



## **Fiscal Year 2017 Bank Supervision Operating Plan Office of the Comptroller of the Currency Committee on Bank Supervision**

The Office of the Comptroller of the Currency's (OCC) Committee on Bank Supervision (CBS) annually develops an operating plan that sets forth the agency's supervision priorities and objectives. The agency's fiscal year (FY) for 2017 begins October 1, 2016, and ends September 30, 2017. The FY 2017 operating plan outlines the OCC's bank supervision priorities by operating unit and aligns with "The OCC's Strategic Plan, Fiscal Years 2015–2019," annual strategic priorities, and the National Risk Committee (NRC) risk priorities and actions. The operating plan guides the development of supervisory strategies for individual national banks and federal savings associations (collectively, banks). CBS managers and staff will use this plan to guide their supervisory priorities, planning, and resource allocations for FY 2017.

### **Priority Objectives for CBS Operating Units**

The FY 2017 operating plan identifies priority objectives across each of the CBS operating units that managers will use in developing individual operating unit plans and risk-focused bank supervisory strategies. While the objectives are similar for Large Bank Supervision and Midsize and Community Bank Supervision, CBS managers will differentiate by bank size, complexity, and risk profile when developing supervisory strategies. CBS operating plans include resources and support for risk-focused examinations of technology service providers that provide critical processing and services to banks. The OCC will adjust supervisory strategies as appropriate during the fiscal year in response to emerging risks and supervisory priorities. For FY 2017, the development of supervisory strategies will focus on the following priorities:

- Commercial and retail loan underwriting
- Business model sustainability and viability
- Operational resiliency
- Bank Secrecy Act/Anti-Money Laundering (BSA/AML) compliance management
- Change management processes to address new regulatory requirements

To facilitate an agencywide view of risk on selected topics, the CBS operating units will coordinate and conduct various horizontal risk assessments during the fiscal year. The CBS may direct horizontal risk assessments as appropriate during the supervisory cycle.

The OCC will provide periodic updates about supervisory priorities and horizontal risk assessments through the *Semiannual Risk Perspective* in the spring and fall and with a mid-cycle operating plan status report in the third quarter of the fiscal year. The following provides additional details on the operating plan for priorities for each CBS operating unit and for the NRC, which coordinates supervisory initiatives across CBS operating units.

## National Risk Committee

The NRC serves as a central point of coordination for the agency's existing and emerging supervision and policy issues, including recommended actions to address such issues. The NRC will focus on the following:

- **Supervisory analytics:** Gathering quantitative information across the OCC and the industry to support the identification and prioritization of risks facing the federal banking system.
- **Coordination:** Incorporating frontline perspectives on key supervisory initiatives, rulemakings, and guidance through operating units and risk committees that regularly report to the NRC.
- **Horizontal risk assessment:** Facilitating and reporting on CBS-directed horizontal risk assessments, ensuring that review findings are disseminated and incorporated for consideration in future bank supervision strategies and agency policies.
- **Communication:** Providing timely assessments to the industry and examiners of banking risks and horizontal risk assessments results through the *Semiannual Risk Perspective* and other internal and external issuances.
- **Standardized processes:** Using and refining established documentation standards for assessing supervision risk, including identifying the banks most affected by specific issues under review.
- **Effectiveness measures:** Measuring effectiveness of actions taken in response to issues highlighted by the NRC and recommending adjustments.
- **Collaboration:** Maintaining regular interaction with domestic and international regulators, trade groups, and other interested parties to effectively identify system-wide risks and facilitate consistent regulatory responses. This includes monitoring the economic and political developments in Europe.

## Large Bank Supervision

Large Bank Supervision will develop and execute individually approved FY 2017 supervisory strategies for each large bank, federal branch, or federal agency. Supervisory strategies will focus on key risks, achieving supervisory objectives, and effectively using OCC resources. As appropriate, examiners will consult and coordinate on supervisory strategies with other agencies, primarily the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the U.S. Securities and Exchange Commission, the U.S. Commodity Futures Trading Commission, and the Consumer Financial Protection Bureau (CFPB). Large Bank Supervision will focus on the following:

- **Matters requiring attention and enforcement actions:** Ensuring effective, timely, and consistent application of guidance for matters requiring attention (MRA) and enforcement actions. This includes assessing, verifying, and validating that requirements for MRAs and enforcement actions are met, that concerns are addressed, and that MRAs and enforcement actions are closed or terminated in a timely manner.
- **Operational risk:** Reviewing banks' programs for assessing the evolving cyber threat environment and banks' cyber resilience. Also, assessing information security and data protection, model risk management, and third-party risk management, including risks

associated with third-party relationships.<sup>1</sup> OCC supervisory staff members evaluate bank managements' plans to respond to increasing operational risk resulting from the introduction of new or revised business products, processes, delivery channels, or third-party relationships.

- **BSA/AML:** Assessing effectiveness of bank BSA/AML programs and controls to address evolving money-laundering schemes, the rapid pace of technological change, and overall money laundering and terrorist financing risks. In addition, examiners should be alert to bank BSA/AML strategies that may inadvertently impair financial inclusion and should discuss the potential impact of such strategies with bank management to determine whether alternate approaches could be employed.
- **Compliance:** Developing and executing plans for assessing compliance with new regulatory requirements, including those related to capital, liquidity, trading activities, residential mortgages, and risk retention. OCC supervisory staff will assess a bank's change management processes for implementing new platforms, technologies, and processes required by significant changes to regulatory requirements, which include the integrated mortgage disclosure requirements under the Truth in Lending Act and the Real Estate Settlement Procedures Act and the rules that implement the Military Lending Act, Flood Disaster Protection Act, and Home Mortgage Disclosure Act.
- **Credit underwriting:** Reviewing commercial and retail credit underwriting practices, especially for leveraged loans, auto loans, loans to nondepository financial institutions, and some commercial real estate loan sectors that have experienced higher growth and weakening underwriting standards. Examiners will continue to assess banks' efforts to mitigate risk for home equity lines of credit approaching end-of-draw periods.<sup>2</sup>
- **Stress testing:** As part of credit stress testing, assessing the spillover effect of continued low oil prices and evaluating banks' practices for stress testing affected loans.
- **Allowance for loan and lease losses (ALLL):** Assessing appropriateness of the ALLL, especially the documentation and support for the qualitative factors given the easing in underwriting standards and increased risk layering. In addition, examiners will evaluate banks' efforts to prepare for the implementation of the current expected credit loss standard.
- **Horizontal risk assessments:** Conducting horizontal risk assessments of shared national credits, Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 stress testing, recovery planning, information technology risk management, operational risk management, and compliance risk management. Also, participating in any CBS-directed or NRC-facilitated horizontal risk assessments.

### Midsize and Community Bank Supervision

Midsize and Community Bank Supervision will develop and execute supervisory strategies for each bank. Supervisory strategies will focus on key risks, achieving supervisory objectives, and effectively using OCC resources. As appropriate, examiners will consult and coordinate on supervisory strategies with other agencies, primarily the FRB, the FDIC, and the CFPB. Midsize and Community Bank Supervision will focus on the following:

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<sup>1</sup> [OCC Bulletin 2013-29](#), "Third-Party Relationships: Risk Management Guidance" (October 30, 2013).

<sup>2</sup> [OCC Bulletin 2014-29](#), "Risk Management of Home Equity Lines of Credit Approaching the End-of-Draw Periods: Interagency Guidance" (July 1, 2014).

- **Credit underwriting:** Evaluating underwriting practices on new or renewed loans for easing in structure and terms, increased risk layering, and potential fair lending implications. Reviews will focus on new products, areas of highest growth, or portfolios that represent concentrations, such as commercial and industrial, commercial real estate, and auto loans.
- **Stress testing:** As part of credit stress testing, assessing the spillover effect of continued low oil prices and evaluating the banks' practices for stress testing affected loans.
- **Strategic risk:** Evaluating business models as banks make decisions whether to adopt new strategies, products, and services to meet economic and competitive pressures, including strategies focused on mergers, acquisitions, and partnerships.
- **Operational risk:** Assessing information security, data protection, and third-party risk management, including risks associated with third-party relationships. This includes reviewing banks' programs for assessing the evolving cyber threat environment and banks' cyber resilience. Examiners will continue to use the Cybersecurity Assessment Tool at banks not examined in FY 2016 and follow up on any gaps identified in FY 2016. OCC supervisory staff members will evaluate bank managements' plans to respond to increasing operational risk resulting from the introduction of new or revised business products, processes, delivery channels, or third-party relationships.
- **BSA/AML:** Continuing to ensure that banks have effective BSA/AML programs and controls to address changing customer profiles, evolving money-laundering schemes, the rapid pace of technological change, the implications of risk reevaluation, and the overall risk that money laundering and terrorist financing activities create.
- **Consumer compliance:** Evaluating adequacy of compliance risk management and assessing banks' effectiveness in identifying and responding to compliance risks posed by new products, services, or terms. OCC supervisory staff will assess banks' change management processes for implementing new platforms, technologies, and processes required by significant changes to regulatory requirements, which include the rules that implement the Military Lending Act, Flood Disaster Protection Act, and Home Mortgage Disclosure Act, as well as compliance with the integrated mortgage disclosure requirements under the Truth in Lending Act and the Real Estate Settlement Procedures Act.
- **Interest rate risk:** Evaluating management of interest rate risk, including the ability to accurately identify and quantify interest rate risk in assets and liabilities under varying model scenarios. This includes assessing the potential effect of rising interest rates on deposit stability and increased competitive pressures for retail deposits as a result of banks preparing for implementation of the liquidity coverage ratio requirements.
- **ALLL:** Assessing appropriateness of the ALLL, especially the documentation and support for the qualitative factors given the easing in underwriting standards and increased risk layering. In addition, examiners will evaluate banks' efforts to prepare for the implementation of the current expected credit loss standard.
- **Horizontal risk assessment:** Participating in CBS-directed horizontal risk assessments facilitated by the NRC or Midsize and Community Bank Supervision.

### **Compliance and Community Affairs**

On March 17, 2016, the OCC established a new CBS operating unit, Compliance and Community Affairs. The primary responsibilities for Compliance and Community Affairs include overseeing agency compliance strategies and examination activities for banks through coordination with other CBS operating units. Doing so will ensure that the wide range of compliance issues affecting banks are addressed in a consistent and effective manner. Before this

operating unit was created, the Compliance Policy and BSA Policy sub operating units (now part of Compliance and Community Affairs), provided input for the FY 2017 supervisory strategies with regard to consumer compliance and BSA/AML. Compliance and Community Affairs will contribute to any updates or adjustments to the supervisory strategies during the fiscal year in response to emerging risks and supervisory priorities. Compliance and Community Affairs also will participate in any CBS-directed or NRC-facilitated horizontal risk assessments relating to compliance issues. Beginning with the development of supervisory strategies for FY 2018, Compliance and Community Affairs will develop supervisory strategies for compliance examination activities with input from Large Bank Supervision and Midsize and Community Bank Supervision and will work with those business units to execute those strategies.

Compliance and Community Affairs will also focus on the following during FY 2017:

- **Risk assessment:** Improving the OCC's ability to anticipate and address emerging compliance risks by working with the NRC, other members of the Federal Financial Institutions Examination Council's Task Force on Consumer Compliance and Task Force on Supervision's BSA Working Group, as well as the Bank Secrecy Act Advisory Group, and other related parties, to identify compliance risks and related metrics.
- **Policy guidance:** Working with the NRC and National Compliance Risk Committee to identify new or emerging compliance risks and provide timely policy guidance for OCC-supervised institutions. One focus will be on collaborating with the NRC, CBS, Office of Enterprise Risk Management, Office of Enterprise Governance, Compliance Risk Analysis Division, and Chief Counsel's Office to prioritize the resources necessary to develop and implement new or updated guidance.
- **Technical assistance:** Delivering technical assistance to supplement OCC supervisory activities, including providing timely responses to examiner inquiries, on-site examination support, examiner tools and training, and comparative data that benefit internal and external audiences, as well as offering the Foreign Technical Assistance School to international regulators.
- **Industry outreach:** Conducting outreach sessions with the industry and other appropriate parties to present OCC perspectives on emerging issues, explain new policies and regulations, clarify supervisory expectations, and provide bankers opportunities to discuss their concerns with regulators and peers.
- **Collaboration:** Maintaining regular interaction with domestic and international regulators, trade groups, community groups, and other interested parties to obtain input and provide information regarding OCC compliance-related initiatives.

### **Technology Service Providers**

The Office of the Chief National Bank Examiner works with Midsize and Community Bank Supervision and Large Bank Supervision in coordinating examinations of technology and other critical service providers including multi-regional data processing service providers. The examinations are typically conducted on an interagency basis with the FDIC and FRB. Examinations of the largest service providers focus on the following:

- **Cybersecurity:** Assessing service providers' risk management structures for managing cybersecurity, assessing the level of cyber resilience of the service provider, and completing

the Technology Service Provider Cybersecurity Assessment Tool as part of the examination process.

- **Enterprise risk management:** Assessing the effectiveness of providers' organizational structure and governance within service and product lines, evaluating the strength of audit and risk management functions, and assessing risk measurement and appetite processes.
- **Third-party risk management:** Assessing service providers' risk management and governance structures for the engagement of third parties critical to delivering the services to banks. Assessing contract management processes, monitoring and providing oversight of third-party operations, and assessing controls for third-party connectivity and transport of information.
- **Change management processes:** Assessing the following:
  - Standards and controls for implementing new systems and operations procedures for new products, product updates, or new processes.
  - Standards for testing system changes, promoting changes to production, and reversing corrupted or failed changes.
  - Processes for incorporating new regulatory requirements for client financial institutions.
  - If applicable, processes for integrating acquisitions by the service provider.
- **Product- and service-specific risks:** Identifying products and services, outside of core operations, offered to banks, and identifying specialized products and services for which the service provider manages the risk management and controls. In the latter case, including an assessment in the examination strategy for the service provider, utilizing specialized examination skills.

### Chief National Bank Examiner

The Office of the Chief National Bank Examiner focuses on monitoring risk, developing agency supervisory policy, and supporting examination activities. Initiatives for FY 2017 include the following:

- **Risk assessment:** Improving the OCC's ability to anticipate and address emerging risks by working with the NRC, Financial Stability Oversight Council, Office of Financial Research, FRB, FDIC, and CFPB to identify system-wide risk and related metrics.
- **Policy guidance:** Working with the NRC and its support committees to identify new or emerging risks and provide timely policy guidance. One focus will be on collaborating with the NRC, CBS, Office of Enterprise Risk Management, Economics Department, Chief Counsel's Office, Licensing Division, and Office of Continuing Education to prioritize the resources necessary to develop and implement new or updated guidance.
- **Supervisory analytics:** Enhancing analytical tools for internal clients to measure and monitor bank performance, including benchmarks, performance dashboards, and improved tracking and reporting of MRAs and enforcement actions. Assisting with development, implementation, and ongoing monitoring of metrics for assessing banks' compliance with new regulatory requirements, including those related to capital, liquidity, trading activities, residential mortgages, and risk retention.
- **Technical assistance:** Delivering technical assistance to supplement OCC supervisory activities, including providing timely responses to examiner inquiries, on-site examination support, resource materials, comparative data, and tools that benefit internal and external audiences.
- **Industry outreach:** Conducting outreach sessions with the industry and other appropriate

parties to present OCC perspectives on emerging issues, explain new policies and regulations, clarify supervisory expectations, and provide bankers opportunities to discuss their concerns with regulators and peers.

- **Horizontal risk assessment:** Participating in CBS-directed or NRC-facilitated horizontal risk assessments.