

RESCINDED



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OCC BULLETIN 2014-52

Subject: Matters Requiring Attention
Date: October 30, 2014

To: Chief Executive Officers of All National Banks and Federal Savings Associations, Department and Division Heads, All Examining Personnel, and Other Interested Parties

Description: Updated Guidance

Summary

The Office of the Comptroller of the Currency (OCC) has updated its policy and procedures regarding matters requiring attention (MRA). These updates are reflected in the “Bank Supervision Process,” “Large Bank Supervision,” “Community Bank Supervision,” and “Federal Branches and Agencies Supervision” booklets of the *Comptroller’s Handbook* and internal guidance.

The OCC’s updated MRA guidance addresses recommendations in “An International Review of OCC’s Supervision of Large and Midsize Institutions” (International Peer Review report) and supports the agency’s mission of ensuring a safe and sound federal banking system by emphasizing timely detection and correction of deficient bank practices before they affect the bank’s condition. The updated guidance also makes consistent across the agency MRA terminology, format, follow-up, analysis, and reporting.

Note for Community Banks

The principles contained in the MRA guidance are applied to examinations of all national banks, federal savings associations, and federal branches and agencies.

Highlights

As detailed in the updated guidance, MRAs

- focus on deficient bank practices that are referred to as supervisory “concerns.”
- are the means by which supervisory concerns are communicated in writing to bank boards and management teams.
- communicate one or more concerns using the “Five Cs” format:
 - **Concern**
 - **Cause**
 - **Consequence**
 - **Corrective Action**
 - **Commitment**
- must receive timely and effective corrective action by bank management and follow-up by examiners.

Background

The International Peer Review report includes recommendations to:

- undertake an analysis of the effectiveness of the MRA process, and

- consider developing controls to better manage the MRA follow-up process to promote more timely and consistent resolution of identified deficiencies by the institutions.

The OCC's analysis of its MRA process sets the following goals:

- Enhance standard MRA communication, tracking, and resolution processes.
- Ensure the OCC overall and all lines of business individually analyze volume and trends in MRAs to determine whether risks are changing.
- Use consistent terms and monitoring within and across lines of business.

To ensure consistent reporting, the OCC focuses on the "concerns" within the MRA, tracking them through their duration. When concerns are included in formal written communication to the bank, the Five Cs format is used.

- **Concern** describes the deficient bank practice and how it deviates from sound governance, internal control, or risk management principles, or results in substantive noncompliance with laws and regulations, enforcement actions, supervisory guidance, or conditions imposed in writing. Unsafe or unsound practices are specifically identified in the concern.
- **Cause** notes the root cause of the concern when it is evident. The board may be required as part of the corrective action to determine the root cause in situations when the root cause is not immediately evident.
- **Consequence** explains how continuation of the practice could affect the bank's condition, including its financial performance or risk profile. Inaction could lead to violations of law in certain instances or additional supervisory actions, including enforcement actions or civil money penalties for the bank, the bank's board of directors, or management.
- **Corrective Action** includes what the board and management must do to address the concern and eliminate the cause. The board and management must ensure that the corrective action is timely, measurable, and sustainable.
- **Commitment** relates to the bank's action plan, including specific information regarding milestones, completion date, and staff who are accountable for implementation. If management is unable to provide an action plan during the examination, it must submit to the OCC a board-approved plan within 30 days of receipt of the formal written communication.

A concern is either "open" or "closed." A concern is **Closed** if the bank implements and the OCC verifies and validates the effectiveness and sustainability of the corrective action, or if the bank's practices are no longer a concern because of a change in the bank's circumstances. In formal written communication, the bank's board may receive a brief listing of closed concerns.

Within the meaning of "open," a concern may be categorized several ways in formal written communication to the board and management and for reporting purposes:

- **New:** The concern was not identified previously.
- **Repeat:** The same or a substantially similar concern has recurred. To be a repeat concern
 - the OCC must have previously communicated the concern in an MRA or enforcement action during the prior five-year period, and
 - subsequent to the initial communication, the bank must have corrected the deficient practice, and the OCC must have validated and closed the concern.
- **Self-identified:** A significant unresolved concern that the bank initially discovered. A bank's action to self-identify concerns is an important consideration when the OCC assesses the adequacy of the bank's risk management system.
- **Past due:** The corrective action was not implemented within the expected time frame, or during the validation process examiners determine that the corrective action is not effective or sustainable. There may be valid reasons that support failure to meet deadlines. Bankers should communicate these reasons to their supervisory offices or examiners-in-charge promptly, in order to determine a reasonable, modified remediation date.
- **Pending validation:** The OCC verified that the bank implemented the corrective action, but insufficient time has passed for the bank to demonstrate sustained performance under the corrective action, and the OCC has not validated the sustainability of the corrective action.

- **Escalated:** Subsequent to its communication to the bank in an MRA, the OCC addressed the uncorrected concern in an enforcement action. The concern may be past due, or milestones have not been met by management, or inadequate attention given to correcting the deficiency may represent an unsafe or unsound practice.

The OCC expects the bank's board of directors to ensure timely and effective correction of the practices described in an MRA. Those expectations include

- holding management accountable for the deficient practices;
- directing management to develop and implement corrective actions;
- approving the necessary changes to the bank's policies, processes, procedures, and controls; and
- establishing processes to monitor progress and verify and validate the effectiveness of management's corrective actions.

The updated guidance also reinforces the need for timely and effective communication with bank management and boards, including open dialogue. Examiners

- provide management with draft concerns to ensure factual accuracy.
- follow up on concerns quarterly, subject to appropriate adjustments based on the corrective action.
- respond to bank correspondence within 30 days of receipt.
- provide informal recommendations to bank boards and management apart from the MRA process.

Further Information

All banks should contact their OCC supervisory offices or Large Bank examiners-in-charge with any questions.

Jennifer C. Kelly
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Related Links

- ["Bank Supervision Process" \(PDF\)](#)
- ["Large Bank Supervision" \(PDF\)](#)
- ["Community Bank Supervision" \(PDF\)](#)
- ["Federal Branches and Agencies Supervision" \(PDF\)](#)
- ["An International Review of OCC's Supervision of Large and Midsize Institutions" \(PDF\)](#)