supervisory team to each institution in the LFBO portfolio. At the time of our review, supervisory staff performed idiosyncratic supervisory activities of individual LFBOs or horizontal reviews comparing practices across multiple LFBOs. During these reviews, supervisory staff may identify two types of findings: matters requiring attention and matters requiring immediate attention. Institutions must remediate supervisory findings, and Reserve Banks must follow up to assess institutions' progress and verify satisfactory remediation. Decisions to close findings generally involve supervisory staff, Reserve Bank management, and designated oversight groups.

Recommendations, 2026-SR-B-011, July 22, 2026

# The Board's and Reserve Banks' Practices for Following Up on Safety and Soundness Findings for Large and Foreign Banking Organizations

Finding: Supervisory Staff Did Not Timely Finalize Validation of Institutions' Remediation of Horizontal Findings

| Number | Recommendation | Responsible office |
|---|---|---|
| | No recommendations. | |

# Contents

# Introduction

## Objective

We assessed the effectiveness of the Board of Governors of the Federal Reserve System's and the Federal Reserve Banks' practices for following up on supervisory findings that address safety and soundness issues in the large and foreign banking organization (LFBO) portfolio. Our scope included safety and soundness supervisory findings issued by the System during the period from January 1, 2023, through December 31, 2024, to LFBOs with over $100 billion in consolidated assets. Our scope also included all open safety and soundness supervisory findings issued to these LFBOs, regardless of issuance date, as of February 28, 2025. Our review included an assessment of the System's follow-up process for 15 judgmentally selected supervisory findings across 13 LFBOs in our scope. Appendix A describes our scope and methodology in more detail.

## Background

The Board and Reserve Banks supervise financial institutions to monitor and assess their safety and soundness. The Board's Division of Supervision and Regulation (S&R) oversees Reserve Banks' execution of supervisory activities and issues guidance to help the Reserve Banks operate consistent with supervisory expectations. S&R organizes its oversight activities into supervisory portfolios generally based on institutions' total asset size and complexity. At the time of our fieldwork, the LFBO portfolio included domestic banking organizations with more than $100 billion in total consolidated assets and all foreign banking organizations operating in the United States regardless of asset size.[1]

Reserve Banks assign a dedicated supervisory team (DST) to each institution in the LFBO portfolio. Supervisory staff perform idiosyncratic (institution-specific) supervisory activities or horizontal reviews of multiple institutions using the same scope to compare practices across those institutions. Supervisory staff may identify two types of findings: matters requiring immediate attention (MRIAs) and matters requiring attention (MRAs) that an institution must address "over a reasonable period of time."

S&R guidance issued in 2013 states that Reserve Banks must follow up to assess an institution's progress and verify satisfactory remediation of MRAs and MRIAs.[2] According to the guidance, the time frame for Reserve Bank supervisory staff follow-up should correspond with the time frame specified for the required actions to be completed by the institution and should be appropriate for the severity of the matter requiring corrective action. Other S&R guidance indicates that supervisory staff must update a finding's status in the system of record at least quarterly or whenever a status change occurs.

---

[1] The LFBO portfolio does not include Global Systemically Important Banks, which are U.S.-based institutions with assets over $100 billion that have been deemed to pose elevated risk to U.S. financial stability. After the completion of our fieldwork, S&R amended the composition of the LFBO portfolio to only include foreign banking organizations with combined U.S. assets of $100 billion or more.

[2] Board of Governors of the Federal Reserve System, "SR 13-13 / CA 13-10: Supervisory Considerations for the Communication of Supervisory Findings," June 17, 2013.

This remediation process has faced congressional scrutiny in recent years. For example, the May 2023 congressional hearings on the failure of Silicon Valley Bank, an LFBO, focused on the number of outstanding MRAs and MRIAs and whether the bank had timely addressed them.[3] Institutions may be susceptible to supervisory criticisms about management's effectiveness and elevated operational risks if they do not timely and satisfactorily implement corrective actions. Supervisory staff's follow-up efforts are critical to monitoring an institution's remediation progress.

## *Communication of Findings and Follow-Up by Supervisory Staff*

Supervisory staff communicate findings and required time frames for corrective actions through supervisory letters or reports issued to an institution. An institution then develops and shares a remediation plan outlining proposed corrective actions. After making progress toward addressing corrective action items, an institution submits remediation materials to supervisory staff. Supervisory staff assess the adequacy of the response and determine whether the actions taken address the supervisory concerns. Depending on a finding's nature and severity, supervisory staff may assess an institution's progress through subsequent examinations, targeted reviews, continuous monitoring, or by relying on an institution's internal audit validation work.[4] If an institution does not sufficiently address and ultimately resolve a finding, supervisory staff may consider stronger action, such as an enforcement action.

## *System of Record for Supervisory Findings*

Supervisory staff document supervisory findings and follow-up work in OASIS.[5] Supervisory staff must update a finding's status in OASIS at least quarterly or whenever a status change occurs. These updates include assessing the adequacy of an institution's remediation efforts. Supervisory staff close findings once they verify that an institution has satisfactorily addressed the finding or if the finding is no longer relevant.

## *Follow-Up for Idiosyncratic and Horizontal Supervisory Work*

DSTs conduct idiosyncratic supervisory work, and the Reserve Banks follow up on findings resulting from that work, including MRAs and MRIAs. Reserve Bank management and the DSTs decide whether to close findings issued as part of idiosyncratic reviews. Annual horizontal reviews of capital, liquidity, and cybersecurity are conducted by horizontal teams. Determining whether to close findings from a horizontal review requires coordination between an institution's DST, the horizontal leadership team, and

---

[3] On May 16, 2023, the United States Senate Committee on Banking, Housing, and Urban Affairs conducted a hearing on "Examining the Failures of Silicon Valley Bank and Signature Bank." On May 24, 2023, the United States House of Representatives Subcommittee on Health Care and Financial Services held a hearing titled "A Failure of Supervision: Bank Failures and the San Francisco Federal Reserve."

[4] Supervisory staff may rely on an institution's internal audit validation work when the internal audit's overall function and related processes are assessed as effective by supervisory staff.

[5] In the second quarter of 2023, the System began transitioning supervisory information from the Consolidated Supervision Comparative Analysis, Planning and Execution System to OASIS.

the designated horizontal oversight group.[6] The designated horizontal oversight group makes the final decision to close horizontal findings.

## Remediation Extension Requests

An institution may request an extension of its supervisory finding remediation time frame, which can delay the follow-up process. Institutions may request extensions when remediating complex findings like cybersecurity vulnerabilities or liquidity risk management process deficiencies. An institution's internal audit function may also require more time to validate remediation efforts for complex findings before notifying a Reserve Bank that remediation work is complete and ready for review. Extensions may also occur when supervisory staff determine that an institution did not fully implement the required corrective actions.

When institutions need additional time to remediate supervisory findings, they must formally submit extension requests to DSTs. Those requests must include the rationale for the request and revised completion dates with interim milestones. DSTs evaluate extension requests and approve or deny them in formal responses to institutions.

[6] Oversight groups provide guidance to the horizontal leadership team, set strategy, approve review milestones, and serve as the decisionmaker on overall assessments and proposed supervisory findings. Designated horizontal oversight groups consist of two co-chairs, the head of LFBO horizontal reviews, and a Reserve Bank vice president. Horizontal leadership teams consist of team leads, deputy team leads, operations leads, and workstream leads.

# Finding: Supervisory Staff Did Not Timely Finalize Validation of Institutions' Remediation of Horizontal Findings

Supervisory staff did not finalize validation of LFBO remediation efforts for most horizontal findings we reviewed until several months after the institutions submitted their remediation materials. While S&R's guidance does not specify the timing expectations for closing supervisory findings, we believe closing findings several months after institutions submit their remediation materials is untimely. After we completed our fieldwork, S&R changed its approach to supervision, including the process for validating institutions' remediation efforts. Under the revised approach, we learned that supervisory staff will review validation packages from institutions' internal audit functions to verify the completeness of the scope and quality of internal audit's review but will not conduct their own validation, except for LFBOs with internal audit functions that are not assessed as effective.

## Supervisory Staff Often Did Not Finalize Validation of Institutions' Remediation Efforts Until the Next Annual Horizontal Review

As noted above, S&R guidance requires Reserve Banks to follow up on supervisory findings to verify satisfactory completion. The guidance states that "the time frame for follow-up should correspond with the time frame specified for the action being required, and should be appropriate for the severity of the matter requiring the corrective action." Other S&R guidance indicates that supervisory staff must update a finding's status in the system of record at least quarterly or whenever a status change occurs.

To assess the follow-up process by Reserve Bank supervisory staff, we judgmentally selected for review 15 supervisory findings across 13 institutions supervised by the Federal Reserve Bank of Chicago, the Federal Reserve Bank of Cleveland, and the Federal Reserve Bank of New York. Of these 15 supervisory findings, 6 were issued as a result of horizontal reviews, while the remaining 9 originated from idiosyncratic supervisory work. Of the 6 horizontal findings we reviewed, supervisory staff closed 5 several months after receiving remediation materials from institutions.[7] Supervisory staff closed the sixth horizontal finding about 6 weeks after the institution submitted its remediation materials. While the guidance does not specify the timing expectations for closing supervisory findings, we believe supervisory staff closing findings several months after institutions submit their remediation materials is untimely. This belief is also consistent with what we were told by multiple Board and Reserve Bank staff, who noted that there were often delays in staff's validation of remediation efforts for horizontal findings.

We learned that supervisory staff often did not finalize validation of institutions' remediation efforts for horizontal findings until the next annual horizontal review, including for 5 of the 6 horizontal findings that

[7] Supervisory staff informed us that they were often in communication with institutions to obtain additional information after receiving initial materials to address the supervisory findings.

we reviewed. Further, an institution's DST, the horizontal leadership team, and the designated horizontal oversight group must coordinate when determining whether to close supervisory findings issued as part of a horizontal review; the horizontal oversight group makes the final decision to close a finding. Interviewees noted that this layered review process can cause delays in verifying an institution's remediation efforts.

Institutions may be susceptible to elevated risks if supervisory staff do not timely finalize validation of remediation efforts. For example, if supervisory staff do not timely review an institution's corrective actions and the remediation is incomplete or ineffective, the issue will persist and may worsen.

Further, horizontal findings that remain open for several months after institutions submit remediation materials may frustrate institutions that have addressed findings but must wait for supervisory staff to provide feedback on whether a finding can be closed.

With regard to the 9 findings that originated from idiosyncratic supervisory work, 6 remained open at the time of our review, so we were unable to assess the timeliness of their closure. We did not identify any themes related to timeliness for the 3 idiosyncratic findings we reviewed that were closed.

# Recent Supervisory Updates

In October 2025, S&R issued its "Statement of Supervisory Operating Principles" to communicate updates to the System's supervisory approach to all portfolios, including the LFBO portfolio. In November 2025, the System held a Rapid Response training session to share an overview of these new principles intended for all S&R and Reserve Bank supervisory staff. According to these new principles, supervisory staff should (1) not conduct horizontal reviews unless S&R's deputy director of supervision determines that the benefits of a horizontal review to institutions' safety and soundness or to the stability of the U.S. financial system outweigh the costs and (2) only validate whether an institution has fully remediated a supervisory finding when that institution's internal audit function has been rated unsatisfactory.[8]

In coordination with the recently issued "Statement of Supervisory Operating Principles," S&R issued a memorandum and held another Rapid Response training session intended for all S&R and Reserve Bank supervisory staff in early 2026. In the memorandum and training, S&R shared that staff will begin a review of all outstanding MRAs and MRIAs across all supervisory portfolios. As part of this review, supervisory staff will determine whether the MRAs and MRIAs should remain open or can be closed, if remediated; downgraded to nonbinding supervisory observations; or eliminated if they do not comply with the new operating principles.[9] Supervisory staff will also identify close-call situations that require further review, such as circumstances in which additional information is needed or other supervisory agencies have divergent views. We learned that, as of early February 2026, S&R had received institutions' internal audit validation packages for many of the open MRAs and MRIAs from prior LFBO horizontal reviews.

[8] An S&R employee indicated that supervisory staff will rely on the rating for an institution's internal audit function from its most recent examination to determine whether they should conduct validation work.

[9] The memorandum states that MRAs and MRIAs based on safety and soundness should prioritize deficiencies that create a significant probability of higher-than-normal harm to the financial condition of an institution.

# S&R Is Considering Whether Its Current Guidance for Assessing Internal Audit Functions Should Evolve

According to an S&R employee, even when an LFBO has an internal audit function deemed effective, supervisory staff will still review validation packages to verify the completeness of the scope and quality of internal audit's review but will generally not conduct their own validation.

An S&R official noted that a rough timing benchmark for reviewing the effectiveness of institutions' internal audit functions is once every 3 years. Given the increased reliance on institutions' internal audit functions for validating remediation work, the Board is considering whether its current guidance on assessing internal audit functions remains appropriate or needs to evolve to support the new supervisory approach. We agree that the Board should consider reevaluating the guidance to support this new supervisory approach. When reevaluating the guidance, the Board should consider more frequent assessments of institutions' internal audit functions given the increased reliance on these functions for validating remediation work.

# Conclusion

Given the changes to the Board's supervisory approach for validating a financial institution's examination finding remediation efforts, we will not issue any recommendations to address this finding. However, as part of our future project planning activities, we may consider a review to assess the implementation of the Board's new approach of relying on institutions' internal audit functions to validate finding remediation.

# Matter for Management Consideration

While not the focus of our evaluation, supervisory staff highlighted challenges with OASIS's tracking and reporting capabilities when conducting supervisory finding follow-up work. Staff indicated that OASIS limitations require manual workarounds to follow-up work. For example, supervisory staff track the progress of follow-up for supervisory findings on spreadsheets and later upload them to OASIS.

Supervisory staff also reported difficulties using OASIS to query information or pull reports to determine institution remediation timeliness. An interviewee noted that a senior officer requested a report to track the time between institution remediation package submission and validation; however, supervisory staff had to manually retrieve the information because of reporting limitations in OASIS. The interviewee noted that staff eventually obtained the requested information.

Improved tracking and reporting capabilities on the status of supervisory findings will allow staff to monitor findings more effectively and support the revised finding validation approach. We believe the Board should assess and consider opportunities to enhance OASIS's tracking and reporting capabilities to better support supervisory finding follow-up work.

# Appendix A: Scope and Methodology

Our scope included safety and soundness supervisory findings issued by the System during the period from January 1, 2023, through December 31, 2024, to LFBOs with over $100 billion in consolidated assets. Our scope also included all open supervisory findings issued to these LFBOs, regardless of issuance date, as of February 28, 2025. Our scope period preceded the Board's October 2025 updates to its supervisory operating principles.

We analyzed policies, procedures, guidance, and training materials related to the supervisory finding follow-up process issued by the Board and the Federal Reserve Bank of Chicago, the Federal Reserve Bank of Cleveland, and the Federal Reserve Bank of New York.[10] We also assessed the Board's and selected Reserve Banks' follow-up practices for supervisory findings. Specifically, we assessed the follow-up process for 15 judgmentally selected supervisory findings across 13 institutions supervised by the selected Reserve Banks. We reviewed examination and follow-up documentation for each supervisory finding in our selection. We cannot generalize the results from our review across all Reserve Banks or all LFBO follow-up activities.

We observed a walkthrough of OASIS to determine how supervisory staff document supervisory findings in the application. In addition, we interviewed eight Board and nine Reserve Bank officials and staff about the supervisory finding follow-up process in the LFBO portfolio.

We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. We conducted our work from February 2025 through May 2026.[11]

[10] In selecting these Reserve Banks, we considered such factors as the Reserve Bank's number of LFBOs, active supervisory issues, and supervisory findings opened between 2023 and 2024.

[11] We shared a draft of our report with the Board. Because the report does not contain recommendations, the Board chose not to provide an official management response.

# Abbreviations

| | |
|---|---|
| DST | dedicated supervisory team |
| LFBO | large and foreign banking organization |
| MRA | matter requiring attention |
| MRIA | matter requiring immediate attention |
| S&R | Division of Supervision and Regulation |

Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

## Hotline

Report fraud, waste, abuse, and mismanagement involving the programs and operations of the Board or the CFPB.

oig.federalreserve.gov/hotline

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

1-800-827-3340

## General Contact Information

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

202-973-5000

## Media and Congressional Inquiries

oig.media@frb.gov