Supervision

The primary objective of supervision is to evaluate the overall safety and soundness of a banking organization.

The Fed supervises several kinds of institutions: bank and financial holding companies (the corporations that own banks and other financial operating units); state-chartered banks that are members of the Federal Reserve System; and various international banking operations. The Fed shares banking supervisory authority with several other agencies. By law, nationally chartered banks must be members of the Federal Reserve System. They are supervised by the Office of the Comptroller of the Currency (OCC) in the U.S. Treasury Department. State-chartered banks that are not members of the Federal Reserve System are supervised by the Federal Deposit Insurance Corporation (FDIC). In addition, state-chartered banks are also supervised by their respective state banking agencies.

Bank supervisors are charged with evaluating the safety and soundness of individual banking organizations. In the Federal Reserve System, the 12 Reserve Banks carry out on-site examinations and off-site monitoring of banks. Examinations occur routinely. But the recent financial crisis called for a special initiative to test the health of the nation's largest banking organizations. In February 2009, when the financial system was experiencing great stress and the economy was in a severe recession, the Fed and other bank regulatory agencies launched the Supervisory Capital Assessment Program (SCAP), also known as the bank stress test.

The stress test required banks to have enough capital on hand to weather potentially large losses. By requiring banks to add capital, the stress test reduced uncertainty about losses and played a vital role in restoring confidence in the banking system.

Regulation

The Fed's regulations often are adopted in response to specific legislation passed by Congress.

As one of the nation's bank regulatory agencies, the Fed is responsible for ensuring that the institutions under its authority comply with applicable laws. The Fed's Board of Governors sets operational standards for banks through regulations, rules, policy guidelines, and supervisory interpretations. Sometimes regulations are restrictive, meaning they limit a bank's activities. Other times they are permissive, which means they allow banks to conduct a given activity. The Fed's regulations often are adopted in response to legislation passed by Congress, such as the recently passed Dodd-Frank Act.

Financial Regulatory Reform

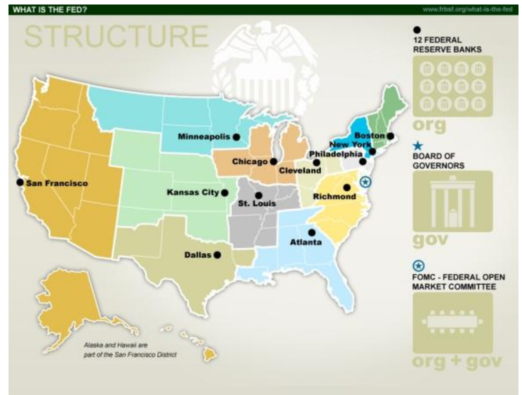
The Dodd-Frank Act of 2010 expands the Fed's responsibilities in the areas of supervision and regulation.

The Dodd-Frank Act expands the Fed's supervisory and regulatory responsibilities. The law abolishes the Office of Thrift Supervision, which had authority over thrifts and thrift holding companies. The Fed is taking over supervision of thrift holding companies, the OCC is responsible for federally-charted thrifts, and the FDIC is responsible for state-charted thrifts.

The Dodd-Frank Act also calls for a systemic approach to supervision in order to safeguard the financial system as a whole. It creates a new interagency Financial Stability Oversight Council to monitor risks to the financial system. The Fed is one of the council's members. The new law specifically assigns the Fed responsibility for supervising nonbank financial institutions whose safety and soundness the council determines to be important to the overall financial system. The act also gives the Fed authority to subject systemically important nonbank financial institutions, bank holding companies with over $50 billion in assets, and systemically important financial market intermediaries such as clearing firms to heightened supervisory standards. The Fed will play a significant role in writing and enforcing these standards and other regulations based on the new law.

Introduction

The Federal Reserve System has a two-part structure: a central authority called the Board of Governors in Washington, D.C., and a decentralized network of 12 Federal Reserve Banks located throughout the country. Monetary policy is set by the FOMC, which includes members of the Board of Governors and presidents of the Reserve Banks.



Board of Governors

At the center of the Federal Reserve structure is the Board of Governors in Washington, D.C. The seven-member Board and its staff constitute an independent government agency charged with overseeing the Federal Reserve System. Board members are appointed by the President and confirmed by the Senate, serving staggered 14-year terms that expire in every even-numbered year. Board members are appointed for long terms in order to shield them from political pressures. The President designates a chairman and vice chairman of the Board, each of whom serve four-year terms. These appointments are subject to Senate approval and may be renewed.

Federal Reserve Banks

The Fed includes 12 regional Federal Reserve Banks which carry out much of the System's day-to-day operations. The Reserve Banks, also known as district banks, are nongovernmental organizations, set up similarly to private corporations, but operated in the public interest. The districts are headquartered in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. Reserve Bank branches are located in 24 other cities.

The Reserve Banks and each of their branches have a board of directors composed of representatives of commercial banks that are members of the Federal Reserve System, as well as individuals representing business interests of each District. Boards sometimes also include members from the labor, consumer, and nonprofit sectors. Each Bank president is appointed by its board of directors and approved by the Board of Governors, which safeguards against political influence.