



Office of Inspector General

Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection

Executive Summary, 2020-SR-B-003, March 9, 2020

The Board Should Finalize Guidance to Clearly Define Those Considered Senior Examiners and Subject to the Associated Postemployment Restriction

Findings

We visited four Reserve Banks for our evaluation—Minneapolis, New York, Richmond, and San Francisco—to assess compliance with the postemployment restriction for senior examiners. We conducted interviews with program officials, ethics officers, and individuals designated as senior examiners and reviewed documentation regarding the postemployment restriction.

We found that the four Reserve Banks in our sample have issued policies and procedures to identify senior examiners, require that they be notified of their postemployment restriction, and require workpaper reviews as appropriate. These Reserve Banks took different approaches, however, to determining whom to designate as a *senior examiner*. The senior examiners we interviewed appeared to understand the postemployment restriction and the penalties for violating the restriction.

Although the Board of Governors of the Federal Reserve System (Board) found through a 2017 horizontal review that the Reserve Banks implemented the Board's postemployment restriction guidance, the review also found that the Reserve Banks did not always apply the *senior examiner* definition in accordance with the guidance. Thus, the horizontal review team recommended that the Board issue additional guidance to clarify the definition of a *senior examiner*. As of November 2019, the Board had not finalized this guidance.

Recommendation

Our report contains a recommendation designed to enhance the consistency among Reserve Banks in determining which employees should be designated as *senior examiners* for the purpose of applying the postemployment restriction. In its response to our draft report, the Board concurs with our recommendation. We will follow up to ensure that the recommendation is addressed.

Purpose

We conducted this evaluation to assess the effectiveness of controls designed to ensure compliance with the requirements outlined in Supervision and Regulation Letter 16-16/Consumer Affairs Letter 16-7, *Special Post-Employment Restriction for Senior Examiners* (SR Letter 16-16).

Background

The Intelligence Reform and Terrorism Prevention Act of 2004 imposes a postemployment restriction on senior examiners of depository institutions and depository institution holding companies. To implement the act, the Board issued SR Letter 16-16, which prohibits an individual who served as a senior examiner from accepting compensation from an institution they supervised during 2 or more months of their final 12 months of employment. This prohibition lasts for 1 year after termination of employment. The penalties for violating the postemployment restriction may include an industrywide prohibition for up to 5 years and a civil monetary penalty of up to \$250,000.

Additionally, if any examiner, regardless of whether they were designated as a *senior examiner*, accepts employment with an institution that they examined in the prior 12 months, SR Letter 16-16 requires the relevant Reserve Bank to review the workpapers related to their supervision of that institution. SR Letter 16-16 states that the workpaper review "should consider whether the examiner compromised examination findings or supervisory proceedings because of pending employment with the relevant depository institution or depository institution holding company."