

FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET, SAN FRANCISCO, CALIFORNIA

August 9, 2004

**BANKING SUPERVISION AND REGULATION:
REQUEST FOR COMMENT:
REVISED RATING SYSTEM**

To Bank Holding Companies,
Financial Holding Companies,
and Others Concerned,
in the Twelfth Federal Reserve District

Request for Comment on Revisions to the Bank Holding Company Rating System (OP-1207)

The Federal Reserve is requesting public comment on proposed revisions that would better align the bank holding company rating system with current supervisory practices.

The proposed rating system incorporates an increased emphasis on risk management, a more flexible and comprehensive evaluation of financial condition, and an explicit determination of the likelihood that the nondepository entities of a holding company will have a significant negative impact on the depository subsidiaries.

Under the revised rating system, each holding company would be assigned the a composite rating (C) based on an evaluation and rating of three essential components of an institution's financial condition and operations: Risk management (R), Financial condition (F), Potential impact (I) of the parent company and nondepository subsidiaries on the subsidiary depository institutions

A fourth component in the rating system, (D), would generally mirror the primary supervisors' assessment of the subsidiary depository institutions. A simplified version of the rating system would be applied to noncomplex bank holding companies with assets of less than \$1 billion.

To provide a consistent framework for assessing risk management, the risk management component is supported by four qualitatively rated subcomponents: Competence of board and senior management, Policies, procedures, and limits, Risk monitoring and management information systems, Internal controls

The financial condition component is supported by four numerically rated subcomponents: capital adequacy; asset quality; earnings; and liquidity.

The proposal also contains guidance on implementation of the revised rating system based on holding company size and complexity.

Comment on the proposed revisions is requested by September 23, 2004.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's Internet site, at <http://www.frbsf.org/banking/letters>.

For additional information about the proposed revision to the BHC rating system, please contact our Banking Supervision and Regulation Department at either (415) 974-2242 or (213) 683-2738.

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Attachment: [OP-1207](#)