

DATE: August 2, 2002

SUBJECT: Guidance Regarding Indemnification Agreements and Payments (SR 02-17)

HIGHLIGHTS: This letter is a reminder of the limitations on indemnification agreements imposed by section 18(k) of the Federal Deposit Insurance Act, which was added by the Crime Control Act of 1990, and the regulations issued thereunder by the FDIC. The law and regulations apply to indemnification agreements and payments made by any bank or bank holding company to any institution-affiliated party, regardless of the condition of the financial institution. The purposes of the law and regulations are to preserve the deterrent effects of administrative enforcement actions by ensuring that individuals subject to final enforcement actions bear the costs of any judgments, fines, and associated legal expenses, and to safeguard the assets of financial institutions.

State member banks and bank holding companies should review their by-laws and any outstanding indemnification agreements, as well as insurance policies, to ensure that they conform with the requirements of federal law and regulations.

Additional information regarding this matter is included in the Federal Reserve System's Supervision and Regulation policy letter, SR 02-17, dated July 8, 2002.

DOCUMENT LOCATION: The SR letter is available under the "SR Letters" section of the Board of Governors' web site:
<http://www.federalreserve.gov/boarddocs/SRLETTERS/2002>

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