



Federal Reserve  
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Welcome to the 2025 edition of Beyond the Bank: The Bank Holding Company Newsletter from the Federal Reserve Bank of Atlanta providing insights on regulatory guidance, regulatory reporting, applications, and relevant tools to assist bank holding company (HC) management.

The Federal Reserve Bank of Atlanta's Community Banking Organization Holding Company Team supervises bank, thrift, and financial holding companies with total consolidated assets of less than \$10 billion. The team conducts off-site reviews, full-scope inspections, continuous monitoring, and surveillance on portfolio institutions.

Additional responsibilities include opining on regulatory applications and serving as a resource for Sixth District institutions on capital actions, inter-company transactions, and other holding company-related activities. If you need assistance, please email [bhcteam.requests@atl.frb.org](mailto:bhcteam.requests@atl.frb.org), and one of our team members will assist you with your holding company needs. Also, please email the aforementioned mailbox if you have any comments, suggestions, or topics that you would like to see in our future publications.

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# Internal Audit of Bank Holding Company Activities: Why It Matters

*By Shannon Boyt, Senior Examiner  
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An effective internal audit function serves to provide assurance to management and the board that internal controls are functioning properly and are effective in controlling risks to the organization. While depository institutions such as banks and thrift organizations must have an effective internal audit function in place, many banking organizations fail to understand the need to include bank holding company (BHC) and nonbank subsidiary activities in the internal audit universe.

Some BHCs conduct operations through the parent company. However, more often, nonbank subsidiaries are used to conduct nonbank operations. All operations conducted at the BHC level, including through a nonbank subsidiary, should be included in the internal audit program. Operational and legal risks through nonbanking operations can have a negative effect on the banking organization as a whole. Unchecked controls are a safety and soundness concern and could lead to losses to the consolidated organization. Should these issues be considered an unsafe or unsound practice, matters requiring attention may be cited in inspection reports, or enforcement actions could be considered. Therefore, an effective internal audit program should review policies and procedures, along with other controls for operational activities conducted at the BHC level.

An effective internal audit program should also include reviews of internal controls over financial reporting for the purpose of ensuring that BHC regulatory financial reports are filed accurately. BHCs greater than \$3 billion in consolidated assets must generally file a consolidated FR Y-9C and a parent-

company-only FR Y-9LP on a quarterly basis. Small BHCs with less than \$3 billion in consolidated assets must generally file a parent-company-only FR Y-9SP on a biannual basis. Internal controls over financial reporting at the parent company and nonbank subsidiaries are paramount in assuring that financial statements, including regulatory financial reports, are filed accurately. An effective internal audit program should review these controls to ensure they are functioning properly.

Lastly, an effective internal audit function should review certain regulations that affect BHCs. (Here are links to [Federal Reserve Regulation Y](#), [Federal Reserve Regulation Q](#), [Federal Reserve Regulation W](#), and the [Bank Holding Company Supervision Manual—Audit Section—2060.1](#).) For example, Federal Reserve Regulation Y includes numerous provisions regarding activities at BHCs including, but not limited to, permissible asset holdings and regulations regarding stock redemptions and repurchases. The Small BHC Policy Statement, as an addendum to Regulation Y, provides guidance on dividend payments and debt levels at small BHCs. Further, Federal Reserve Regulation Q, applicable to BHCs greater than \$3 billion in consolidated assets, includes provisions on different instruments that can be included in regulatory capital and when prior approval must be obtained for redemptions of capital instruments. And, while not directly applicable to BHCs, Federal Reserve Regulation W, related to intercompany transactions, has many implications for BHCs due to the affiliate relationship between BHCs and their respective subsidiary banks. Controls such as written policies and procedures should be in place to ensure that BHC management complies with all applicable BHC-related regulations. An effective internal audit function should include these areas and provide assurance that controls are working properly.

In summary, while many BHCs are shell organizations with little activity at the BHC level, BHCs of all asset sizes have certain responsibilities. Although internal audit processes may be tailored to the risk profile of the organization, BHC and nonbank subsidiary activities should be included in the overall internal audit universe.



# Ensuring the Accuracy of Regulatory Financial Reports: FR Y9-C and FR Y9-LP

*By Robert Canova, Senior Examiner in the Atlanta Fed's Supervision and Regulation Division*

Holding companies (HCs) are required to file regulatory financial reports with the Federal Reserve on a quarterly or semiannual basis. The vast majority of HCs in the Sixth District file the semiannual FR Y9-SP (9SP), Parent Company Only Financial Statements for Small Holding Companies. However, in general, once a HC reaches \$3 billion in total consolidated assets, it is required to file both the FR Y9-C (9C), Consolidated Financial Statements for Holding Companies, and the FR Y9-LP (9LP), Parent Company Only Financial Statements for Large Holding Companies. (In certain situations, complex HCs with less than \$3 billion in consolidated assets may be required to file the 9C and 9LP reports after notification from the Reserve Bank. See the definition of complex holding companies in [SR Letter 13-21](#), Inspection Frequency and Scope Expectations for Bank Holding Companies and Savings and Loan Holding Companies that are Community Banking Organizations.) Once a HC begins filing the 9C and 9LP, it should continue filing those reports going forward. The 9C includes numerous schedules that provide

more detailed information for certain items. The 9LP has fewer schedules and collects data from HCs on a parent-only basis. Regulatory financial reports are generally prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are prepared using the accrual basis of accounting. The equity method of accounting is used on the 9LP for reporting investments in subsidiaries.

## Common Revisions to the 9C

Once a HC files its required regulatory reports, revisions are often needed after feedback from Reserve Bank analysts. A commonly revised schedule on the 9C is Schedule HC-R (Regulatory Capital). This schedule is critical for determining consolidated regulatory capital levels at large HCs and helps inform examiners concerning overall capital adequacy. As the number of interest rate contracts has increased over the last two years with the changing interest rate environment, the number of revisions to the

risk-weighting section for these items in Schedule HC-R (Derivatives, Off-Balance Sheet Items, and Other Items Subject to Risk-Weighting) has increased significantly. Other frequent revisions to Schedule HC-R are the line items in the risk weighting section for loans (Line 4—Loans and leases held for sale) and all other assets (Line 8—All other assets). The totals reported for these asset classes on Schedule HC-R must match the totals reported for these amounts on Schedule HC-Consolidated Balance Sheet. Revisions are also common to the line item for deducting deferred tax assets allowable in the capital calculations (Part I, line 8-LESS: Deferred tax assets that arise from net operating loss and tax credit carryforwards). Another schedule that revisions are often made to is Schedule HC-K (Quarterly Averages). Average assets reported on this schedule is used as the basis for many of the ratios reported in the Bank Holding Company Performance Report (BHCPR). Revisions to Schedules HC-R and HC-K can occur for numerous reasons, such as a miscalculation, human error, or

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changes in regulatory guidance. These types of revisions are common, as Schedules HC-R and HC-K involve complex reporting requirements and numerous data points that must be accurately captured and reported. Other revisions to the 9C are generally infrequent and occur across various schedules.

### Common Revisions to the 9LP

A commonly revised schedule on the 9LP is Schedule PI-A (Cash Flow Statement). Given that many nonpublic HCs are not required to prepare cash flow statements internally and are therefore less familiar with their nuances, Schedule PI-A traditionally has more revisions. The line item for net income on Schedule PI-A (Part 1, Line 1-Net income (loss)) is most often revised due to net income not matching the net income reported on Schedule PI-Parent Company Only Income Statement. Revisions are also commonly made to Schedule PC-A (Investments in Subsidiaries and Associated Companies). In general, the value reported for common and preferred stock ownership in bank subsidiaries should match the amounts reported in subsidiary banks' call reports. Any discrepancies should be well documented and supported by other information such as ownership percentages outlined in the FR Y-6, Annual Report of Holding Companies. Another schedule in the 9LP that has seen an increase in revisions is Schedule PC-B (Memoranda). HCs often have to revise the line item for assets scheduled to mature within one year (Line 1).

### Reviewing Reports

To help ensure the accuracy of reported data, analysts at the Federal Reserve Bank of Atlanta perform consistency checks, paying particular attention to unusual fluctuations.

Analysts also verify that data, and any explanations provided by the HC, are consistent with accounting rules and reporting interpretations.



In addition, analysts often review reports by cross-referencing other sources such as call reports for subsidiary banks. Common errors in 9Cs and 9LPs across all filers are also reviewed to determine if report instructions should be clarified. HCs can help ensure accurate reporting by following a few key principles:

- Use high quality data for reporting purposes;
- Ensure accountability for data integrity and quality throughout the consolidated organization;
- Incorporate quality assurance activities as part of the report preparation process; and
- Ensure consolidated data converges with business line data.

If an institution makes revisions to the subsidiary bank's Call Report subsequent to the submission of the HC's reports, some data reported in the 9C and 9LP may also need to be revised to reflect relevant changes. Reserve Bank analysts are available to answer questions from HC management, if needed, to help ensure information is as accurate as possible.



## Regulatory Reporting Questions/Contact Us

Please see a full list of regulatory reporting contacts on our public website:  
<https://www.atlantafed.org/banking-and-payments/reporting/contacts>

# Filing Applications with FedEZFile

*By Yashica Pope, Director of Examinations in the Atlanta Fed's Supervision and Regulation Division*



FedEZFile is the Federal Reserve System's cloud-based platform designed to streamline the application filing process for organizations supervised by the Federal Reserve, including bank holding companies, savings and loan holding companies, state member banks, foreign banking organizations, as well as other entities and individuals. Launched on October 17, 2022, FedEZFile replaced the previous E-Apps system, offering a more intuitive and efficient experience for users. Applicants should use FedEZFile to submit applications, notices, and commitment release requests as email submissions are not accepted.

## Key Features

- **Secure Access:** The platform uses Login.gov, a federal government sign in service, ensuring secure, multifactor authentication access for users.
- **User-Friendly Interface:** It allows institutions and other authorized representatives to submit applications, view statuses, communicate with Federal Reserve Staff and receive digitally signed correspondence, all within the platform.
- **Versatile Compatibility:** FedEZFile is accessible via PCs, tablets, or smartphones and provides flexibility for users to manage applications from various devices.

## Benefits of Using FedEZFile

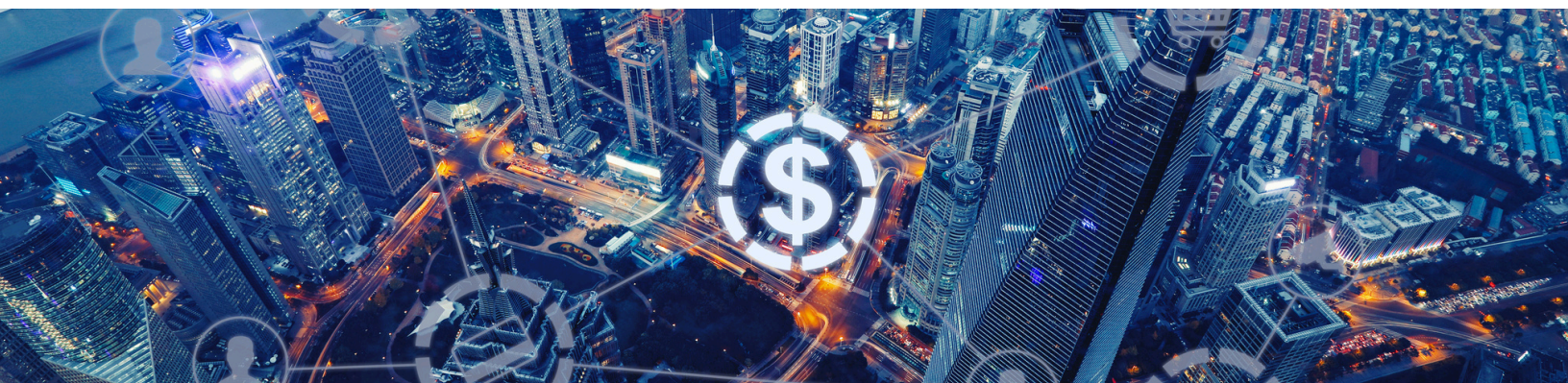
- **Efficiency:** The platform reduces the need for paper submissions, leading to cost savings on copying and shipping, and accelerates the overall application process.
- **Transparency:** It enables users to track key processing dates and identify Federal Reserve staff assigned to filings, enhancing clarity throughout the application lifecycle.
- **Enhanced Communication:** FedEZFile facilitates direct interaction between applicants and Federal Reserve staff, streamlining the exchange of information and feedback.

## Getting Started with FedEZFile

To begin using [FedEZFile](#), institutions and individuals must first register through the platform. Comprehensive guidance, including video tutorials and quick reference guides, is available on [FedEZFile Fluent](#), a dedicated resource to assist users in navigating the system.

For technical support or access issues, users can contact FedEZFile Support at (833) 656-4644 or via email at [SYSEZFileSupport@dal.frb.org](mailto:SYSEZFileSupport@dal.frb.org). For questions regarding applications, contact any member of the **Reserve Bank's Applications Team**. Additionally, you can learn more at [federalreserve.gov](https://federalreserve.gov) ([federalreserve.gov/supervisionreg/afi/afi.htm](https://federalreserve.gov/supervisionreg/afi/afi.htm) and [federalreserve.gov/supervisionreg/afi/fedezfile-fluent.htm](https://federalreserve.gov/supervisionreg/afi/fedezfile-fluent.htm)), [richmondfed.org](https://richmondfed.org) ([richmondfed.org/banking/banker\\_resources/applications\\_membership#3](https://richmondfed.org/banking/banker_resources/applications_membership#3)), and [newyorkfed.org](https://newyorkfed.org) ([newyorkfed.org/banking/ba\\_eapps.html](https://newyorkfed.org/banking/ba_eapps.html)).





# Guidance and Best Practices for Management Service and Tax Allocation Agreements

*By Fred Wells, Senior Examiner, and Anthony Johnson, Manager of Examinations, both in the Atlanta Fed's Supervision and Regulation Division*

## Management Service Agreements

Holding companies (HCs), either directly by the parent company or through nonbank affiliates, may provide services to their subsidiary banks and charge reasonable fees for those services. Likewise, subsidiary banks may provide services to the HC. While it is acceptable for these intercompany transactions to occur, as stated in [SR Letter 79-533](#), *Diversion of Bank Income by Parent BHC*, “of primary concern are excessive or unjustifiable management or service fees that, by diverting bank resources to the parent company or nonbank affiliate, may have an adverse financial impact on the subsidiary (paying) bank.”

The guidance outlined in [SR Letter 79-533](#) is further supported by sections 23A and 23B of the Federal Reserve Act, which was implemented by Federal Reserve Regulation W, *Transactions Between Member Banks and Their Affiliates* ([eCFR : 12 CFR Part 223—Transactions Between Member Banks and Their Affiliates](#)). While section 23A is the primary statute that governs covered transactions between a bank and its affiliates, section 23B—commonly known as the “Market Terms Requirements”—requires that all intercompany transactions must be on terms and conditions that are substantially the same, or at least as favorable to the bank, as those that would be offered to nonaffiliated companies. Therefore, fees or costs for intercompany transactions should be reasonable and based on market terms. A subsidiary bank should be adequately compensated for its services or for use of its facilities and personnel by other parts of the holding company organization. If comparable transactions do not exist in the market, transactions must be on terms and conditions that in good faith would be offered to nonaffiliated companies.

## Income Tax Allocations

Banks and HCs often file consolidated tax returns. As stated in [SR Letter 98-38](#), *Interagency Policy Statement on Income Tax Allocation in a Holding Company Structure*, “each depository institution is viewed as, and reports as, a separate legal and accounting entity for regulatory purposes.” To help ensure banks are operating in a safe and sound manner, and to ensure banks comply with Regulation W, banks and HCs are encouraged to enter into written comprehensive tax allocation agreements tailored to their specific circumstances.

Although all tax allocation agreements are different, all agreements should generally provide provisions that address four issues common to consolidated groups. These provisions include the following requirements:

- The bank records in its financial statements its own current and deferred taxes as if it files its tax returns as a separate entity.
- Tax payments from the bank to the HC should not exceed the amount the bank has properly recorded as its current tax liability on a separate entity basis. Further, tax payments from the bank to the HC should not be made before the bank would have been obligated to pay the taxing authority had it filed as a separate entity. Tax payments made by the bank to the HC in advance may be considered unsecured extensions of credit and may result in a violation by the bank of Regulation W.
- In the case of a tax refund, the HC will reimburse to the bank an amount that is at least equal to what it would have been entitled to, had it filed as a separate entity.

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Further, the agreement should require the HC to reimburse the bank in a timely manner and if not, it may be considered an unsecured extension of credit and could result in the bank violating Regulation W. The HC is also prohibited from “forgiving” the subsidiary bank’s deferred tax liabilities and considering it a capital contribution by the HC to the bank. As noted in SR Letter 98-38, taxing authorities generally consider these transactions illegal as they lack economic substance.

In addition to the above, SR Letter 14-6, Addendum to the Interagency Policy Statement on Income Tax Allocation in a Holding Company Structure ([SR 14-6](#)), was issued in 2014 to ensure that tax allocation agreements expressly acknowledge an agency relationship between a HC and its subsidiary bank to protect the bank’s ownership rights in tax refunds.

## Best Practices

Along with tax allocation agreements discussed above, all fees and cost allocations between a bank and HC should be supported by a written management service or cost allocation agreement. These agreements should describe services rendered, fees to be charged, how fees are determined, and how costs are to be allocated.

These agreements should be tailored in a way that protects the bank and complies with Regulation W. Best practices dictate that both the HC’s and bank’s boards annually review and approve the agreements, with approvals noted in board minutes. The agreements should be signed and dated by all parties. Best practices include management’s maintenance of documentation used for supporting the pricing and cost of services between entities and for determining affiliate tax transactions. Pricing of services and cost allocations should be reviewed annually by management, and the internal audit process should include reviews of these practices. Clearly documented workpapers create efficiencies for management.

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