

## *Examination Process*

---

### **Introduction**

The Office of Supervision's examination process emphasizes an ongoing supervisory approach involving both off-site and on-site activities. The identification and reduction of excessive risk exposure is a primary goal of the examination process. The Office of Supervision accomplishes this goal by applying a risk-based examination approach to efficiently use limited resources. Risk-based examinations permit examiner judgment in determining the scope and depth of work to be performed for each activity or function of a specific institution.

The ongoing supervisory process is accomplished through formal and informal communications with each of the FHLBanks, the Office of Finance and the Financing Corporation by their respective examiners-in-charge and portfolio managers, who monitor and analyze conditions in their assigned institutions. (Because the Office of Supervision's examinations of the Office of Finance usually incorporate examinations of the Financing Corporation, references hereinafter made in this section to the Office of Finance shall also be deemed to include the Financing Corporation.) A portfolio manager has the responsibility for managing the resources and conducting planning operations for his or her specific portfolio of institutions.

Examiners-in-charge are the central point of contact for communication by the Office of Supervision with an FHLBank and Office of Finance and have the responsibility of managing the ongoing supervision of their respective FHLBank or the Office of Finance. The examiner-in-charge is responsible for monitoring and advising Office of Supervision management as to all activities of and developments concerning his or her institution that have a bearing on supervisory and examination matters.

The Office of Supervision has established processes to ensure the ongoing supervisory process is risk-based:

- 1) Portfolio managers and examiners-in-charge coordinate their reviews with Office of Supervision FHLBank analysts, accountants, risk-modeling staff, affordable housing specialists and risk monitoring analysts responsible for each FHLBanks and Office of Finance, as well as attorneys assigned by the Office of General Counsel to each institution. Certain of these specialists, such as the FHLBank analysts and risk-modelers, routinely participate in examinations as well as performing other related duties.
- 2) Portfolio managers and examiners-in-charge meet with FHLBank and Office of Finance external auditors and internal audit directors to address any potential issues or concerns that may require further review or emerging issues that should be considered in determining the scope of the annual examination or periodic on-site visitations.
- 3) Examiners-in-charge prepare a supervisory strategy that identifies key areas of risk

## *Examination Process*

---

and addresses the timeframe and the focus of their supervision during the year. The supervisory strategy may change based on the results of the examinations, periodic on-site visitations, results of off-site monitoring and other factors, but it serves as a risk-based framework for the supervision and examination of the FHLBanks and Office of Finance. The examiner-in-charge solicits input from FHLBank analysts, risk-modelers, accountants, risk analysts, affordable housing specialists and attorneys when planning the supervisory strategy, annual examination, periodic on-site visitations, and ongoing supervision of the FHLBanks and Office of Finance. The examiner-in-charge coordinates supervisory activities with such specialists as the need arises.

- 4) Examiners-in-charge conduct periodic on-site visitations. The scope of the visitation includes discussions with members of executive management on current performance of their institution, emerging issues and strategies, and follow-up on previously reported examination findings or other issues. The on-site visitation can be an important element of the supervisory process. It allows examiners-in-charge to monitor developments at the FHLBanks and Office of Finance and the risks attending these, and provides information that may be used to change the supervisory strategy. As appropriate, the visitation may include FHLBank analysts, risk-modelers, accountants, and other staff.

### **A. Examination Cycle**

#### *(1) Examinations*

An examination's scope can range with respect to the degree of assessment from targeted to comprehensive. A specific assessment may also vary in its depth and detail. Within each examination's scope, examiners determine the procedures to be used. The Office of Supervision conducts on-site examinations, with a portion of the onsite examination conducted off-site.

In its examinations, the Office of Supervision evaluates the condition and practices of an FHLBank or the Office of Finance, including the adequacy of risk management policies, procedures, compliance and control systems. In the case of the FHLBanks, the Office of Supervision also evaluates the quality and effectiveness of the administration of the institution's affordable housing and community investment activities. (The Office of Supervision's procedures for the examination of an FHLBank's affordable housing and community investment activities are contained in a separate manual.)

Examinations are scheduled as part of the annual plan for examinations. The scope of an examination is determined as a result of the annual planning and ongoing supervisory process, as well as a pre-examination analysis. The scope of examinations of the FHLBanks may include any aspect of their operations, but generally includes corporate governance, financial condition and performance,

## *Examination Process*

---

market, credit and operational risk management, regulatory and policy compliance, financial condition and performance, and affordable housing finance and community investment activities. Examinations of the Office of Finance emphasize the quality of corporate governance and operational risk management.

### **On-site examinations versus off-site monitoring**

The collection of information, monitoring and analysis entailed in the supervision of the FHLBanks and Office of Finance do not always require an on-site presence since examiners can frequently review and evaluate specific reports submitted to the Finance Board off-site. On-site examinations and off-site monitoring should complement each other. On-site examinations should enable an examiner to:

- 1) Test and reach a conclusion about the reliability of systems, controls and reports so that examiners may reasonably rely upon off-site monitoring and analysis;
- 2) Examine changes or anomalies disclosed by off-site monitoring and analysis; and
- 3) Evaluate aspects of operations for which off-site monitoring of systems and control is insufficient.

Examiners should make every effort to conduct as many pre-examination procedures as reasonably possible, off-site, in order to minimize disruptions to the FHLBank's or Office of Finance's normal business activities. Additionally, examiners should be mindful of an institution's space and personnel limitations and schedule the number of examiners working on bank premises accordingly.

### ***(2) Pre-examination planning***

The examiner-in-charge is responsible for the administration of the examination. This responsibility encompasses the review and approval of scope, determination and assignment of team resources to accomplish the objectives, cross-training of team members, coordination with other Finance Board staff as well as with FHLBank or Office of Finance staff, timely fulfillment of requirements and objectives, and ensuring of the quality of findings, the report of examination and workpapers.

Prior to the commencement of the examination, the following documents must be completed:

## *Examination Process*

---

### *a) Alert Letter*

Addressed to an FHLBank president or the managing director of the Office of Finance, the Alert Letter includes a detailed list of information needed by examination staff to conduct offsite pre-examination analysis and onsite examination work. The Alert Letter also details the commencement, timing and staffing of the planned examination. Additionally, the Alert letter includes the “as of” date of the examination, which is the most recent quarter for which the Office of Supervision has financial information for the institution. The Alert Letter also encloses questionnaires that are to be completed by key members of the board of directors and senior management such as the chief executive officer, chief financial officer, chief risk officer, chief information officer, community investment officer, chairman of the board, and the audit committee chairman.

The alert letter is sent approximately nine weeks prior to the start of the on-site examination. To enhance efficiency, the Office of Supervision collects this information from the FHLBank electronically.

### *b) Pre-examination analysis memoranda*

The examiner-in-charge and other examiners who are assigned to an examination assist in the preparation of pre-examination analyses and proposed scope of the examination. The examination staff review and evaluate several sources of information to prepare the pre-examination analysis, including, but not limited to, the following:

1. Prior report of examination and workpapers;
2. Documentation of periodic on-site visitations;
3. Discussions with Finance Board FHLBank analysts, risk-modelers, accountants, risk analysts, affordable housing specialists and attorneys;
4. Minutes from relevant meetings of the board of directors and board and management committees;
5. Documentation of capital management issues;
6. Information obtained from the alert letter and management questionnaires;
7. Finance Board Call Report System data for investments, unsecured credit, advances, credit concentrations and other assets, as well as liabilities;
8. Analytical reviews performed of information obtained from vendor software such as FIRE and Bloomberg;
9. Information contained in the FHLBank’s or Office of Finance’s website;
10. New business activity requests and approvals;
11. Documentation of new and recently withdrawn or terminated member relationships;
12. Consultant reports; and
13. External and internal audit reports.

## *Examination Process*

---

Factors examiners evaluate when determining the scope of examination include:

1. Significance or relevance of the area to the FHLBank's or Office of Finance's risk profile;
2. Scope and results of reviews that have been conducted in prior examinations;
3. Adequacy of the FHLBank's or Office of Finance's policies, procedures and internal controls;
4. Significant changes in the FHLBank's or Office of Finance's organizational structure, systems, products and regulatory requirements; and
5. Reliance on independent testing performed by the FHLBank's or Office of Finance's external and internal auditors and consultants.

The pre-examination analysis provides the examiner-in-charge and assisting examiners with the information necessary to recommend the scope of review and appropriate staffing as well as determine the timeframe within which to complete the examination objectives.

The practice of defining the scope of examination provides a control on the examination process and documents the areas to be reviewed. To enhance the efficiency of the examination, once the scope has been determined, additional requests approved by the examiner-in-charge are sent to the FHLBank or Office of Finance, as appropriate, for detailed information such as departmental policies and procedures, system access reports, and reconciliations that are applicable to the specific functions to be reviewed.

When an examiner believes that the agreed-upon scope of on-site review can be reasonably reduced, he or she should obtain the prior approval of the examiner-in-charge for the modifications. The examiner should document the reasons supporting his or her decision to deviate from the approved scope in the examination workpapers.

The examiner should ensure the adequacy of review of the FHLBank function or activity and not rely simply upon the application of specific procedures set out in the applicable work program. In all events, the examiner is expected to exercise his or her professional judgment to apply the appropriate examination procedures and make appropriate inquiry to adequately assess the level of risk and quality of risk management (or other relevant measure) attending the FHLBank function or activity under review.

## *Examination Process*

---

### *c) Scope of Examination Memorandum*

Based upon the pre-examination analysis, the examiner-in-charge prepares a scope of examination memorandum. The examiner-in-charge provides the scope of examination memorandum to the Associate Director of the Office of Supervision for Supervision and Examinations or his or her designee for approval prior to the start of the on-site examination.

### *(3) Coordination with Other Finance Board Offices and Office of Supervision Divisions*

As the need for specialized expertise arises, the examiner-in-charge notifies the portfolio manager and coordinates the receipt of examination assistance from other professionals within the Office of Supervision, such as FHLBank analysts, accountants, risk analysts, risk-modelers and affordable housing specialists, as well as with attorneys of the Office of General Counsel. Assisting examiners bring issues requiring such expertise to the attention of the examiner-in-charge. The examiner-in-charge is responsible for ensuring the completion of any work that is assigned to other professionals. Examiners document all assistance received in their workpapers.

### *(4) On-Site Examination Procedures*

#### *a) Entrance Meeting*

On the first day of the on-site examination or as soon thereafter as can be arranged, the examination team should hold an “entrance meeting” with senior management. This is an opportunity for the members of the examination team to introduce themselves to the senior managers and discuss assignments, examination scope and timeframes. The meeting also provides management with an opportunity to ask questions or raise any concerns or issues associated with the examination. The examiner-in-charge emphasizes that cooperation and timely response to examiner requests will expedite the examination process.

#### *b) Identification and Evaluation of Key Risks, Controls and Significant Changes*

In accordance with examination program objectives, examiners perform an assessment of corporate governance, risk management, internal controls and the independent testing that is performed by external and internal auditors and outside consultants of the FHLBank or the Office of Finance, as appropriate.

In completing these assessments, examiners should evaluate:

## *Examination Process*

---

1. The degree to which the activities, risk tolerances and internal controls reflect the goals and parameters established by the board of directors and senior management;
2. The adequacy of risk management and internal controls to inform and support the governance processes, management and decision-making;
3. The adequacy of governance processes to address all material risks of the FHLBank's or Office of Finance's activities and risk profile; and
4. The adequacy of independent testing that is performed of the internal control environment by external and internal auditors and outside consultants.

In addition, the examiners determine whether there are any significant changes that have been implemented, are in the process of being implemented, or are in the preliminary planning stages.

The assessment of the aforementioned factors permits the examiner to determine the degree of reliance that can be placed upon the institution's policies, procedures and internal controls to manage the risks associated with a specific function or activity and the continuing appropriateness of the initial scope evaluation.

### **c) Amendment of Examination Scope**

With approval of their examiner-in-charge, examiners may modify the approved scope of examination during the examination. The following are examples that may warrant an adjustment in the approved scope:

1. The examiners' assessment of corporate governance, risk management, internal controls and independent testing has revealed significant weaknesses in the function or activity under review;
2. The FHLBank or Office of Finance has instituted significant changes in policies, procedures or controls that have not been independently tested or are not addressed in the examination programs;
3. The FHLBank or Office of Finance has discontinued specific activities and processes and the examination objectives are therefore no longer applicable; and
4. The examiner has identified concerns in the conduct of testing procedures that warrant further expansion of scope and testing.

## *Examination Process*

---

Examiners document proposed modifications in scope and seek approval of these by the examiner-in-charge. The examiner retains all supporting documentation in his or her workpapers.

### *d) Testing*

In selecting attributes to be reviewed or tested for each FHLBank or Office of Finance function or activity examined, examiners possess discretion to select those attributes he or she considers necessary or appropriate to make assess the adequacy of corporate governance, risk management, internal controls and audit coverage, or other relevant assessments, and, where appropriate, assign ratings for corporate governance, market, credit and operational risk and condition and performance.

Examiners may rely upon the work performed by an FHLBank's or Office of Finance's external and internal auditors when it is reasonable to do so. The degree of reliance that an examiner may reasonably place on this work is based upon his or her judgment of the competence and independence of the auditors involved, the scope of the audits and the amount of testing performed, the timeframe during which the audits were performed, and the overall adequacy of the institution's system of internal controls. Examiners should consider these factors in determining the level of testing to be conducted.

### *e) Evaluation of Potential Findings*

Examiners evaluate potential examination findings to determine whether the issue or concern warrants reporting to senior or line management or the board of directors and document these evaluations in their workpapers.

When evaluating potential findings, the examiner considers the significance of the issue or concern to the safety, soundness and condition of the FHLBank or the Office of Finance and assesses the risks presented within the context of the FHLBRS. In particular, he or she considers whether the issue or concern represents an isolated occurrence or is a manifestation of an overall weakness in corporate governance, risk management, internal controls or audit coverage that could affect risk or other assessments of the institution under the FHLBRS.

In their assessment of potential examination findings, examiners use the findings categories established by the Office of Supervision in its Advisory Bulletins. These categories are set out below:

- a) *Unsafe or Unsound Practice or Condition*- Any action or inaction that is contrary to prudent operation that has resulted in, or if continued could



## *Examination Process*

---

result in, abnormal loss or risk or damage to the FHLBank or the Office of Finance. An institution's condition need not deteriorate to the brink of insolvency before a practice or condition may be found to be unsafe or unsound. Immediate corrective action is required.

- b) ***Violation***- Non-compliance with statute, regulation, or agency rule. Corrective action is required.
- c) ***Weakness***- An inadequate or otherwise unacceptable policy, procedure, or practice, or a lack of sufficient internal controls or risk management. Corrective action is required.
- d) ***Recommendation***- A suggested change to a policy, procedure, practice, or control to improve performance or operations.
- e) ***Referral***-A matter that raises a legal or policy issue requiring guidance from or development of a position by Finance Board staff.

The examiner's evaluation of a potential finding is accompanied by adequate supporting documentation and is transmitted to the examiner-in-charge for review and approval. The examiner-in-charge reviews all proposed findings for accuracy, relevance and materiality prior to their inclusion in the report of examination. The portfolio manager should conduct an additional review of the proposed findings.

f) ***Exit Meeting***

Throughout the examination process, examiners communicate with FHLBank or Office of Finance management and staff in order to facilitate the flow of information and ensure an accurate understanding of the key risks, processes and controls and the factual basis for examination findings.

Examiners hold an exit meeting with senior or line management to communicate the results of the examination and to discuss any potential findings prior to the closing conference.

g) ***Preparation and Issuance of Findings Memoranda***

Findings memoranda provide FHLBank or Office of Finance management with examiners' preliminary conclusions and findings. Examiners use findings memoranda to thoroughly communicate examination findings and their bases to management, elicit management's views, and confirm facts. The outline for the findings memoranda is as follows:

1. ***Finding***- a concise description of the deficiency.

## *Examination Process*

---

2. ***Basis-*** an overview of the deficiency, its root cause, and the analysis performed. If it can be identified, the effect of the deficiency on the FHLBank would be discussed. For example, "...if not corrected or changed, the FHLBank's credit risk will rise to an unacceptable level."
3. ***Remediation-*** the remedial action requested. The remedial action may take the form of a general statement, for example, "develop a plan to reduce interest rate risk," or be a specific requirement with imposed deadlines. An example of the latter might be, "...revise the investment policy by XX-XX-200X."
4. ***Discussion with management-*** identify when and with whom the matter was discussed. Commitments for correction would be memorialized here.

The findings memoranda should be succinct and contain only the information needed to explain the deficiency. Like findings should be grouped. For example, internal control deficiencies across business units should be presented in a single findings memorandum.

An examiner issues a findings memorandum to management as soon as the examiner-in-charge has reviewed it and considers the findings it contains to be adequately supported. In most circumstances, examiners discuss findings orally with management prior to the presentation of a findings memorandum.

### ***h) Communication of Findings to Management and Management Response***

Throughout the examination, the examiner-in-charge meets with executive management to discuss the examination approach and any relevant issues or concerns needing to be addressed or clarified. Examiners should meet regularly throughout the examination with FHLBank staff responsible for areas under examination.

The examiner-in-charge is responsible for planning a closing conference with management to discuss the findings identified during the examination. He or she generally prepares a proposed agenda of topics to be discussed at the closing conference and attaches completed findings memoranda to it.

Once the agenda is prepared, the examiner-in-charge furnishes a copy to senior management of the FHLBank or the Office of Finance, as appropriate. If a findings memorandum is still in preparation, the examiner-in-charge includes a short description of matters to be covered in that area of review in the agenda.

The purpose of the closing conference and discussion of the agenda is to:

## *Examination Process*

---

1. Review the data and issues with the executive management to ensure that the information is accurate, relevant and complete;
2. Solicit executive management's response to the issues discussed;
3. Communicate the examiners' findings and conclusions that are to be included in the report of examination; and
4. Answer questions that executive management may have regarding the examination.

The examiner-in-charge leads the meeting with management, but may include assisting examiners. During the meeting, the examiner-in-charge reaches an understanding with management as to the timeframe within which management can provide a response. However, a written response is not required. The examiner-in-charge includes a copy of the agenda in the workpaper documentation.

An effective closing conference results in an agreement as to the factual basis for examination findings by all parties and an understanding of the Office of Supervision's position on the findings, conclusions and ratings to be reported. Examiners should avoid creating inconsistencies between the tone or message conveyed at the closing conference and that contained in the report of examination.

i) **Preparation of Memoranda (Activity/Function) and Conclusions Memoranda (Component/Composite), and Assignment of Ratings under the FHLBRS**

For each FHLBank or Office of Finance function or activity examined, examiners summarize the results of the examination in a separate memorandum in accordance with the instructions set forth in the appropriate examination work program.

Based upon the memoranda for the functions or activities examined, examiners also prepare a separate Conclusions Memorandum for each component rating under the FHLBRS that assigns the proposed component rating and articulates its basis. In addition, examiners prepare a similar Conclusions Memorandum that assigns the proposed composite rating under the FHLBRS.

Examiners should not discuss any proposed rating under the FHLBRS with the board of directors or management of the FHLBank or Office of Finance prior to the issuance of the report of examination.

## *Examination Process*

---

### *(5) Post-Examination Procedures*

#### *a) Completion of Workpapers in accordance with Workpaper Standards*

Examiners are responsible for the completion of workpapers in accordance with the Office of Supervision's workpaper standards, which are detailed below:

#### **Introduction**

An examiner should document examination findings through a combination of FHLBank source documents, report comments, and other examination workpapers that address both management practices and condition. Examination documentation should provide a clear trail of decisions and supporting logic and provide written support for examination and verification procedures performed and conclusions reached.

Workpapers are the primary supporting documentation for the examination. They include printed and electronically stored information prepared or obtained during the examination and are important for:

- a) Documenting the findings and conclusions of the examination;
- b) Providing a means for the organization, control, administration, and review of the work performed;
- c) Providing evidence of work performed;
- d) Providing explanations of or changes in scope;
- e) Assuring that examination objectives are achieved;
- f) Supporting agency positions in enforcement actions and litigation;
- g) Evaluating quality of work performed and examiner performance;
- h) Providing training; and
- i) Planning and conducting future examination and supervisory activities.

The examiner should include in his or her workpapers only what is essential to support the work performed and the conclusions drawn. Typically, workpapers consist of documents drafted by examination staff such as off-site activity reports, planning documents, meeting and discussion memoranda, analysis memoranda, and findings memoranda. However, workpapers should also include documents supportive of examination conclusions obtained from other sources, such as correspondence and reports from the FHLBank and copies of the FHLBank documents, internal and external audit reports, and reports of consultant(s).

An examiner should exercise particular care to fully document the work performed and conclusions in situations of significant supervisory concern, particularly if the initiation of an enforcement action is being contemplated.

## ***Examination Process***

---

Office of Supervision requirements for workpaper content, preparation, security, retention, and supervisory review are discussed below.

### ***1) Workpaper Content***

In all cases, examiners should prepare and organize workpapers in a manner designed to facilitate review by the examiner-in-charge or other reviewer of the basis for the examiner's findings and conclusions. Accordingly, examiners should ensure that their workpapers address the following attributes:

- a) Objectives (purpose of review);
- b) Scope and source, such as testing performed, identification of source of information, and interviews with FHLBank personnel, and similar considerations;
- c) Procedures performed; and
- d) Results, conclusions and proposed corrective action (if warranted).

Examiners may vary the extent of workpaper documentation based upon factors such as examination scope, risk profile of the FHLBank or Office of Finance, and experience level of examiners. In some situations, it may be appropriate for an examiner to customize procedures or perform procedures outside the examination program to achieve the most efficient and effective evaluation. An examiner proposing to deviate from agreed-upon scope should document the proposed modification and obtain the approval of the examiner-in-charge.

### ***2) Workpaper Preparation***

#### ***a) Workpaper Indexing, Cross-Referencing and Hyperlinking***

Examiners should prepare a workpaper index listing all workpapers for the function or activity he or she has reviewed, including a table of contents for quick reference. The workpaper index should be hyperlinked or cross-referenced to the applicable workpapers to afford quick access to the information contained in the workpapers, thereby expediting any workpaper review as well as the preparation of the report of examination.

## *Examination Process*

---

### *b) Hardcopy Workpapers*

To the extent possible, examiners should use hardcopy workpapers only for documents that are not available in electronic format. To enhance the efficiency and effectiveness of the examination, examiners should complete workpapers in electronic format and secure them on the Local Area Network.

If hardcopy workpapers are to be used, they should contain the following:

#### *i. Descriptive Heading*

The preparer should identify each hardcopy workpaper by a heading. The heading should include the name of the entity being reviewed, a description of the contents or purpose of the workpaper, and the date of the examination.

#### *ii. Initialing and Dating*

The preparer should initial and date the first page of numbered, hardcopy workpapers to signify that these workpapers are complete and are available for review.

### *c) Tickmarks*

An examiner may use “tickmarks” in his or her workpapers to explain repetitive work performed or data included in them. If an examiner uses tickmarks, he or she should clearly explain them in a tickmark legend. A well written tickmark explanation should generally include a brief description of the item or examination procedure performed, such as “traced to general ledger subsidiary report” or “recalculated, no exception noted.”

### **3) Security of Workpapers (Hardcopy and Electronic)**

Workpapers are the property of the Finance Board and should be secured at all times. Examiners should retain hardcopy workpapers in a locked file or desk overnight. Electronic workpapers require additional measures to alleviate security concerns. To minimize risk, access and function capabilities should be restricted to authorized Office of Supervision staff.

## *Examination Process*

---

### **4) Workpaper Retention Requirements**

Examiners should retain all workpapers (hardcopy and electronic) in accordance with the guidelines outlined in the Finance Board Office of Management records management schedule.

### **5) Workpaper Review**

Quality control over the examination work is crucial to the integrity of the examination. Workpaper review is an important part of the examination. In all cases the examiner-in-charge and portfolio manager should ensure that they, or another person(s) designated by them, review all completed workpapers to determine whether the intended scope of the examination was carried out, adequate evidential material is contained to support the work performed, and conclusions are accurate and adequately supported. The findings and conclusions contained in the final report of examination should be adequately supported by the workpapers.

### **b) Preparation and Transmittal of Report of Examination**

#### **1. Report of Examination Preparation**

The examiner-in-charge prepares a report of examination that contains examiners' conclusions, assessments and recommendations and assigns component and composite ratings under the FHLBRS based upon the proposed ratings contained in the Conclusions Memoranda.

The report of examination should be directed to the institution's board of directors and should reflect a level of analysis and detail appropriate to those audiences to describe and explain examination conclusions. In preparing the report of examination, the examiner should remember that the board of directors will generally not have day-to-day involvement in the operation of the institution or the detailed knowledge such involvement would normally confer. Consequently, the report of examination should provide broad, high-level, institution-wide conclusions and assessments, arranged by rating component factor under the FHLBRS, without unnecessary detail or length. Discussions should focus upon root causes of problems rather than upon symptoms.

Principal examination findings that support the assessment of an institution's corporate governance, market, credit and operational risk, condition and performance, and affordable housing and community investment activities should be presented in a separate section at the end of the report of examination, arranged by assessment factor. Examiners should cite and discuss specific examination findings in the body of the

## *Examination Process*

---

report of examination only if and to the extent that (i) such findings are necessary to the overall conclusion or a supporting assessment regarding the institution and (ii) their importance to the conclusion or assessment cannot be adequately captured through reference to a findings memorandum alone.

The report of examination should include critical financial information upon which the assessment of the condition, performance and future prospects of the institution is principally based and present it in a separate section. It is important that examiners discuss the implications of the information for the institution's condition, performance and future prospects.

### 2. **Report Transmittal**

The Office of Supervision should send a signed hardcopy of, and pdf. file containing, the completed report of examination to the president of the FHLBank or managing director of the Office of Finance, as appropriate, with a request to distribute copies of the report of examination to all members of the institution's board of directors. The report of examination should be accompanied by a transmittal letter addressed to the chairman of the board of directors of the institution. The transmittal letter should advise the board of directors that a written response is required to be submitted to the Office of Supervision within 15 days of the board of directors meeting that follows the Office of Supervision's presentation of examination findings to the board. The report of examination should specifically address items requiring board attention. Approval of the written response by the institution's board of directors should be evidenced in minutes of the meeting at which the action took place.

The Office of Supervision should also provide a transmittal letter and a copy of the report of examination to the Board of Directors of the Finance Board.

### 3. **Report of Examination Format**

Examiners should complete the report of examination in accordance with the attached format.



## *Examination Process*

---

### **B. Security of Examination Records**

#### **Introduction**

All internal papers, files and other records of the Finance Board are property of the United States and should be considered confidential. Records and workpapers developed by examiners as a part of any examination conducted pursuant to the authority of the Finance Board are particularly sensitive and must be adequately secured and protected. Except for discussions with FHLBank System personnel concerning the contents of a report of examination, no examiner is authorized to disclose to any unauthorized person the contents of any files or to otherwise permit any such persons to have any form of access to any of the Finance Board's records.

Further, all Finance Board employees have a duty and responsibility to prevent access to the Finance Board's records by unauthorized persons. Unauthorized persons include both individuals who are not directors, employees or agents of the Finance Board as well as Finance Board-affiliated individuals who are not authorized to have access to examination records.

#### **Protection of Agency Records**

To facilitate the examination process, it is customary and necessary that the examined entity furnish examiners with files, records and other documents of a confidential or business proprietary nature.

Examiners should ensure that all documents relating to or stemming from examinations are secured adequately to ensure against improper public release. The examiner-in-charge is principally responsible for maintaining adequate security over all such files and prevent access by unauthorized persons. Although released to the board of directors of an institution examined at the end of an examination, a report of examination remains the property of the Finance Board. The contents of the report of examination are confidential and may not be released except as authorized by the Finance Board in Part 911 of its regulations or otherwise.

Examiners should pay particular attention to securing information stored in their portable computers. Examiners should immediately notify the examiner-in-charge or other supervisor of any instance where adequate security cannot be maintained or where security appears to have been breached. The examiner-in-charge should, in turn, take immediate steps to notify his or her portfolio manager.