



Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
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Risk-Focused, Forward-Looking Safety and Soundness Supervision

Summary: The FDIC is updating its Risk Management Manual of Examination Policies (the Manual) to incorporate a new section titled Risk-Focused, Forward-Looking Safety and Soundness Supervision. The latter describes the FDIC's long-standing philosophy and methods for supervising institutions by focusing on the areas presenting the greatest risks. The new section has been included in the new Part VI of the Manual titled "Appendix: Examination Processes and Tools," and describes communication and risk-tailoring principles followed during safety and soundness examination activities.

Statement of Applicability to Institutions with Total Assets under \$1 billion: This Financial Institution Letter (FIL) provides information to FDIC supervisory personnel and is applicable to examination activities of all FDIC-insured institutions. This FIL is informational and does not require action on the part of insured institutions.

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[Risk Management Manual of Examination Policies](#)

[FDIC OIG Evaluation Report on Forward-Looking Supervision, August 8, 2018](#)

[FFIEC Emphasizes Risk-Focused Supervision in Second Update of the Examination Modernization Project, November 27, 2018](#)

[Uniform Financial Institutions Rating System, January 1, 1997](#)

Contact:

Rae-Ann Miller, Associate Director (Risk Management Policy), (202) 898-3898 or RMiller@fdic.gov

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Highlights:

- Risk-focused supervision was adopted by the FDIC, the Board of Governors of the Federal Reserve System, and the Conference of State Bank Supervisors in 1997 as a framework for carrying out examination activities. Risk-focused supervision uses a tiered approach in which the scope of examinations and resources are focused on the areas in an institution presenting the greatest risks.
- The new section provides a comprehensive description of the FDIC's long-standing examination philosophy and methods, improves transparency of the FDIC's examination practices, and reinforces the expectations placed on FDIC supervisory staff to conduct risk-focused, forward-looking supervision through examination activities.
- The risk-focused approach is forward-looking in that it focuses on an institution's risk management practices, consistent with the definitions contained in the Uniform Financial Institutions Rating System. It enables examiners to look beyond the condition of an institution at a point in time to how well the institution can respond to changing market conditions given its particular risk profile. This approach seeks to identify and correct weaknesses in conditions or practices before they impact an institution's financial condition.
- The new section reemphasizes the importance of clear and transparent communication and risk tailoring during the examination process in accordance with principles adopted by the FDIC as a member of the Federal Financial Institutions Examination Council.
- The FDIC is updating the Manual to include the new section in response to recommendations made by the FDIC Office of Inspector General.
- This FIL will become inactive 12 months after issuance. However, the updated information will remain in effect and is embedded in the new Part VI of the Manual titled "Appendix: Examination Processes and Tools."