



# **Change to the BHC Rating System**

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## **Agenda**

- **Rationale for Change**
- **Key Elements of New Rating**
- **Comparison with BOPEC Rating**
- **Implementation**

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## Rationale for Change

- New Holding Company Rating System Designed to Align With:
  - Changes in banking industry over past 25 years
  - Evolution of FRS supervisory practices in response to industry changes

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## Key Elements of Revised Rating System

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## Key Elements

- **Most (78 percent) of BHCs in 12<sup>th</sup> District are Supervised Under Small BHC Program That Currently Assigns:**
  - “M”: management rating (S, F, U)
  - “C”: composite rating (1 – 5)

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## Key Elements

- **Under New Rating System BHCs Supervised Under Small BHC Program Will Be Assigned:**
  - “R”: risk management rating (1 – 5)
  - “C”: composite rating (1 – 5)

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## Key Elements

- **For Those BHCs That Are Currently Assigned a Full BOPEC Rating, the New Rating System Will Be:**

**R F I / C (D)**

- **Components and Subcomponents Rated on Five Point Numeric Scale**

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## Key Elements – “R”

- **“R” – Risk Management**
- **Evaluation of Ability of Board and Senior Management to Identify, Measure, Monitor, and Control Risk**
- **Has Four Subcomponents**
  - **Board and management oversight**
  - **Policies, procedures and limits**
  - **Management information systems**
  - **Internal Controls**

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## **Key Elements – “F”**

- **“F” – Financial Condition**
- **“F” Component Has Four Subcomponents:**
  - **C (Consolidated Capital)**
  - **A (Consolidated Asset Quality)**
  - **E (Consolidated Earnings)**
  - **L (Consolidated Liquidity)**

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## **Key Elements – “I”**

- **“I” – Impact**
- **Assessment of Potential Impact of Nondepository Legal Entities on Insured Depository Institution(s)**
- **Considers Degree of Risk Posed by Risk Management and Financial Condition of Nondepositories to Federal Safety Net**

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## Key Elements – “I”

- **“I” Five Point Numeric Scale:**
  - 1-Low likelihood of significant negative impact
  - 2-Limited likelihood of significant negative impact
  - 3-Moderate likelihood of significant negative impact
  - 4-Considerable likelihood of significant negative impact
  - 5-High likelihood of significant negative impact

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## Key Elements – “C” & “D”

- **“C” – Composite – Overall Assessment of Consolidated Organization Based on “R”, “F” and “I”**
- **“D” – Depository Institution(s) Rating Will Generally Reflect Composite CAMELS Rating**

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# Comparison of RFI and BOPEC

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## Comparison

### ■ What is The Same?

- All aspects of BOPEC captured in new rating
- “B” rating equivalent to new “D” rating
- Consolidated “E” and “C” ratings remain the same
- Small BHC program rating remains the same (with change in terminology)

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## Comparison

### ■ What is Different?

- Subcomponents for “R” and “F”
- “F” includes asset quality and liquidity
- “R” rating receives more emphasis and viewed as broader than CAMELS “M”
- Explicit assessment of impact
- Only one composite rating is assigned that encompasses both financial and risk management factors

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## Implementation Guidelines

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## Implementation

- **Web Site – Guidance, FAQs, “Ask the Expert” Feature:**

<http://stlouisfed.org/col/courses/bhc/why/index.cfm>

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## Implementation

- **Primary Regulators of Banks Whose Holding Companies Are in Small BHC Program Should See No Difference or Impact**
- **Pilot of RFI in 2003 Indicated Examination Reports and Other Readily Available Information About Subsidiary Banks (*e.g.*, UBPRs) Are Usually Sufficient to Assign RFI Components and Subcomponents**

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## Implementation

- **Assessments For I Rating May Present Some Challenges, Particularly for LCBOs and Non-Traditional Holding Companies (*e.g.*, Charles Schwab)**
  - Concrete implementation guidelines
  - Feedback mechanism during first year of implementation

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## Implementation

- **Where Readily Available Information Not Sufficient to Assign Rating, Discussions with Primary/Functional Regulator**
- **If Still Need Information, FRS Will Conduct Coordinated Reviews (not expected to be common)**

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