

Large–Bank Deposit Insurance Determination Modernization (12 C.F.R. §360.9) Compliance Review

General Information

Covered institutions under 12 C.F.R. §360.9 (the “Rule”), the Large-Bank Deposit Insurance Determination Modernization rule are routinely selected for compliance review.¹ Planning for and conducting the review will span several months. FDIC has the option to conduct the Compliance Review on-site at the Covered Institution (CI), or FDIC may elect to conduct the Compliance Review remotely. Below is an overview of the basic phases of a compliance review and a description of deliverables.

Deliverables are mentioned in the phase in which they will be prepared or used, however, some deliverables are dependent and cannot be completed out of sequence. Deliverables will also contain a requirement for completion “no later than” date. Late deliverables or defective deliverables may affect the compliance review significantly enough to cause the stopping and rescheduling of the review.

Pre-Compliance Review Phase

Initial Communication

The FDIC Lead Reviewer will contact each CI selected for compliance review and arrange a series of meetings intended to prepare for the review. Meeting attendees should be knowledgeable of the bank’s policies and procedures governing deposit operations and be conversant in all of the CI’s deposit products and the system(s) housing the data.

The meeting will cover the entire Compliance Review process including deliverables, deadlines, and findings from previous reviews. Especially if the findings were significant and FDIC has not confirmed compliance after the CI’s has completed corrections.

Review Questionnaire

Completed by the CI for each review cycle, the questionnaire informs the FDIC about the institution’s deposit operations including detailed information about deposit products, the composition of those products, and all systems (core and ancillary) which stores deposit data.

A person with technical knowledge of the institution's deposit products and the system(s) should complete the questionnaire. Transmit the questionnaire after a check of completeness to the lead reviewer at the FDIC.

A sample of the Review Questionnaire can be found here:

<https://www.fdic.gov/regulations/resources/largebankdim/sample-review-questionnaire.pdf>

¹12 C.F.R. §360.9 (h) Testing requirements.
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Qualitative Data Mapping Document

The rule establishes a data standard for each file type contained in the standard data files. Some fields in the files contain quantitative data. An example of quantitative data would be the field containing the current balance in a deposit account. Some fields contain qualitative data. An example of qualitative data would be the field containing the tax code, deposit type, product category, status code, IRA type, deposit class type, or the relationship code and beneficiary code describing a person in the customer file.

Qualitative data is critical to the FDIC's ability to perform an insurance determination. The rule provides a list of suggested values or descriptions for qualitative data fields but also permits the CI to use its own list of descriptors. The Qualitative Data Mapping document is unique for each deposit system and identifies each field with qualitative data in the files; it contains a list of all valid descriptors used in the field and the meaning of each of every descriptor.

Within the data set, rules for applying qualitative data must be consistently applied by the CI. CIs with multiple deposit systems may choose to send separate standardized data files for each of their deposit systems. In this case, there should be a separate Qualitative Data Mapping document for each deposit system.

A sample of the Qualitative Data Mapping document can be found here:

<https://www.fdic.gov/regulations/resources/largebankdim/sample-qualitative-data-mapping-document.pdf>

Provisional Hold Categorization Matrix

The rule requires each CI to apply the correct hold threshold and percentage to each deposit account upon receipt of a provisional hold memorandum from FDIC. The provisional hold matrix is a document created by the CI or the technology service provider that identifies which fields or combinations of fields are contained in the standardized data files, specifically the deposit file which maps each deposit account to one of the four provisional hold categories.

The matrix should be the same logic used by the deposit system to apply the provisional hold and will be used by FDIC to validate the holds created by the CI and reported in the hold file.

A sample of the Provisional Hold Matrix can be found here:

<https://www.fdic.gov/regulations/resources/largebankdim/categorization-matrix.xlsx>

Secure File Transfer

The FDIC puts the utmost value on data security and uses a secure file transfer protocol server called Enterprise File Exchange (EFX). Each CI has access to EFX through one or more employees who are authorized coordinators and users of EFX. Please make internal

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arrangements to utilize your employees to facilitate all data transmission during the compliance review.

If your institution has a preferred secure file transfer method, the FDIC can use your preferred method as an alternative.

Technology Service Provider (TSP)

If a covered institution uses a TSP, it is important to inform the TSP of the upcoming compliance review. The TSP will be the covered institution's key resource in establishing the test environment, placing provisional holds, creating data files, processing FDIC files, and resolving issues, if required.

First Set of Data Files Aligned with a Quarter End Date

The first set of the data files that FDIC request will be the production data files generated from the production environment using the most recent quarter-end day as the as-of date. The quarter-end production data files will assist the FDIC Reconciliation Team to complete a four-way reconciliation and the FDIC Data Validation Team to identify any possible issues. The Data Validation Team will address these issues with the bank for review and, if needed, correct them before the scheduled compliance review week. Please be aware that no FDIC provisional hold should be placed on the production system.

In the unlikely event of a bank failure, a CI must be capable of calculating and placing FDIC provisional holds in their production environment and supplying FDIC with standardized data files within a very short time frame. It is imperative that each CI demonstrates the capability of producing standardized data files from the production environment.

Compliance Review

Preparing the Test Environment

The FDIC reviews with a complete copy of production data in a test environment. The test environment should contain all applications, products, systems, and software specifications, as they exist in the actual production environment.

If the CI's test environment cannot accommodate an entire production data set, please contact the FDIC Lead Reviewer very early in the timeline to evaluate the feasibility of using a subset of the production data for the review.

Provisional Hold Memorandum

The Provisional Hold memorandum specifies the thresholds and percentages that the covered institution will use to calculate holds for the various insured deposit account types. The FDIC lead reviewer will prepare and send the memorandum to the covered institution at the beginning of the first day of the review, typically a Monday.

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A sample provisional hold memorandum can be found here:

<https://www.fdic.gov/regulations/resources/largebankdim/sample-provisional-hold-memorandum.pdf>

Executing the Provisional Hold Process in the Test Environment

The covered institution executes its Provisional Hold processing using the Provisional Hold memorandum's values and creates the resulting data files in the format prescribed by the regulation.

The resulting standardized data files are sent securely to the FDIC using the agreed secure file transfer system with an email to the FDIC Lead Reviewer immediately after completing the Provisional Hold processing and no later than the close of business of the second business day of the compliance review.

The CI is not permitted to scrub, clean, or otherwise manipulate the data files before transmitting them to FDIC. The FDIC will accept separate sets of files from multiple deposit systems but will require a specific Qualitative Data Mapping document for each set of data.

Processing the FDIC Inbound Files

The four inbound files to be processed are two non-monetary transaction files (Appendix A of the Rule) to remove hold and add hold, and debit/credit files (Appendix B of the Rule) FDIC will also provide a short list of accounts for detailed review used to validate that transactions applied in the deposit system(s) are correct. The CI will capture account level information for each account in the list using a screenshot. This screenshot (called the “before” screenshot) will show the account's current balance, holds, and available balance before processing the FDIC inbound files.

Once all four of the inbound files are processed, the CI will capture a second screenshot capturing account level information after processing for the same small list of accounts. This second set of screenshots (called the after screenshots) will contain the account's current balance, new holds (if any), available balance, and a transaction showing that the institution removed the FDIC-specified provisional hold, and debit and credit transactions. Both the before and after screenshots are transmitted to the FDIC as soon as completed.

Status Meeting

Normally conducted on Friday to discuss preliminary findings of the data analysis. The draft issues report will be discussed with the staff of the CI.

The CI and FDIC will agree to a time when written responses to the draft issues report will be completed and the document returned to FDIC.

Post Compliance Review

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Issues Report

After the compliance review is completed, the FDIC lead reviewer will provide an issues report to the covered institutions technical staff describing the lead reviewer's observations and analysis. With this report, the FDIC lead reviewer will discuss the issues identified with the covered institution's staff in detail.

The CI will research each issue in the report and provide comments. Each comment should address the cause, solution, and tentative timeline for the CI to cure the issue. The draft issues report, with completed responses, will be returned to FDIC according to the schedule established during the Status Meeting.

Compliance Review Report

The commented Issues Report informs the Compliance Review Report. The FDIC lead reviewer will send the covered institution's chief compliance officer, or regulatory equivalent a copy of the report. Should corrective actions be required, the covered institution must respond to this report with a formal reply to the FDIC detailing management's commitment to corrective action and a time frame for completing those actions.

Confirmation Data Files after Corrective Action Completed

The severity of an issue may require the FDIC to request another set of standardized data files to validate fixes. If a confirmation set of files is necessary, the need will be discussed with the covered institution staff and noted as a requirement in the Compliance Review Report to management.

Contacts

Should you have any questions, please contact your designated FDIC lead reviewer or send an e-mail to drrlargebnkdeprule@fdic.gov