Principle 1 (1): An effective system of banking supervision will have clear responsibilities and objectives for each agency involved in the supervision of banks. Each such agency should possess operational independence and adequate resources. A suitable legal framework for banking supervision is also necessary, including provisions relating to authorization of banking establishments and their ongoing supervision; powers to address compliance with laws as well as safety and soundness concerns; and legal protection for supervisors. Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 1?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

There are clear lines of responsibility for banking supervision in the United States (U.S.). The U.S. banking regulatory system is comprised of three main federal banking supervisory agencies, each with a defined supervisory task. Credit unions and thrift institutions are supervised separately and are not included in this response. In addition to the federal supervisory agencies, there are also state authorities that examine and supervise their respective state-chartered institutions.

Each of the U.S. agencies has a specified group of banks for which it acts as regulator. The type of charter that is held by a financial institution determines which agency acts as the primary federal regulator. The agencies are:

The Board of Governors of the Federal Reserve System (FRB): The FRB is the central bank of the U.S. As such, it has both bank supervisory, monetary policy, and payment systems responsibilities. The FRB has supervisory responsibility over all bank holding companies, their non-bank subsidiaries, and their foreign subsidiaries. It also is the primary federal supervisor of state-chartered banks that are members of the Federal Reserve System. The FRB is responsible for so-called Edge Act and agreement corporations, entities by which U.S. and foreign banking organizations can conduct international banking operations.

The Office of the Comptroller of the Currency (OCC): The OCC is part of the U.S. Department of the Treasury and is the primary supervisor for federally-chartered banks (so-called "national banks"), their subsidiaries, and federally-licensed branches and agencies of foreign banks.

The Federal Deposit Insurance Corporation (FDIC): The FDIC is an independent governmental agency with responsibility for both banking supervision and deposit insurance. The FDIC is the primary supervisory authority for banks that are state-chartered and not members of the Federal Reserve System. The FDIC is responsible for insuring deposits of all national banks, state member banks and most state non-member banks, as well as resolving failed or failing insured institutions. In its capacity as insurer, the FDIC has backup supervisory responsibility for all federally insured banks.

Foreign banking activities in the United States are also regulated and supervised by all three federal agencies. The FRB has primary responsibility for the supervision of foreign banking organizations (FBOs) in the U.S. This supervisory authority is shared with the OCC in the case of federally-chartered branches and agencies and shared with the states for those that are state-chartered. The FDIC shares authority with the other agencies with respect to insured foreign branches. All representative offices are the supervisory responsibility of the FRB and of the state authorities where the offices are located.

The objective of all three regulatory agencies is to promote safe and sound banking practices in the U.S. and to maintain stability and public confidence in the banking system. The FRB has the added objectives of containing systemic risk and influencing money and credit conditions in the economy in pursuit of full employment and stable prices. The FDIC also has an additional objective of minimizing the disruptive effects that can occur within the banking system when banks or savings associations fail.

2. What further improvements are needed?

No further improvements are necessary.

Principle 1 (2): An effective system of banking supervision will have clear responsibilities and objectives for each agency involved in the supervision of banks. **Each such agency should possess operational independence and adequate resources**. A suitable legal framework for banking supervision is also necessary, including provisions relating to authorization of banking establishments and their ongoing supervision; powers to address compliance with laws as well as safety and soundness concerns; and legal protection for supervisors. Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 1?

X Implemented	Partially implemented	Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

Each of the three U.S. banking supervisory agencies possesses adequate independence and resources to meet the supervisory objectives described in Principle 1(1). The FDIC receives its funds through the assessment of deposit insurance premiums. The OCC, while part of the Department of Treasury, is independent with respect to its bank supervision functions, and is funded through examination assessments. The FRB is a government entity that is funded by the Reserve Banks whose income is primarily derived from interest on U.S. government securities that they have acquired through open market activities. The FRB is not subject to the Congressional budget process.

The agencies are subject to actions taken by the three branches of the government: executive, legislative, and judicial. Within the purview of the executive branch is the appointment of the heads of the banking regulatory agencies. The President appoints the Chairman and the Governors of the FRB, the Chairman of the FDIC, along with two inside directors of the FDIC Board of Directors, and the Comptroller of the Currency. The Presidential appointments are subject to confirmation by the U.S. Senate. The legislative branch consists of the U.S. Congress. All of the regulatory agencies are subject to the legislative actions of the Congress. However, the agencies generally are asked to review and comment on proposed changes to banking laws, which allows the agencies to be a part of those deliberations. Additionally, the agencies implement the laws passed by Congress through promulgation of rules and regulations. The third branch, the judicial branch, can impact the regulatory agencies through rulings on legal issues.

2. What further improvements are needed?

No further improvements are needed.

Principle 1 (3): An effective system of banking supervision will have clear responsibilities and objectives for each agency involved in the supervision of banks. Each such agency should possess operational independence and adequate resources. **A suitable legal framework for banking supervision is also necessary, including provisions relating to authorization of banking establishments and their ongoing supervision;** powers to address compliance with laws as well as safety and soundness concerns; and legal protection for supervisors. Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 1?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The U.S. has a comprehensive legal framework to ensure that banks are appropriately chartered and supervised. There are numerous provisions relating to the authorization of banking establishments, both state and federal. Institutions are chartered, or licensed, by the states for state charters, and by the OCC for federal charters. National banks automatically become members of the Federal Reserve System; state banks may apply for membership. Federal deposit insurance is required for all member banks in the U.S.; state-chartered non-member banks are encouraged to apply for federal deposit insurance and most of these institutions are federally insured. Deposit insurance coverage requires a separate application to the FDIC.

The Federal Deposit Insurance Act (FDI Act) requires that all insured institutions receive an on-site examination at least every twelve months. There are exceptions for smaller, well-capitalized institutions, which extend the examination cycle to eighteen months. In addition to the on-site examinations, there are also regulatory reporting requirements that facilitate off-site supervision. Every quarter, U.S. banks are required to file reports with their respective supervisor on the financial condition of the institution.

2. What further improvements are needed?

No further improvements are needed.

Principle 1 (4): An effective system of banking supervision will have clear responsibilities and objectives for each agency involved in the supervision of banks. Each such agency should possess operational independence and adequate resources. **A suitable legal framework for banking supervision is also necessary, including** provisions relating to authorization of banking establishments and their ongoing supervision; **powers to address compliance with laws as well as safety and soundness concerns;** and legal protection for supervisors. Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 1?

X Implemented Partially implemented Not implemented

If implemented:
1. Please describe how this part of the principle has been implemented:
The U.S. banking laws provide supervisors with adequate powers to ensure that laws and regulations are complied with and safety and soundness concerns are addressed. The U.S. supervisory agencies have numerous tools at their disposal to address problems.

Violations of banking laws and regulations are typically uncovered by examiners during on-site examinations, rather than through off-site monitoring. These violations are cited in the report of examination that is produced following the examination. If an institution does not take corrective action, the supervisory agency has several options to seek compliance from the institution. The supervisor and the bank may enter into a Memorandum of Understanding (MOU), whereby the bank agrees to correct the violation(s). Another option is to issue a formal Order to Cease and Desist, which is a legal agreement between the supervisor and the financial institution that may be enforced by a federal court. This Order specifies the apparent violation(s) of laws and regulations and indicates the corrective action that is to be taken by the bank. Generally, these documents will require the bank to file regular reports with the supervisory agency describing the progress made to correct or remedy the problems cited in the document. The supervisory agency also has the option of issuing Civil Money Penalties (CMPs). CMPs are fines that can be levied against both banks and individuals. The purpose of the CMPs is to deter continuing and future violations. In addition, the regulators have the authority to remove bank directors, officers, or affiliated parties and prohibit them from any participation in banking because of their violations of law, breach of fiduciary duty, or participation in any unsafe or unsound banking practice.

Safety and soundness concerns can also be addressed through enforcement actions that describe in detail the safety and soundness concerns and prescribe corrective action. Supervisors can use an additional remedy for safety and soundness concerns in certain circumstances. If a bank is in a troubled financial condition and has particularly low levels of capital, the provisions of Prompt Corrective Action (PCA) can be implemented. PCA can constrain management behavior by preventing payment of dividends and bonuses and place limitations on new business and bank asset growth. The lower the levels of capital, the greater the number of restrictions on management.

In addition to the remedies discussed above, there are also other actions to penalize banks and bank management for violating rules and regulations and failing to correct safety and soundness concerns. These actions can include revoking the charter of the institution and terminating the deposit insurance (and thereby effectively ending the institution's ability to function as a depository institution in the U.S.).

2. What further improvements are needed? No further improvements are needed.

Principle 1 (5): An effective system of banking supervision will have clear responsibilities and objectives for each agency involved in the supervision of banks. Each such agency should possess operational independence and adequate resources. **A suitable legal framework for banking supervision is also necessary, including** provisions relating to authorization of banking establishments and their ongoing supervision; powers to address compliance with laws as well as safety and soundness concerns; and **legal protection for supervisors.** Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 1?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

In the U.S., supervisors are protected by the Federal Tort Claims Act against liabilities for supervisory actions made in good faith while performing supervisory activities. Section § 2679 (d)(1) of Title 28 of the U.S. Code states that "Upon certification by the Attorney General that the defendant employee was acting within the scope of his office or employment at the time of the incident out of which the claim arose, any civil action or proceeding commenced upon such claim in a United States district court shall be deemed an action against the United States under the provisions of this title and all references thereto, and the United States shall be substituted as the party defendant."

2. What further improvements are needed?

None.

Principle 1 (6): An effective system of banking supervision will have clear responsibilities and objectives for each agency involved in the supervision of banks. Each such agency should possess operational independence and adequate resources. A suitable legal framework for banking supervision is also necessary, including provisions relating to authorization of banking establishments and their ongoing supervision; powers to address compliance with laws as well as safety and soundness concerns; and legal protection for supervisors. **Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place.**

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 1?

X Implemented	Partially implemented	Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The U.S. banking regulators have broad powers that allow them to share information with other banking supervisors both domestic and foreign. The importance and necessity of maintaining the confidentiality of the information is highlighted in several regulations, as is the requirement that the information be used for lawful supervisory purposes. Information provided by U.S. supervisors to foreign bank regulatory authorities must be protected to the "extent possible under applicable law." Each of the U.S. regulatory authorities has promulgated rules and policies implementing the civil and criminal statutes relating to the treatment of confidential supervisory and bank information.

Domestically, the three U.S. bank supervisory agencies routinely share information with each other. Banks are required to file certain reports with the agencies, such as quarterly Call Reports, and the information from these reports is available to all of the regulatory agencies. Examination findings are also shared between the regulatory agencies, as appropriate. Banking agencies are required to refer suspected criminal violations to the law enforcement authorities.

2. What further improvements are needed?

No further improvements are needed.

Principle 2 (1): The permissible activities of institutions that are licensed and subject to supervision as banks must be clearly defined, and the use of the word "bank" in names should be controlled as far as possible.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 2?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The U.S. banking laws and regulations provide clear parameters on permissible activities for insured banks. There are three primary statutory authorities governing the activities that a bank can pursue. These are the various state banking laws under which a state bank is chartered and authorized to operate, the FDI Act (for insured state banks), and the National Bank Act (for national banks).

The various state laws and relevant regulations define specific types of activities that insured state-chartered depository institutions may engage in. However, the FDI Act and its implementing regulations, provide a federal "overlay" to the states' authority to determine the permissible activities for state-chartered banks. Generally, they limit state-chartered bank activities to any activity that is permissible for a national bank, unless the FDIC determines that an activity poses no undue risk to the deposit insurance fund and the bank is in compliance with certain capital requirements.

2. What further improvements are needed?

No further improvements are needed.

Principle 2 (2): The permissible activities of institutions that are licensed and subject to supervision as banks must be clearly defined, and **the use of the word “bank” in names should be controlled as far as possible.**

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 2?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

No entity may engage in banking operations in the U.S. without a charter from a state or federal banking agency. In the U.S., federal law makes it a crime for any person or entity to use the word “bank” in a company name if the entity is not licensed as such by an appropriate banking agency. States generally prohibit corporations from using the word “bank” in the corporations’ name unless the corporation has a bank charter.

2. What further improvements are needed?

No further improvements are needed.

Principle 3 (1): The licensing authority must have the right to set criteria and reject applications for establishments that do not meet the standards set. The licensing process, at a minimum, should consist of an assessment of the banking organization's ownership structure, directors and senior management, its operating plan and internal controls, and its projected financial condition, including its capital base; where the proposed owner or parent organization is a foreign bank, the prior consent of its home country supervisor should be obtained.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 3?

X Implemented	Partially implemented	Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

Federal and state statutes set forth the applications process and the criteria used as a basis for approving or denying an application to organize a bank. The OCC issues charters for national banks, and the relevant state banking authorities issue charters for state banks. Each chartering authority has the statutory right to deny an application if it does not meet the established criteria. In addition the FRB may deny an application for membership into the Federal Reserve System and the FDIC may deny an application for deposit insurance if the application criteria are not met.

2. What further improvements are needed?

None.

Principle 3 (2): The licensing authority must have the right to set criteria and reject applications for establishments that do not meet the standards set. **The licensing process, at a minimum, should consist of an assessment of the banking organization's ownership structure, directors and senior management, its operating plan and internal controls, and its projected financial condition, including its capital base;** where the proposed owner or parent organization is a foreign bank, the prior consent of its home country supervisor should be obtained.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 3?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

As explained in Principle 3(1), each agency has promulgated regulations, discussed below, that must be met in order for an application to be approved. Criteria for state banking agency applications will vary among the 50 states. However, as state-chartered banks generally seek deposit insurance, most state-chartered banks must also meet the requirements established by the FDIC to obtain deposit insurance.

In evaluating an application to establish a national bank, the OCC considers the following factors: the familiarity of the applicant with national banking laws and regulations; the competency and experience of management; the level of capital; the prospects for profitability; and the capacity of the applicant to run the bank in a safe and sound manner. The OCC also considers other factors, including the convenience and needs of the community to be served, the risk to the deposit insurance fund, and whether the proposed bank's corporate powers are consistent with the purposes of the FDI Act and the National Bank Act.

For approval of an application for Federal Reserve System membership, the FRB reviews: the financial history and condition of the applying bank, the general character of bank management, the adequacy of the bank capital structure, the future earnings prospects, the convenience and needs of the community to be served by the bank, and whether the powers of the bank are consistent with the purposes of the Federal Reserve Act.

The FDIC looks at: the financial history and condition of the institution, the adequacy of the capital structure of the institution, the future earnings prospects, the general character and fitness of bank management, the risks presented to the Bank Insurance Fund, the convenience and needs of the community to be served, and whether the institution's corporate powers are consistent with the purposes of the FDI Act. In addition, the FDIC looks to ensure that the adequacy and reliability of information supplied and to be supplied by the bank to the FDIC is adequate.

Each of the agencies generally completes a limited scope examination, which includes a review of internal controls, shortly after a new bank receives its charter. In addition, insured institutions are required by law to provide their regulators with an annual report assessing the effectiveness of the institution's internal controls; an independent auditor must attest to the accuracy of the report.

2. What further improvements are needed?

None.

Principle 3 (3): The licensing authority must have the rights to set criteria and reject applications for establishments that do not meet the standards set. The licensing process, at a minimum, should consist of an assessment of the banking organization's ownership structure, directors and senior management, its operating plan and internal controls, and its projected financial condition, including its capital base; **where the proposed owner or parent organization is a foreign bank, the prior consent of its home country supervisor should be obtained.**

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 3?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

A foreign banking organization (FBO) must get prior approval from the FRB before it can establish a direct banking office or a bank subsidiary in the U.S. The FRB contacts the home country supervisor during the application process. In making a decision on an application, the FRB takes into account whether the home country supervisor has consented to the proposal. The FBO will also have to apply to the OCC or the state, depending on the charter type and the FDIC for deposit insurance, if the entity will be insured. These application procedures are as described in Principle 3(2); however, it should be noted that these agencies may also contact the foreign supervisor directly, if they require additional information on general supervisory matters or on the applicant specifically.

2. What further improvements are needed?

No further improvements are needed.

Principle 4: Banking supervisors must have the authority to review and reject any proposals to transfer significant ownership or controlling interests in existing banks to other parties.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 4?

X Implemented	Partially implemented	Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The U.S. has comprehensive laws and regulations that allow the banking agencies to review significant changes in bank control to ensure that the changes do not pose problems for the banking system. The U.S. regulatory authorities have the statutory right to review and reject proposals involving significant changes in ownership or control of insured banks. This statutory authority is derived from the Change in Bank Control Act (CIBC Act) and the Bank Holding Company Act (BHC Act). Under the CIBC Act, any change of control, direct or indirect, over the management or policies of a bank, or representing 25 percent or more of any class of voting stock requires prior notice to the appropriate federal banking agency. The federal banking agencies have authority to reject such proposed acquisitions based upon criteria enumerated in the CIBC Act.

An application is required under the BHC Act where a corporation acquires control of 25 percent or more of any class of voting stock of a bank or bank holding company (5 percent in the case of a corporation that already is a bank holding company), or where the corporation otherwise controls a bank or bank holding company. The FRB has authority to deny applications filed under the BHC Act based upon the factors enumerated in the Act.

Changes of control or ownership of an insured bank in the context of a merger transaction fall under the Bank Merger Act. The Bank Merger Act requires prior approval of the appropriate federal banking agency before any insured depository institution can merge with an insured or an uninsured bank or institution. The regulatory agencies may deny a merger application based upon the statutory factors enumerated in the Bank Merger Act; denial is required where the agency determines the merger would result in a monopoly. Mergers of bank holding companies must be approved under the BHC Act.

2. What further improvements are needed?

No further improvements are necessary.

Principle 5 (1): Banking supervisors must have the authority to establish criteria for reviewing major acquisitions or investments by a bank and ensuring that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 5?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

Federal and state laws limit the types of acquisitions or investments banks may make. Within these limits, the U.S. bank regulatory authorities have established criteria for reviewing banks' major acquisitions or investments. Not every investment or acquisition must be reviewed by the regulatory authorities; the criteria have been designed to allow the banking supervisors to review acquisitions or investments that could have a significant effect on a bank's condition. The established activity and investment limitations are part of the permissible activity statutes discussed in Principle 2(1). The limitations established that for certain types of investment activities are generally tied to the capital levels of the bank.

The National Bank Act provides authority for certain investments by national banks. National banks require the OCC's approval to establish or commence new activities in an operating subsidiary. Additionally, a national bank must obtain prior OCC approval to invest in the equity of a bank service company or to perform new activities in an existing bank service company. Under many state banking codes, permissible investments for state-chartered banks mirror those for national banks.

2. What further improvements are needed?

No further improvements are needed.

Principle 5 (2): Banking supervisors must have the authority to establish criteria for reviewing major acquisitions or investments by a bank and **ensuring that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.**

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 5?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The U.S. has adopted a framework to ensure that corporate affiliations or structures do not expose banks to undue risks or hinder effective supervision. The framework provides for adequate supervision of corporate affiliates of banks. The FRB is responsible for approving the establishment of bank holding companies and their nonbank subsidiaries and examines the activities of bank holding companies on a consolidated basis. Likewise, the OCC examines the direct bank subsidiaries and affiliates of national banks to the extent that these operations may impact the national bank.

There are specific statutory guidelines that prevent banks from entering into affiliate transactions that may be detrimental to the safety and soundness of the bank. During an examination of a bank holding company or a non-bank affiliate, the FRB will determine the adequacy of the management team and the financial interactions with the bank. The OCC will assess the same criteria for direct bank subsidiaries and affiliates of national banks. If there are issues that pose safety and soundness concerns for the bank, the FRB and the OCC, as appropriate, can take actions, formal and informal, to ensure that corrective action is taken and that the bank is protected.

2. What further improvements are needed?

No further improvements are needed.

Principle 6 (1): Banking supervisors must set minimum capital requirements for banks that reflect the risks that the banks undertake, and must define the components of capital, bearing in mind its ability to absorb losses. For internationally active banks, these requirements must not be less than those established in the Basle Capital Accord.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 6?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

In the U.S., banks are required by law to maintain adequate levels of capital. The regulations, which apply to all insured banks, establish minimum capital levels to ensure that the bank has adequate resources to absorb losses. There are two capital calculations that are required: a risk-based capital calculation and a leverage capital calculation.

The risk-based capital requirements that the U.S. banking agencies have adopted are consistent with the Basle Capital Accord and reflect the risks associated with a bank's banking book. Trading book activities are covered by the market risk amendment to the Capital Accord, which was adopted by the U.S. regulatory authorities in 1996. The U.S. risk-based guidelines define the components of Tier 1 and Tier 2 capital.

As a supplement to the risk-based capital requirements, the leverage capital measure requires a minimum ratio of a bank's Tier 1 capital to total assets.

Minimum capital levels for insured institutions are enforced by the U.S. regulatory authorities through capital restoration plans pursuant to Prompt Corrective Action (PCA) provisions in the banking laws. PCA provisions prohibit certain management actions, such as payment of dividends or bonuses, the redemption of equity securities, or entering new lines of business when the bank is operating with inadequate levels of capital.

2. What further improvements are needed?

None.

Principle 6 (2): Banking supervisors must set minimum capital requirements for banks that reflect the risks that the banks undertake, and must define the components of capital, bearing in mind its ability to absorb losses. **For internationally active banks, these requirements must not be less than those established in the Basle Capital Accord.**

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 6?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The U.S. banking regulators have established requirements consistent with the Basle Committee's Capital Accord. In 1996, the U.S. adopted the market risk amendment to the Basle Capital Accord. U.S. banks with significant trading activities are now required to follow the amendment.

2. What further improvements are needed?

No further improvements are needed.

Principle 7 (1): An essential part of any supervisory system is the independent evaluation of a bank's policies, practices and procedures related to the granting of loans and making of investments and the ongoing management of the loan and investment portfolios.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 7?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

Asset quality is one of the key elements that the U.S. regulators review at each examination. Examiners review both the policies and procedures followed by the bank with respect to all assets, particularly loans and investments. Examiners assess whether management is originating, managing, and monitoring these assets effectively.

When reviewing the policies and procedures for the granting of loans, examiners look at the objectives of bank management, including the risk posture of the bank and the underwriting policies and procedures that management has instituted. The regulators also look at the safeguards that have been established to ensure that the quality of the loans that are originated meet the established loan standards and have been originated according to bank policy. Approvals, appropriate documentation, compliance with loan policy requirements, and lending limits are critical issues in the granting of loans.

The review of the investment portfolio is very similar to the granting of loans. U.S. regulators first review management's identified objectives for the investment portfolio. These objectives are then compared against management's policies and procedures. The regulators look to see that the policy specifies the types of investments that may be purchased, the limitations on purchasing and selling investments, and the individuals that can purchase and sell investments. As with loans, the U.S. regulatory authorities check policies and practices to ensure that there is a clear approval process for investment transactions.

During the examination of the policies and procedures related to the granting of loans and making of investments, the regulators evaluate whether the board of directors of the bank is receiving sufficient information to fulfill its obligations. Regulators examine both the policies of the bank and board minutes to ensure that the procedures are being followed and that necessary approvals are being obtained.

2. What further improvements are needed?

No additional improvements are needed.

Principle 7 (2): An essential part of any supervisory system is the independent evaluation of a bank's policies, practices and procedures related to the granting of loans and making of investments and **the ongoing management of the loan and investment portfolios.**

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 7?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

As mentioned in Principle 7(1), examiners from all three U.S. banking supervisory agencies review the policies, practices, and procedures related to lending and investments of the institutions they supervise. This examination includes a review of how the programs are managed by both bank management and the bank's board of directors. With both loans and investments, examiners look at whether management is: correctly documenting loan and investment transactions, adequately assessing the quality of the loans and securities, adequately establishing and providing (for loans) to the Allowance for Loan and Lease Losses, and generally following written policies.

Examiners also look at the involvement of the board of directors in the management of loan and investment portfolios, including whether the board reviews: problem loans and investments, the adequacy of the Allowance for Loan and Lease Losses, and deficiencies cited by regulators in prior examination reports to ensure that bank management is implementing corrective action.

2. What further improvements are needed?

No further improvements are needed.

Principle 8 (1): Banking supervisors must be satisfied that banks establish and adhere to adequate policies, practices and procedures for evaluating the quality of assets and the adequacy of loan loss provisions and reserves.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 8?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

As mentioned in Principles 7(1) and 7(2), examiners from all three U.S. regulatory agencies carefully review the policies and procedures related to loans, as these assets represent the majority of the risk in a bank's balance sheet.

The quality of the loans is reviewed by the U.S. regulators during on-site examinations and through off-site evaluations using reported past due and non-accrual loan information. However, the burden of determining the overall quality of the assets falls on bank management. Management must have effective loan review procedures and policies in place, combined with an effective loan grading system. The loan grading system is particularly important, as it is generally the means by which management determines the adequacy of the Allowance for Loan and Lease Losses. Examiners also review credit documentation procedures and policies, such as whether the security interest in any collateral is perfected and appraisals are completed at appropriate times. In addition, examiners review the bank's policies and procedures for handling problem loans and collecting past due loans.

2. What further improvements are needed?

No further improvements are needed.

Principle 8 (2): Banking supervisors must be satisfied that banks establish and adhere to adequate policies, practices and procedures for evaluating the quality of assets and **the adequacy of loan loss provisions and reserves.**

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 8?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The evaluation of a bank's Allowance for Loan and Lease Losses (allowance) is an integral part of every bank examination by U.S. regulators. During an examination, regulators will review the allowance policy and bank procedures to gain an understanding of how the allowance figure is determined. Examiners review whether management is adequately providing for the risks in the loan and lease portfolios and whether the risks are constantly being assessed by the management team. This review includes: the volume and mix of the existing loan portfolio; the level of non-performing and adversely classified loans; the trends in loan growth; previous loan loss experience and charge-off policies; and the general economic conditions which may affect the quality of the loan portfolio.

Examiners may also complete a calculation of the adequacy of the allowance based on their assessment of the loan portfolio. This check functions as a cross-check to the allowance methodology adopted by bank management.

2. What further improvements are needed?

No further improvement is needed.

Principle 9 (1): Banking supervisors must be satisfied that banks have management information systems that enable management to identify concentrations within the portfolio and supervisors must set prudential limits to restrict bank exposures to single borrowers or groups of related borrowers.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 9?

X Implemented	Partially implemented	Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

During on-site examinations, the U.S. regulators look at management's policies and procedures related to concentrations, and in particular, how concentrations are identified. Procedures for monitoring and managing concentrations should be addressed in the bank's loan policy.

Concentration policies should include provisions regarding the type of management reporting that is required to identify and monitor the concentrations in a bank portfolio. Examiners look to ensure that bank management is receiving adequate information about the potential risks of concentrations.

2. What further improvements are needed?

No further improvements are needed.

Principle 9 (2): Banking supervisors must be satisfied that banks have management information systems that enable management to identify concentrations within the portfolio and **supervisors must set prudential limits to restrict bank exposures to single borrowers or groups of related borrowers.**

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 9?

X Implemented	Partially implemented	Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

There are regulations that incorporate lending limits for exposures to a single borrower or to related borrowers. The U.S. banking regulatory agencies generally permit a bank to loan up to 15 percent of its unimpaired capital and surplus to a single borrower, where the loans are not fully secured. A bank may loan an additional 10 percent if the loans are fully secured by readily marketable collateral. While state lending limits vary, they are generally similar to federal limits.

There are additional limitations on bank exposures to groups of related borrowers, and there are restrictions on loans to bank insiders. Loans to insiders are addressed in Principle 10(1). For national banks, there are lending limits for specific borrower groups, such as loans secured by warehouse receipts and loans secured by dairy cattle or livestock. While loans to groups of related borrowers are generally subject to prudential limits, in those instances where there are no limitations on bank exposures to groups of related borrowers, banks are required to identify and monitor these concentrations, as they add an element of risk to the institution, discussed in Principle 9(1).

2. What further improvements are needed?

No further improvements are needed.

Principle 10 (1): In order to prevent abuses arising from connected lending, banking supervisors must have in place requirements that banks lend to related companies and individuals on an arm's-length basis, that such extensions of credit are effectively monitored, and that other appropriate steps are taken to control or mitigate the risks.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 10?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

Banks in the U.S. are subject to laws and regulations regarding lending activity to related companies and insiders. Banks are subject to Sections 23A and 23B of the Federal Reserve Act, which are designed to prevent the misuse of a bank's resources through preferential transactions with its affiliates. Section 23A prohibits a bank from engaging in "covered transactions" with an affiliate unless the bank limits the aggregate amount of such transactions to that particular affiliate to 10 percent of the bank's capital and surplus; there are aggregate limits as well. "Covered transactions" include loans and extensions of credit to an affiliate, a purchase of assets from an affiliate and loans and guarantees on behalf of an affiliate. Section 23B, which covers a wider range of activities than Section 23A, provides that covered transactions between a bank and its affiliates must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the bank as those prevailing at the time for comparable transactions with or involving nonaffiliated companies.

Regulation O, issued by the Federal Reserve Board, defines the criteria that banks must meet to lend to insiders, which include bank management, directors, principal shareholders, as well as to related interests of such insiders. The regulation also defines the lending limits to insiders and related companies.

Regulation O provides that extensions of credit must be made on the same terms and conditions as extensions of credit to non-insider parties and must not represent more than the normal risk of repayment. Many of the loans, particularly those that are larger, must be reviewed and approved by the bank's board of directors prior to disbursement.

The lending limits established by the regulatory framework are for both individual insider borrowers and aggregate insider loans. For single borrowers, loan facilities cannot exceed 15 percent of unimpaired capital or surplus when the loan is not fully secured. Where a loan has been fully secured, management may extend an additional 10 percent of unimpaired capital or surplus to the insider. Total loans to insiders cannot exceed 100 percent of unimpaired capital and surplus.

2. What further improvements are needed?

None.

Principle 10 (2): In order to prevent abuses arising from connected lending, banking supervisors must have in place requirements that banks lend to related companies and individuals on an arm's-length basis, **that such extensions of credit are effectively monitored,** and that other appropriate steps are taken to control or mitigate the risks.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 10?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The Federal Reserve Act sets forth specific restrictions on transactions with affiliates of any member bank (national banks and state-chartered insured member banks). The appropriate federal banking agencies examine for compliance with this federal law. In addition, bank holding companies must file periodic reports with the FRB regarding transactions with affiliates.

Loans to insiders and related interests of such insiders are carefully reviewed at on-site examinations to ensure that they meet the criteria established by Regulation O discussed in Principle 10(1). In addition, there are regulatory requirements for banks to report on the extensions of credit to insiders and related interests. Banks are also required to collect information on the related interests of insiders and extensions of credit made by the bank's affiliates to insiders. In addition, executive officers and principal shareholders are required to file annual reports on loans made to them by any of the bank's correspondent banks.

2. What further improvements are needed?

No further improvements are needed.

Principle 10 (3): In order to prevent abuses arising from connected lending, banking supervisors must have in place requirements that banks lend to related companies and individuals on an arm's-length basis, that such extensions of credit are effectively monitored, and **that other appropriate steps are taken to control or mitigate the risks.**

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 10?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

As described in Principles 9(2), 10(1), and 10(2), the U.S. regulatory agencies have established a broad legal framework that works to prevent abuses that can occur from lending to insiders and related parties. Federal law requires bank management to grant loans to insiders and bank affiliates using the same criteria that is used for non-insiders and non-affiliates; therefore, management is deterred from making unsound loans to inside parties. Additional deterrents are the regulatory reporting requirements applicable to the bank and the insiders, which ensure that the insider loans are appropriately monitored.

2. What further improvements are needed?

None.

Principle 11 (1): Banking supervisors must be satisfied that banks have adequate policies and procedures for identifying, monitoring and controlling country risk and transfer risk in their international lending and investment activities, and for maintaining adequate reserves against such risks.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 11?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

Banks are required by statute to identify and monitor country risk and transfer risk related to their international lending and investment activities. The U.S. regulators review management's policies and procedures in the examination process. Examiners generally look at how management has determined the level of country exposure that management is willing to assume; whether the institution's internal reporting systems are adequate to monitor and control exposures; and whether written policies have been created to provide a framework for the bank's international program. The bank must also have in place procedures specifically to monitor the countries with which they are doing business.

Another way in which the banking regulators ensure that bank management is identifying the international exposures in its portfolio is through a quarterly report. The report details each bank's significant claims on foreign entities. The report specifies the types of claims and the countries where borrowers are located and allocates exposure based on guarantees and collateral.

The U.S. regulators use the quarterly reports for a variety of off-site monitoring purposes, including to determine which countries will be reviewed by the Interagency Country Exposure Review Committee (ICERC). The ICERC is comprised of supervisors from each of the three agencies. They meet two or three times a year to review conditions in countries in which U.S. banks have large exposures. Following each country review, the ICERC assigns a transfer risk rating; among other things, the rating will determine whether or not U.S. banks will need to hold a reserve (see Principle 11(2)) against their loans to obligors from a particular country. Summaries of the ICERC analyses of particular countries are provided to banks with exposures to those countries.

2. What further improvements are needed?

The agencies are currently reviewing ways to improve the supervision of country risk management and the ICERC process. The current discussions among the regulatory agencies are focused on how to make the supervision of country and transfer risk more risk-focused and proactive.

Principle 11 (2): Banking supervisors must be satisfied that banks have adequate policies and procedures for identifying, monitoring and controlling country risk and transfer risk in their international lending and investment activities, and **for maintaining adequate reserves against such risks.**

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 11?

X Implemented	Partially implemented	Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

As required by statute, the U.S. banking agencies have issued regulations and guidance governing the Allocated Transfer Risk Reserve (ATRR) and the Allowance for Loan and Lease Losses (ALLL). Country risk provisions required by the U.S. banking agencies are based on the concept of transfer risk. Transfer risk is considered in two accounts on the financial statements: the Allocated Transfer Risk Reserve (ATRR) and the Allowance for Loan and Lease Losses (ALLL). The ATRR requirements are determined by the three U.S. banking agencies in the ICERC forum, described in Principle 11(1). When ICERC determines that a classification of Value Impaired is appropriate for a particular country, ICERC also establishes an ATRR percentage that must be applied by all banks with exposures in that country.

In addition to the amount provided to the ATRR, the U.S. banking regulators also require banks to consider transfer risk in the assessment of the ALLL. A Policy Statement adopted by the U.S. regulators indicates that, "Over and above any minimum amount that is required by the ICERC to be provided in the ATRR, the institution must determine that the ALLL is adequate to absorb all estimated losses from transfer risk associated with its cross-border lending exposure."

2. What further improvements are needed?

No further improvements are needed.

Principle 12 (1): Banking supervisors must be satisfied that banks have in place systems that accurately measure, monitor and adequately control market risks; supervisors should have powers to impose specific limits and/or a specific capital charge on market risk exposures, if warranted.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 12?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The U.S. regulatory capital requirements include provisions that ensure that both large, sophisticated banks with extensive trading portfolios and smaller banks, with less substantial trading portfolios are managing market risks appropriately. In 1996, the U.S. regulators amended the risk-based capital requirements to incorporate a measure for market risk. The new measures require that banks review and assess their trading portfolio, determine the risks, and hold sufficient capital relative to such risks.

The new measurement criteria for the bank's trading book are premised on the requirement that bank management has internal modeling capabilities that will identify the risks in the trading portfolio. The internal model must meet the quantitative and qualitative criteria established in the U.S. regulations and it must provide for adequate levels of capital for the risks that are modeled. During on-site examinations, the modeling techniques and associated risk management processes are reviewed closely.

Banks whose trading portfolios are smaller and do not meet the established regulatory threshold for applying the market risk amendment, are still required to monitor and control the risks associated with their market activities. These institutions are not required to use internal modeling techniques, but must still have an understanding of the risks within their portfolio.

2. What further improvements are needed?

No further improvements are needed.

Principle 12 (2): Banking supervisors must be satisfied that banks have in place systems that accurately measure, monitor and adequately control market risks; **supervisors should have powers to impose specific limits and/or a specific capital charge on market risk exposures, if warranted.**

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 12?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The U.S. supervisors have the legal authority to establish specific limits and capital levels for market risk exposures. As discussed in Principle 12(1), the U.S. regulatory agencies implemented the Basle Committee's market risk amendment in 1996. The market risk rules provide for the use of internal modeling to determine the optimum capital level based on an individual bank's trading portfolio risk. The models are employed to determine a daily Value-at-Risk (VaR) capital charge for four risk categories: interest rates, equity prices, foreign exchange rates, and commodity prices.

The capital charge that a bank is required to maintain includes the charge determined by the VaR plus a surcharge for specific risks that cannot be modeled. The supervisory authority can also assess a higher (or lower) capital charge if it is appropriate for the risks of the trading portfolio.

2. What further improvements are needed?

No further improvements are needed.

Principle 13: Banking supervisors must be satisfied that banks have in place a comprehensive risk management process (including appropriate board and senior management oversight) to identify, measure, monitor and control all other material risks and, where appropriate, to hold capital against these risks.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 13?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The U.S. supervisors expect that bank management will have appropriate systems in place to identify and monitor the risks in both its banking and trading books. The federal banking agencies have structured their supervisory systems to focus on the risks within each individual institution.

Prior to on-site examinations, the U.S. regulatory agencies analyze the risk posture of the bank and determine an examination plan that will involve a review of the risk areas. During a full scope on-site examination, the regulators focus on the six areas that will make up the composite rating for the institution. The six areas are: capital adequacy, asset quality, management competency, earnings, liquidity, and sensitivity to market risks. By evaluating these six areas, the regulatory authorities are able to gain a full understanding of the risks that are present in the institution, as well as management's efforts in monitoring and managing those risks. To ensure that the risks are monitored over time, rather than just at each on-site examination, each of the U.S. regulators routinely looks at the risks in their respective institutions through off-site monitoring.

The current U.S. capital framework takes into consideration the riskiness of the assets held by the bank, in both the banking and the trading book. These elements are discussed above in Principles 6 and 12.

2. What further improvements are needed?

None.

Principle 14 (1): Banking supervisors must determine that banks have in place internal controls that are adequate for the nature and scale of their business. These should include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding its assets; and appropriate independent internal or external audit and compliance functions to test adherence to these controls as well as applicable laws and regulations.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 14?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

U.S. banks are required to adopt internal control systems that are appropriate to the size of the institution and the nature, scope, and risk of their activities. At each on-site examination, the U.S. regulatory authorities review the established internal controls and procedures to ensure that they are effectively identifying potential risks and concerns. In addition to reviewing the actual controls, the regulators also review the reports of the internal auditor. These reports highlight internal control strengths and weaknesses in the institution. Annual reports of independent auditors (which are required for some institutions by law) are also reviewed.

2. What further improvements are needed?

No further improvements are needed.

Principle 14 (2): Banking supervisors must determine that banks have in place internal controls that are adequate for the nature and scale of their business. **These should include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding its assets; and appropriate independent internal or external audit and compliance functions to test adherence to these controls as well as applicable laws and regulations.**

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 14?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

As discussed in Principle 14(1), the U.S. regulatory authorities require banks to establish internal control systems that are adequate for the institution. During on-site examinations, the U.S. banking supervisors look at the methods and measures that the bank has adopted to (i) safeguard its assets, (ii) to promote operational efficiency, and (iii) to encourage adherence to managerial policies. The regulators also review accounting controls and administrative controls.

Within a review of internal controls, accounting controls, and administrative controls, there are certain elements that the regulators look for. These elements include: development of an effective organizational structure; establishment of appropriate accounting procedures to ensure the reliability of financial information; provisions for the protection of assets; and development and use of an effective audit program. If any of these elements is missing, the regulators will look to bank management for corrective action.

An important part of an on-site examination is the review of the internal audit program. Examiners will look at the frequency and scope of the audits, the adequacy of the workpapers, and the reports to the bank's board of directors. The examiners will also look at the degree of audit independence and the internal audit staff qualifications. A sound internal audit program will complement management's internal control systems.

2. What further improvements are needed?

No further improvements are needed.

Principle 15: Banking supervisors must determine that banks have adequate policies, practices and procedures in place, including strict "know-your-customer" rules, that promote high ethical and professional standards in the financial sector and prevent the bank being used, intentionally or unintentionally, by criminal elements.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 15?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The use of U.S. financial institutions by criminal elements poses a serious threat to the integrity of financial institutions and can have a devastating economic impact on an institution through the possible loss of reputation. As a result, a structure has been developed in the U.S. to identify possible problems and to prevent, where possible, the use of banks for criminal purposes. The structure includes both regulatory responsibilities and on-site examination criteria. Under many federal laws, including the Bank Secrecy Act, both the bank and the banking supervisor have roles in ensuring that financial institutions are not used by criminal elements.

All financial institutions are subject to the Financial Recordkeeping and Reporting of Currency and Foreign Transactions Act of 1970 (Financial Recordkeeping Act). This law requires financial institutions to maintain records and file certain reports which may be helpful in investigations of regulatory, criminal, or tax matters. For customer cash transactions that are over $10,000, the bank is required to file a Currency Transaction Report (CTR). The bank should also file suspicious activity reports when alerted to possible criminal activity regardless of the size of the transaction. There are also records that the bank must maintain with respect to customers' deposit accounts and wire transfer activities. For example, with very limited exceptions, banks are required to obtain a social security number or a taxpayer identification number for every deposit account.

There are also regulatory requirements regarding the bank's compliance program. Compliance with these requirements is reviewed during the on-site examinations by the U.S. regulatory authorities. The bank is required to have a program in place that includes a system of internal controls, provides for independent testing of compliance with the Financial Recordkeeping Act, designates an individual to be responsible for compliance with the regulatory requirements, and provides for adequate training of bank personnel.

The on-site examination procedures provide the U.S. regulators with an understanding of the bank's policies and procedures related to identifying and preventing the use of the institution for criminal purposes. As discussed above, the U.S. regulators first review the bank's compliance program. Then, the examiners will focus on the bank's efforts with respect to the Financial Recordkeeping Act. This review is to ensure that the bank is correctly identifying and reporting transactions that meet the requirements of the Act. Finally, the "know your customer" policy is reviewed. While this policy is not a regulatory requirement, banks are encouraged to develop and adopt the policy as it provides a level of protection and comfort for the bank. At a minimum, examiners expect that an institution's "know your customer" policy will include procedures to determine the true identity of bank customers, their sources of funds, and their normal and expected transactions, as well as identifying unusual or suspicious transactions.

2. What further improvements are needed?

The U.S. is currently developing regulations to require financial institutions to develop and implement "know your customer" polices. No additional improvements are necessary.

Principle 16: An effective banking supervisory system should consist of some form of both on-site and off-site supervision.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 16?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The U.S. supervisory system includes both on-site examinations and off-site monitoring. On-site examinations are required by the U.S. banking law. All banks are required to be examined by their respective regulatory authority at least once every twelve months. The only exception is for smaller institutions that are in good condition. For those institutions, the examination cycle may be extended to eighteen months. Off-site supervision is completed through the routine reports that the banks are required to file pursuant to federal law. One of these reports, the "Call Report", is provided to banking supervisors each quarter. The Call Report provides in-depth information regarding the balance sheet and income statement, and a variety of other information about the institution, including insider loans and off-balance sheet positions. Further, each insured institution must provide the regulators with an annual report and large banks must provide independently audited financial statements.

When an institution has violated a law or regulation or is in an unsafe or unsound condition, the supervisory agency may impose a Memorandum of Understanding or an Order to Cease and Desist to ensure that corrective action is taken by the bank. Generally, these actions require quarterly updates on progress made with respect to correcting the violations or enhancing the safety and soundness of the institution. These quarterly reports are invaluable tools for off-site monitoring purposes, as they typically discuss the areas of greatest risk to the institution, such as inadequate capital levels or insider lending violations.

2. What further improvements are needed?

No further improvements are necessary.

Principle 17: Banking supervisors must have regular contact with bank management and thorough understanding of the institution's operations.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 17?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The U.S. banking agencies maintain contact with bank management through on-site examinations, regulatory reporting requirements, and banker outreach programs. On-site examinations provide opportunities for direct contact with bank management. Examination results are discussed with bank management. When an on-site examination is not in progress, examiners maintain contact with the bank through the quarterly reports that banks file. If there are any questions about the information that is provided in the reports the agencies will contact bank management to get additional information. Another way that the supervisors maintain contact is through banker outreach programs, such as professional conferences, training programs, and seminars. This provides both bankers and bank supervisors with the opportunity to discuss current supervisory matters and other issues of importance.

2. What further improvements are needed?

No further improvements are needed.

Principle 18 (1): Banking supervisors must have a means of collecting, reviewing and analyzing prudential reports and statistical returns from banks on a solo and consolidated **basis.**

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 18?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

Much of the information that is collected from banking organizations is consolidated financial information. The primary means by which the U.S. regulatory authorities collect solo, or bank-only, information is through the annual on-site examinations. During the examination, the regulatory agencies can obtain bank-only balance sheets, income statements, and other pertinent financial information.

The U.S. banking regulators can also request bank-only information from the bank, if needed.

2. What further improvements are needed?

No further improvements are needed.

Principle 18 (2): Banking supervisors must have a means of collecting, reviewing and analysing prudential reports and statistical returns from banks on a solo and **consolidated basis.**

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 18?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The main source of consolidated financial information from U.S. banks is through the quarterly Call Report. All insured depository institutions are required to file a Call Report with the appropriate federal banking agency each quarter that details the current consolidated financial condition of the institution. The Call Report includes the bank's balance sheet, income statement, past due loan figures, and other important supervisory information.

The U.S. regulatory authorities also gather consolidated financial information during on-site examinations and through annual reports. Financial information provided during on-site examinations can be both consolidated and solo. However, financial information provided in the annual report is generally consolidated.

2. What further improvements are needed?

None.

Principle 19: Banking supervisors must have a means of independent validation of supervisory information either through on-site examinations or use of external auditors.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 19?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

Banking supervisors in the U.S. use both on-site examinations, discussed above in Principle 16, and external auditors to verify the supervisory information provided by insured depository institutions. Each larger insured depository institution is required by regulation to furnish its primary regulators with a copy of its annual report, which includes financial statements. The financial statements provided by the bank must be prepared in accordance with generally accepted accounting principles (GAAP) and audited by an independent public accountant.

2. What further improvements are needed?

No further improvements are needed.

Principle 20: An essential element of banking supervision is the ability of the supervisors to supervise the banking organization on a consolidated basis.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 20?

X Implemented | Partially implemented | Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

As noted in responses to several of the Principles above, the U.S. banking supervisors have both the authority and the ability to supervise banking organizations on a consolidated basis. The authority of the U.S. banking supervisors to examine and to obtain reports and information extends to branches, subsidiaries, and affiliates, both domestic and foreign. Consolidated supervision of U.S.-based global banking groups is coordinated among the federal and state banking regulators.

2. What further improvements are needed?

None.

Principle 21 (1): Banking supervisors must be satisfied that each bank maintains adequate records drawn up in accordance with consistent accounting policies and practices that enable the supervisor to obtain a true and fair view of the financial condition of the bank and the profitability of its business, and that the bank publishes on a regular basis financial statements that fairly reflect its condition.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 21?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

Banking organizations are required to use generally accepted accounting principles (GAAP) as the basis for maintaining their financial records. GAAP provides comprehensive accounting guidance for reporting on the balance sheet, income statement, equity capital accounts, and off-balance sheet items. Because these standards are used by all banking organizations in the U.S., supervisors can use the financial reports that the banks submit quarterly to obtain an accurate understanding of the financial condition of the institutions. The actual records of each institution and the accuracy of the reports that have been submitted to the federal regulatory agencies are reviewed during each on-site examination.

2. What further improvements are needed?

No further improvements are needed.

Principle 21 (2): Banking supervisors must be satisfied that each bank maintains adequate records drawn up in accordance with consistent accounting policies and practices that enable the supervisor to obtain a true and fair view of the financial condition of the bank and the profitability of its business, and **that the bank publishes on a regular basis financial statements that fairly reflect its condition.**

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 21?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

U.S. banking law provides for public disclosure of certain financial information for insured depository institutions. Banks that have over $500 million in assets are required to hire external auditors to review and report on the financial condition of the institution and whether management is appropriately using generally accepted accounting principles (GAAP), in the preparation of its reports. The annual reports are provided to the appropriate federal regulatory agency and are available to the public. Additionally, all insured banks, regardless of size, are required to file financial statements with the FDIC to calculate their semi-annual deposit insurance assessment.

2. What further improvements are needed?

None.

Principle 22: Banking supervisors must have at their disposal adequate supervisory measures to bring about corrective action when banks fail to meet prudential requirements (such as minimum capital adequacy ratios), when there are regulatory violations, or where depositors are threatened in any other way.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 22?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The U.S. banking regulatory agencies have several supervisory measures and enforcement actions available to ensure that safety and soundness concerns are addressed and that violations of laws and regulations are corrected. The actions can be informal or formal, as discussed in Principle 1(4). In addition, there are other remedies should capital levels fall below the minimum regulatory requirements. These remedies include the development of a capital restoration plan and implementation of Prompt Corrective Action provisions, as highlighted in Principle 6(1).

When the solvency of a bank comes into question and it is unlikely that corrective action will ensure the continuation of the institution, there is a comprehensive framework in place to handle the closure and ultimate resolution of the failing institution with minimal disruption to the banking system.

2 What further improvements are needed?

No further improvements are needed.

Principle 23: Banking supervisors must practice global consolidated supervision, adequately monitoring and applying appropriate prudential norms to all aspects of the business conducted by banking organizations worldwide, primarily at their foreign branches and subsidiaries.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 23?

X Implemented	Partially implemented	Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

Please see responses regarding Principle 20 and Principle 24.

2. What further improvements are needed?

None.

Principle 24: A key component of consolidated supervision is establishing contact and information exchange with the various other supervisors involved, primarily host country supervisory authorities.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 24?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The U.S. banking supervisors establish contact with foreign supervisory authorities when a foreign banking organization (FBO) applies to establish a banking presence in the U.S. This contact continues once the operations have been approved and throughout the life of the FBO in the U.S. If the home country supervisor cannot share supervisory information with the U.S., the FBO will not be allowed to establish a banking presence in the U.S. If the U.S. regulatory agencies are not able to maintain contact with the home country supervisor, offices in the U.S. can be terminated. As home country supervisors, the U.S. regulatory agencies seek to maintain contact with the host countries in which U.S. banks have established operations.

The U.S. regulatory authorities have broad statutory authority to share supervisory information with foreign banking authorities. In addition, the U.S. federal banking agencies can share information with foreign banking authorities is through bilateral agreements.

2. What further improvements are needed?

No further improvements are needed.

Principle 25 (1): Banking supervisors must require the local operations of foreign banks to be conducted to the same high standards as are required of domestic institutions and must have powers to share information needed by the home country supervisors of those banks for the purpose of carrying out consolidated supervision.

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 25?

X Implemented Partially implemented Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The U.S., through the International Banking Act of 1978, established a policy of "national treatment" to ensure that domestic banks and Foreign Banking Organizations (FBOs) are equal competitors. As a general matter, the U.S. operations of FBOs are subject to the same restrictions and obligations as similar operations of U.S.-chartered institutions. The U.S. operations of FBOs are subject to on-site examinations and off-site monitoring and can be compelled to take corrective actions on financial deficiencies and violations of U.S. laws and regulations through the supervisory and enforcement actions that are the same as those imposed on domestic institutions. Foreign banking organizations also are generally subject to the activities restrictions and application requirements applicable to domestic institutions.

2. What further improvements are needed?

None.

Principle 25 (2): Banking supervisors must require the local operations of foreign banks to be conducted to the same high standards as are required of domestic institutions and **must have powers to share information needed by the home country supervisors of those banks for the purpose of carrying out consolidated supervision.**

What is your preliminary assessment of the current status in your country regarding implementation of this part of Principle 25?

X Implemented	Partially implemented	Not implemented

If implemented:

1. Please describe how this part of the principle has been implemented:

The U.S. banking supervisors are authorized by statute to share information with foreign banking supervisory agencies. In addition to providing information that they have collected in the supervisory process, the U.S. banking supervisors may investigate and collect information at the request of a foreign banking supervisor when that supervisor is itself conducting an investigation to determine whether a person or entity has violated any law or regulation relating to banking matters or currency transactions administered or enforced by the requesting agency.

U.S. law requires that the U.S. banking supervisors make certain findings before they can grant a foreign banking supervisor access to confidential supervisory information. They must determine that the disclosure will not prejudice the interests of the United States. In addition, the U.S. banking agencies must obtain the agreement of the foreign banking supervisor to keep such information confidential to the extent permitted by law. In determining whether to collect information or to conduct an investigation at the request of the foreign banking supervisor, the U.S. banking agencies may consider whether the requesting authority has agreed to provide reciprocal assistance.

2. What further improvements are needed?

No further improvements are needed.