To State Member Banks, Bank
Holding Companies, Financial Holding
Companies, Savings and Loan Holding Companies,
and Foreign Banking Offices
in the Twelfth Federal Reserve District


**Applicability:** This guidance applies to large financial institutions supervised by the Federal Reserve and does not apply to community banking organizations, which are defined as institutions with total consolidated assets of $10 billion or less.

On December 20, 2013, the Board of Governors of the Federal Reserve System issued SR letter 13-23, Risk Transfer Considerations When Assessing Capital Adequacy – Supplemental Guidance on Consolidated Supervision Framework for Large Financial Institutions (SR letter 12-17/CA letter 12-14). This letter provides guidance on how certain risk transfer transactions affect assessments of capital adequacy at large financial institutions (hereafter referred to as firms) covered by the Federal Reserve's Consolidated Supervision Framework for Large Financial Institutions (SR letter 12-17/CA letter 12-14). The letter discusses risk mitigation techniques and provides clarification on supervisory expectations when assessing a firm's capital adequacy in certain circumstances when the risk-based capital framework may not fully capture the residual risks of a transaction.

Supervisors will strongly scrutinize risk transfer transactions that result in substantial reductions in risk-weighted assets, including in supervisors’ assessment of a firm's overall capital adequacy, capital planning, and risk management through CCAR. Based on an assessment of the risks retained by the firm, the Board may in particular cases determine not to recognize a transaction as a risk mitigant for risk-based capital purposes. Firms should bring these types of risk transfer transactions to the attention of their senior management and supervisors. Supervisors will evaluate whether a firm can adequately demonstrate that the firm has taken into account any residual risks in connection with the transaction.

**Additional Information**


For additional information, please contact:

Federal Reserve Bank of San Francisco
Banking Supervision and Regulation
415-974-3206