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Federal Reserve Finalizes Updates to Its Large Financial Institutions (LFI) Supervisory Ratings Framework

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On November 5, 2025, the Federal Reserve Board ("FRB") **finalized** changes to its supervisory rating framework for large bank holding companies. The finalized LFI framework is substantially similar to the **proposal** issued in July.

The FRB originally issued its LFI ratings framework in 2018, to replace the RFI system for the largest bank holding companies with more than $100 billion in assets. The RFI ratings are still in place for bank holding companies with less than $100 billion in assets. The LFI framework includes three components: capital, liquidity, and governance and controls. Each component has four potential ratings: broadly meets expectations, conditionally meets expectations, deficient-1, or deficient-2.

The finalized framework will now consider a firm with no more than one deficient-1 rating to be "well managed." Consistent with the prior framework, a firm with a deficient-2 rating for any component will continue to be considered not well managed. Firms that are not well managed face limitations on certain activities and acquisitions.

Vice Chair of Supervision Michelle Bowman noted in the accompanying press release that "[b]ank ratings should reflect overall safety and soundness, not just isolated deficiencies in a single component . . . these framework changes address this by helping to ensure that overall firm condition is the primary consideration in a bank's rating."

FRB staff noted in their **memo** to the Board that "[t]he vast majority of large financial institutions are well capitalized and have sound liquidity positions and good asset quality. However, approximately 47 percent of large financial institutions are not "well managed" under the current LFI Framework."

The FRB vote was 6-1, with Gov. Michael Barr dissenting. Gov. Barr released a statement regarding his dissent and noted in closing that "[i]n short, this rule change effectively redefines the term "well managed" in ways that will weaken large bank oversight, reduce large bank accountability, and result in a more vulnerable banking system."

The FRB's action is in line with a joint proposal we **reported** on last month by the Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency to eliminate reputation risk from their supervisory programs, in that the FRB's revised LFI Framework will also not consider reputational risk.

The revisions finalized on Wednesday will take effect 60 days after publication in the *Federal Register (which may be delayed in light of the government shutdown)*.