Attachment
Standard Terminology for Communication of Examination/Inspection Findings

Matters Requiring Immediate Attention (MRIA):

Definition:

Matters Requiring Immediate Attention (MRIA) constitute matters arising from the examination/inspection that the Federal Reserve is requiring a banking organization to address immediately. *MRIAs* are supervisory matters of the highest priority. These tend to be matters of significant importance and urgency, and include (1) matters that have the potential to pose significant risk to the safety and soundness of the banking organization; (2) matters that represent significant instances of noncompliance with laws or regulations; and, (3) repeat criticisms that have escalated in importance due to insufficient attention or action by the banking organization (for example, previously identified *MRAs* that have not been adequately addressed). *MRIAs* may relate to safety and soundness or consumer compliance.

Recommended Terminology (Examples):

"Board/Senior Management/Banking Organization **is required to** …."
"Board/Senior Management/Banking Organization **is directed** to…."

"Board/Senior Management/Banking Organization **must**…."
"Board/Senior Management **must give immediate attention to**…."

Timeframe:

Communications must specify a timeframe in which the banking organization must complete the action. The expected timeframe for addressing *MRIAs* is generally short, and may be "immediate," but almost always is within an examination cycle [1] in the case of safety and soundness findings and within a twelve month period in the case of consumer compliance concerns. In many circumstances, it may be appropriate to request an action plan from the banking organization with remedial actions identified within a specified timeframe. Supervisory staff should attempt to seek senior management consensus with the timeframe, consistent with safety and soundness concerns and compliance with applicable laws and regulations. For *MRIAs* that are necessary to preserve or restore the viability of a banking organization, the timeframe should take into

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[1] For institutions subject to ongoing supervision, an examination cycle is the period between roll-up examinations or inspections, typically one year. For organizations subject to point-in-time examinations, the examination cycle is the period between examinations.

account potential loss to the Federal Deposit Insurance Corporation and whether a delay in action will increase the potential for loss or the cost of resolution.

Institution Response:

The institution's board of directors or senior management is required to respond in writing regarding corrective action taken or planned along with a commitment to corresponding timeframes.

Supervisory Follow-up:

The Reserve Bank must follow up on *MRIAs* to assess progress and completion. The timeframe for follow-up should correspond with the timeframe specified for the action being required, and should be appropriate for the severity of the matter requiring the action. The means of follow-up (examination versus monitoring) may vary depending upon the nature and severity of the matter requiring the action. Failure to take corrective measures in response to *MRIAs*, or incomplete or inadequate corrective measures, may result in supervisory action, including informal or formal action or civil money penalties.[2]

Matters Requiring Attention:

Definition:

Matters Requiring Attention (MRA) constitute matters that are important and that the Federal Reserve is expecting a banking organization to address over time. *MRAs* have a lower priority than *MRIAs*, but nonetheless are matters that, based upon current information, the organization must address over time to preclude a significant issue. A banking organization's plan for addressing IT system upgrades that a banking organization may need to make as it expands its business over time would be an example of an *MRA*. Similarly, a banking organization's rollout of a major new product line may increase the need for new or enhanced consumer compliance programs or procedures that could give rise to an *MRA*. An *MRA* typically would remain as an *MRA* until completion; however, an *MRA* that

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[2] Under Section 8 of the Federal Deposit Insurance Act, the Board of Governors will issue a cease and desist order if the institution involved has failed to correct any problem with the institution's Bank Secrecy Act (BSA) compliance program that was previously reported to the institution by the Board of Governors. In order to be considered the kind of BSA program problem that will result in a cease and desist order if not corrected, the deficiencies in the program must be identified in a report of examination or other written document as requiring communication to the institution's senior management as matters that must be corrected. *Matters Requiring Immediate Attention* that identify a particular BSA program problem and direct that Board/Senior Management "are required to" or "must" give immediate attention to the problem would meet this standard. In general, a cease and desist order will not be required when an institution takes corrective action in response to such a supervisory direction, even if, for certain types of actions, the corrective action is not completed (such as, for example, corrective action relating to automated systems for BSA compliance).

a banking organization does not adequately address could become a *MRIA* over time. Similarly, a change in circumstances, environment, or strategy could also lead to an *MRA* becoming either a *MRIA* or an *Observation*. Using the previous example, the banking organization's need for an IT system upgrade could become more urgent were the organization to undertake a large acquisition that could strain existing systems. Similarly, were the organization to cease its expansion plans altogether, the *MRA* could become an *Observation*, or be dropped entirely. *MRAs* may relate to safety and soundness or consumer compliance.

Recommended Terminology (Examples):

"We **expect**…."
"Board/Senior Management/Banking Organization **is expected to** …."
"Board/Senior Management/Banking Organization **should**…."

Timeframe:

Communications must specify a timeframe in which the action is expected, although the timeframe, at least initially, may require estimation or some lack of precision – such as "over the next few months (years)" – because the banking organization may first need to complete preliminary planning. The supervisory team may establish the timeframe; however, in some instances, it may be appropriate to request that senior management set forth a reasonable timeframe, subject to examiner concurrence. Safety and soundness considerations and achieving full compliance with applicable laws and regulations will remain a priority in determining whether timeframes offered by the institution are reasonable. Timeframes for *MRAs* are likely to become more precise over time and/or as circumstances make the completion of the *MRAs* more urgent. Timeframes that span more than one supervisory or examination cycle with regard to safety and soundness matters or a twelve month period with regard to consumer compliance issues should include interim targets or thresholds.

Institution Response:

The institution's board of directors or senior management should provide a written response regarding the plan for, progress, and achievement of the *MRA*.

Supervisory Follow-up:

The Reserve Bank must follow-up on *MRAs* to assess progress and completion. The timeframe for follow-up should correspond with the timeframe for the action(s) expected. For long-term *MRAs*, the follow-up may consist of reporting on progress and noting whether the initial estimated timeframe continues to be reasonable or warrants adjustment. Safety and soundness considerations and compliance with laws and regulations will remain a priority in terms of adjusting timeframes, and could in limited circumstances result in an *MRA* becoming a

MRIA. The means of supervisory follow-up (examination versus monitoring) may vary based upon the nature and severity of the matter for which action is expected. *MRAs* that are not taken within the agreed upon timeframe or that are insufficient could result in supervisory action or escalation to a *MRIA*. However, banking organizations are expected to complete *MRAs* in the normal course of business and should not, absent a change in circumstances, environment, or strategy, expect to be subject to a supervisory action or escalation to a *MRIA*.

Observation:

Definition:

Observations include matters that are informative, advisory, or that suggest a means of improving performance or management of the operations of the organization. *Observations* also may reflect examiner insights about sound emerging practices, which, if adopted, could make the banking organization more effective or efficient, and better aligned with industry standards. Examiners have the discretion to offer *Observations* in a formal or informal manner. Likewise, senior management has discretion in adopting *Observations*. *Observations* typically would not be escalated to *MRAs* or *MRIAs* absent a significant change in circumstances, environment, or strategy (for example, a material change in financial condition, regulatory standards, or risk). *Observations* may relate to safety and soundness or consumer compliance.

Recommended Terminology (Examples):

"We **note**…."
"We **suggest**…."
"We **have observed** that…."
"We **advise**…."
"Board/Senior Management/Banking Organization **may want to consider** …."
"Board/Senior Management/Banking Organization **may want to contemplate**…."

Timeframe:

None required.

Institution Response:

None required.

Supervisory Follow-up:

None required.