Comptroller's Handbook

Examination Process

Large Bank Supervision

Version 1.0, June 2018

Version 1.1, September 2019

Office of the
Comptroller of the Currency

Contents

Introduction

Background

The Office of the Comptroller of the Currency's (OCC) *Comptroller's Handbook* booklet, "Large Bank Supervision," is prepared for use by OCC examiners in connection with their examination and supervision of midsize and large national banks and federal savings associations (FSA) as well as foreign-owned U.S. branches and agencies (collectively, banks). This booklet is also used to supervise international operations of both midsize and large banks. When it is necessary to distinguish between them, national banks and federal savings associations are referred to separately.

Examiners should use this booklet in their supervision of banks in the OCC's midsize, large, or international banking supervision programs. The "Bank Supervision Process" booklet of the *Comptroller's Handbook* explains the factors considered when the OCC designates banks as community, midsize, or large. Each bank is different and may present specific issues. Accordingly, examiners should apply the information in this booklet consistent with each bank's individual circumstances. (Updated in version 1.1)

The "Large Bank Supervision" booklet summarizes and expands on the information in the "Bank Supervision Process" booklet and should be used in conjunction with that and other booklets of the *Comptroller's Handbook*, as well as the *FFIEC Information Technology (IT) Examination Handbook* and the *FFIEC Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Manual.*[1] Examiners should use this booklet in conjunction with the "Federal Branches and Agencies Supervision" booklet of the *Comptroller's Handbook* when examining and supervising a federal branch or agency of a foreign banking organization. When reviewing the international operations of banks, examiners should also be guided by the Basel Committee on Banking Supervision's "Core Principles for Effective Banking Supervision."[2]

Related "Bank Supervision Process" Booklet Sections

Related sections of the "Bank Supervision Process" booklet of the *Comptroller's Handbook* are noted in boxes like this one throughout this booklet. Examiners should refer to these sections and use them in conjunction with the content in the "Large Bank Supervision" booklet. If all of the content of a section of this booklet mirrors the content in the "Bank Supervision Process" booklet, this box is not used.

[1] FFIEC is the Federal Financial Institutions Examination Council.

[2] The Basel Committee on Banking Supervision is a committee of banking supervisory authorities established by the central bank governors of the Group of Ten countries in 1975. The committee issued the "Core Principles for Effective Banking Supervision" in September 1997 and updated it in October 2006 and September 2012. The 29 principles establish minimum standards for supervisory authorities and are designed to promote more consistent and effective bank supervision in all countries.

The OCC's midsize and large bank supervision objectives are designed to

- determine the bank's condition and its risks associated with current and planned activities, including relevant risks originating in subsidiaries and affiliates.
- evaluate the overall integrity and effectiveness of the bank's risk management systems, using periodic validation. Validation is accomplished through a combination of observation, inquiry, and testing.
- assess the bank's compliance with laws and regulations.
- communicate examination conclusions and deficiencies to bank management and directors in a clear and timely manner, and obtain commitments to correct deficiencies.
- verify and validate the effectiveness of corrective actions or, if actions have not been undertaken or accomplished, pursue timely resolution through supervisory or enforcement actions.

Bank Supervision Roles and Responsibilities

Related "Bank Supervision Process" Booklet Section

- "Bank Supervision Organizational Structure, Roles, and Responsibilities"

Because of the vast—and in some cases global—operating scope of large banks, the OCC assigns examiners to work full time at the largest and most complex banks. This enables the OCC to maintain an ongoing program of risk assessment, monitoring, and communications with bank management and directors. An examiner-in-charge (EIC) is assigned full time to each midsize and large bank to provide day-to-day supervision with the help of teams of examiners. The OCC rotates EICs of midsize and large banks periodically to promote objectivity, cross training, and growth in expertise among examiners. In addition to performing their own analyses, the OCC's large bank examiners leverage the work of other OCC experts, other regulatory agencies, and outside auditors and analysts to supervise the bank.

Bank Affiliates and Related Organizations

Related "Bank Supervision Process" Booklet Sections

- "Introduction"
  > "Types of Banks"
  > "Bank Affiliates and Related Organizations"
- Appendix A, "Functional Regulation"

Many banks are part of diversified financial organizations with multiple entities. The term "related organizations" refers to various types of entities related to a bank, typically by common ownership or control. Generally, related organizations are affiliates or subsidiaries.[3]

To differentiate among types of affiliates, the OCC uses the terms "**lead OCC-supervised bank**," "**significant OCC-supervised affiliate**," and "**smaller OCC-supervised affiliate**." A "lead OCC-supervised bank" is the OCC-supervised affiliate with the most assets, unless the company designates another bank as "lead." A "significant OCC-supervised affiliate" is an OCC-supervised bank affiliate that has assets of $1 billion or more. A "smaller OCC-supervised affiliate" is an OCC-supervised bank affiliate that has assets of less than $1 billion.

A **functionally regulated affiliate (FRA)** is a bank affiliate (including a bank operating subsidiary) whose primary regulator is the U.S. Securities and Exchange Commission (SEC), a state insurance commissioner, or the U.S. Commodity Futures Trading Commission (CFTC). FRAs include

- SEC-registered securities broker-dealers.
- SEC or state-registered investment advisers.
- SEC-registered investment companies (e.g., mutual funds).
- state-supervised insurance companies and agencies.
- CFTC-registered or regulated entities (e.g., futures commission merchants, commodity pools, commodity pool operators, or commodities trading advisors).

As the primary regulator of federally chartered banks, the OCC has the responsibility for evaluating the overall or consolidated risk profile of all OCC-supervised banks within a company. This consolidated risk profile is developed by combining the assessment of risks at each affiliated OCC-supervised bank, including an assessment of the material risks posed to the OCC-supervised banks by the banks' or any FRA's functionally regulated activities, as appropriate.

Coordination With Other Regulators

Related "Bank Supervision Process" Booklet Sections

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Planning" > "Coordination With Other Regulators"
- Appendix A, "Functional Regulation"

As the size and complexity of a bank's operations increase, so too does the need for close coordination among relevant regulators. For banks with international operations or banks owned by foreign banking organizations, this includes coordination with foreign supervisors,

[3] For more information, refer to the "Related Organizations" booklet of the *Comptroller's Handbook* (national banks), Office of Thrift Supervision (OTS) Examination Handbook section 380, "Transactions with Affiliates and Insiders" (FSAs), and OTS Examination Handbook section 730, "Related Organizations" (FSAs).

as appropriate. The OCC shares supervision with other regulators on issues related to the following:

- **Shared national credits:** The interagency Shared National Credit Program is designed to provide a review and credit quality assessment of many of the largest and most complex bank credits. For more information, refer to OCC Bulletin 1998-21, "Shared National Credit Program: SNC Program Description and Guidelines."
- **Interagency Country Exposure Review Committee decisions:** The OCC, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation established this committee to ensure consistent treatment of the transfer risk associated with banks' foreign exposures to public and private sector entities. For more information, examiners should refer to the "Guide to the Interagency Country Exposure Review Committee Process" transmitted by OCC Bulletin 2009-8, "Country Risk: Changes to the Interagency Country Exposure Review Committee Process."
- **Consumer protection laws and regulations:** Section 1025 of the Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd–Frank) (12 USC 5515) granted the Consumer Financial Protection Bureau (CFPB) exclusive authority to examine insured depository institutions with more than $10 billion in total assets and their affiliates for compliance with enumerated federal consumer financial laws.[4] The prudential regulators retained authority for examining insured depository institutions with more than $10 billion in total assets for compliance with certain other laws related to consumer financial protection, including the Fair Housing Act, the Servicemembers Civil Relief Act, and section 5 of the Federal Trade Commission Act. (Updated in version 1.1)

When planning supervisory activities, examiners must follow existing written information-sharing agreements, delegation orders, interagency agreements, OCC policies, and laws and regulations governing cooperation and information sharing with other regulators. (Updated in version 1.1)

Regulatory Ratings

Related "Bank Supervision Process" Booklet Sections

- "Examination Authority and Full-Scope, On-Site Examination Requirement" > "Regulatory Ratings"
- "Uniform Financial Institutions Rating System (Commonly Known as CAMELS)"
- "Uniform Rating System for Information Technology"
- "Uniform Interagency Trust Rating System"
- "Uniform Interagency Consumer Compliance Rating System"
- "Community Reinvestment Act Rating System"
- "ROCA Rating System"

The OCC uses the uniform interagency rating systems adopted by the FFIEC to assign bank ratings. The CAMELS or ROCA composite and component ratings, and applicable specialty area ratings, are formally communicated to the bank's board of directors (board) and bank

[4] Refer to 12 USC 5481 for the definition of "enumerated consumer laws."

management through the report of examination (ROE) or other formal written communication (e.g., a supervisory letter). The contents of the OCC's formal written communications, including regulatory ratings, are confidential, except for the bank's Community Reinvestment Act (CRA) performance evaluation.[5] The CAMELS or ROCA rating system and the OCC's risk assessment system (RAS) are used together during the supervisory process to document the bank's condition and resilience.

A national bank (except federal branches or agencies) or FSA's composite rating under the Uniform Financial Institutions Rating System (UFIRS), or CAMELS, integrates ratings from six component areas: capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk. Component ratings are assigned for the specialty areas of IT, trust, consumer compliance, and CRA (ITCC). ROCA is the interagency uniform supervisory rating system for federal branches and agencies. ROCA integrates ratings from four component areas: risk management, operational controls, compliance, and asset quality. These components represent the major activities or processes of a branch or agency that may raise supervisory concern.

Composite and component ratings range from 1 to 5, except for the CRA rating, which is descriptive rather than numerical. A 1 rating is the highest and represents the least supervisory concern, indicating the strongest performance and risk management practices relative to the bank's size, complexity, and risk profile. A 5 rating is the lowest and represents the greatest supervisory concern, indicating the most critically deficient level of performance and risk management practices relative to the bank's size, complexity, and risk profile.

Full-Scope Examination Requirement and Types of Supervisory Activities

Related "Bank Supervision Process" Booklet Sections

- "Examination Authority and Full-Scope, On-Site Examination Requirement"

Banks must receive a full-scope, on-site examination every 12 or 18 months.[6] The examination frequency is known as the supervisory cycle. A full-scope, on-site examination must consist of examination activities performed during the supervisory cycle that

[5] For more information, refer to the "Disclosure of Ratings" section of the "Bank Supervision Process" booklet.

[6] 12 USC 1820(d) requires the OCC to conduct a full-scope, on-site examination of each insured depository institution every 12 or 18 months. The OCC applies this statutory examination requirement to all types of banks (federal branches and agencies excepted), regardless of Federal Deposit Insurance Corporation-insured status (refer to 12 CFR 4.6). The frequency of on-site examinations for federal branches and agencies is prescribed by 12 USC 3105(c) and 12 CFR 4.7. (Footnote updated in version 1.1)

- satisfy the core assessment[7] and are sufficient in scope to assign the bank's regulatory ratings,[8] except CRA ratings.[9]
- result in conclusions about the bank's risk profile.
- review the bank's BSA compliance program.
- assess the bank's compliance with the national flood insurance program, if the bank is an insured depository institution.[10]
- include on-site supervisory activities.[11]
- conclude with the issuance of an ROE.[12]

For midsize and large banks, the OCC fulfills the full-scope, on-site examination requirement by aggregating the supervisory activities conducted during the bank's supervisory cycle. Supervisory activities are the various examination and supervision activities that are conducted throughout the bank's supervisory cycle. Supervisory activities for midsize and large banks generally fall within two categories—ongoing supervision and target examinations.

- **Ongoing supervision** is the OCC's process for assessing risks and reviewing core knowledge about the bank on an ongoing basis. Ongoing supervision conclusions can result in changes to the OCC's supervisory strategy, regulatory ratings, or RAS conclusions for the bank. Monitoring is a type of quarterly ongoing supervision. For more information, refer to the "Monitoring" section of this booklet.
- **Target examinations** may focus on one particular product (e.g., credit cards), function (e.g., audit), or risk (e.g., operational risk) or may cover specialty areas (e.g., municipal securities dealers). Conclusions from target examinations are generally communicated to the bank in supervisory letters. Target examinations are often conducted as integrated risk reviews by business or product line. Because a product may have implications for several risk categories, target examinations generally focus on risk controls and processes for each applicable risk category. For example, a target examination of credit card lending activities focuses on credit risk; operational risk from credit card fraud, processing errors, or service interruptions; interest rate risk from low introductory rates; compliance risk from disclosure problems; and reputation risk from predatory lending practices or

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[7] Refer to the "Core Assessment" sections of this booklet and the "Core Examination Overview and Procedures for Assessing the BSA/AML Compliance Program" section of the *FFIEC BSA/AML Examination Manual.*

[8] "Regulatory ratings" refers to a bank's composite and component CAMELS or ROCA ratings (as applicable) and specialty area ratings for IT, trust, and consumer compliance. Refer to the "Regulatory Ratings" section of this booklet.

[9] CRA evaluations for banks with assets in excess of $250 million generally are conducted within 36 to 48 months from the start of the prior CRA examination, depending on the bank's risk characteristics. For more information, refer to the "Community Reinvestment Act" section of the "Bank Supervision Process" booklet.

[10] Refer to 12 USC 1820(i) and the "National Flood Insurance Program" section of the "Bank Supervision Process" booklet.

[11] The extent of on-site examination work is flexible.

[12] Refer to the "Report of Examination" section of the "Bank Supervision Process" booklet.

inadequate controls for the confidentiality and privacy of consumer information. Findings from these target examinations provide input for the core assessment and quarterly RAS updates.

Risk-Based Supervision Approach

Related "Bank Supervision Process" Booklet Sections

- "Introduction" > "Bank Affiliates and Related Organizations"
- "Examination Authority and Full-Scope, On-Site Examination Requirement"
- "Risk-Based Supervision Approach"
- Appendix A, "Functional Regulation"

From a supervisory perspective, risk is the potential that events will have an adverse effect on the bank's current or projected financial condition[13] and resilience.[14] In carrying out its mission, the OCC employs an ongoing risk-based supervision approach focused on evaluating risk, identifying material and emerging concerns, and requiring banks to take timely corrective action before deficiencies compromise their safety and soundness. Examiners evaluate risk using the RAS and tailor supervisory activities to the risks identified.

The OCC recognizes that banking is a business of assuming risks to earn profits. While banking risks historically have been concentrated in traditional banking activities, the financial services industry has evolved in response to market-driven, technological, and legislative changes. These changes have allowed banks to expand product offerings, geographic diversity, and delivery systems, but have also increased the complexity of the bank's consolidated risk exposure.

Midsize and large banks assume varied risks that may be complex. The foundation of midsize and large bank supervision is a risk assessment framework designed to determine whether banks effectively assess risks throughout their entire enterprise, regardless of size, diversity of operations, or existence of subsidiaries and affiliates. Under the risk-based supervision approach, examiners focus on whether banks identify and effectively manage the risks they assume. As an organization grows more diverse and complex, its risk management processes should keep pace. When risk is not properly managed, the OCC directs bank management to take corrective action. In all cases, the OCC's primary concern is that the bank operates in a safe and sound manner and maintains capital commensurate with its risk.

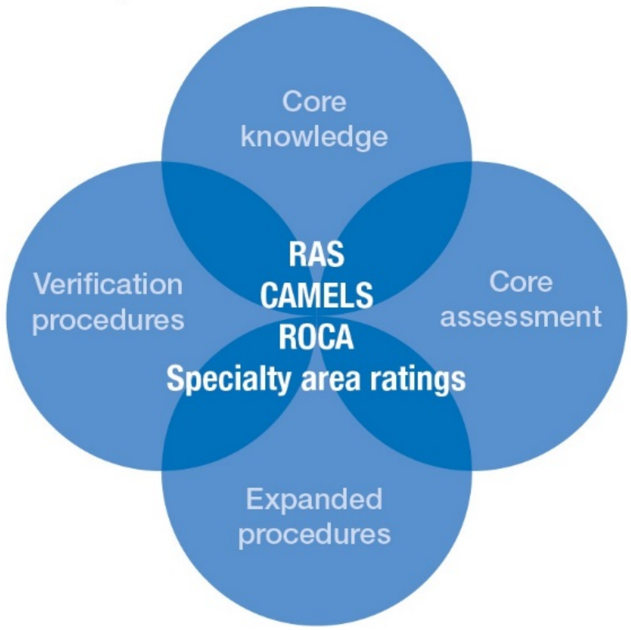
To fully implement the risk-based supervision approach, examiners assess the risk profiles and assign regulatory ratings to the lead OCC-supervised bank and its affiliated OCC-supervised banks. Examiners may determine that risks in individual OCC-supervised banks are increased, reduced, or mitigated in light of the consolidated risk profile of the company as a whole. To perform a consolidated analysis, examiners should obtain pertinent information from banks and affiliates (refer to the "Functional Regulation" section of the "Bank Supervision Process" booklet), assess risk to the OCC-supervised banks resulting from activities conducted by the bank's affiliates, and obtain information from other regulatory agencies, as necessary.

[13] Financial condition includes impacts from diminished capital and liquidity. Capital in this context includes potential impacts from losses, reduced earnings, and market value of equity.

[14] Resilience recognizes the bank's ability to withstand periods of stress.

Figure 1 illustrates the OCC's risk-based supervision approach. The sections that follow explain the relationship between each of the concepts illustrated in figure 1. Later in this booklet, the "Supervisory Process" section explains how each of these components is incorporated into the OCC's supervisory process.

Figure 1: Risk-Based Supervision Components



Core Knowledge

Core knowledge is information in the OCC's supervisory information systems about the bank, its culture, risk profile, and other internal and external factors. This information enables examiners to communicate critical data to each other with greater consistency and efficiency.

Core Assessment

Related "Bank Supervision Process" Booklet Section
• "Risk-Based Supervision Approach" > "Core Assessment"

Core assessment establishes the minimum conclusions examiners must reach to assess risks and assign regulatory ratings. Examiners must reach these conclusions during the course of each supervisory cycle as part of meeting the requirements of the required full-scope, on-site examination. Examiners complete one core assessment for all OCC-supervised banks within a company during every supervisory cycle, but the core assessment (or portions thereof) may be performed more often when the EIC or supervisory office deems appropriate. Regulatory ratings must be assigned at least annually for each OCC-supervised bank in the company.

The core assessment's standards are sufficiently flexible to be applied to all companies; examiners can use the standards to assess risks for all product lines and legal entities. The structure of the core assessment facilitates the analysis of risk in merging companies because examiners use a common language and the same standards to assess risks.

Examiners should use judgment in deciding how to perform their assessments using the core assessment, including the level of transaction testing needed. Examiners should be alert to specific activities or risks that may trigger the need to expand the scope of the supervisory activity, which can include expanded procedures from other *Comptroller's Handbook* booklets. A decision to modify an activity's scope should be documented in the appropriate OCC supervisory information system.

Expanded and Verification Procedures

Related "Bank Supervision Process" Booklet Sections

- "Risk-Based Supervision Approach"
  > "Expanded Procedures"
  > "Verification Procedures"

Expanded procedures contain detailed guidance for examining specialized activities or products that warrant extra review beyond the core assessment. These procedures are found in other booklets of the *Comptroller's Handbook*, the *FFIEC BSA/AML Examination Manual*, and the *FFIEC IT Examination Handbook*, or are conveyed separately in an OCC bulletin. Examiners determine which expanded procedures to use, if any, during examination planning or after drawing preliminary conclusions during the core assessment.

Verification procedures are designed to guide verification of the existence or proper recordation of assets or liabilities, or to test the reliability of financial records. These procedures can be found in most booklets in the *Safety and Soundness* and *Asset Management* series of the *Comptroller's Handbook*. Refer to the "Bank Supervision Process" booklet for information regarding use of verification procedures. (Updated in version 1.1)

Risk Assessment System

Related "Bank Supervision Process" Booklet Section

- "Risk Assessment System"

By completing the core assessment and, as necessary, expanded or verification procedures, examiners assess the bank's risk exposure for the following eight categories of risk using the RAS: credit, interest rate, liquidity, price, operational, compliance, strategic, and reputation.[15] These categories are not mutually exclusive. Risks also may be interdependent and may be positively or negatively correlated.

[15] Refer to the "Risk Assessment System" section of this booklet for definitions of each category of risk.

As the primary regulator of federally chartered banks, the OCC has the responsibility for evaluating the overall or consolidated risk profile of such banks. The consolidated risk profile is developed by combining the assessment of risks at each affiliated federally chartered bank, including an assessment of the material risks posed to the banks by the banks' or any FRA's functionally regulated activities, as appropriate. The relative importance of each risk, both for an individual bank and for the federally chartered banks in aggregate, should influence the development of the supervisory strategy, the assignment of resources, and the bank's regulatory ratings.

For each of the eight categories of risk, examiners draw conclusions regarding the quantity of risk, quality of risk management, aggregate risk, and direction of risk:

- **Quantity of risk** is the level or volume of risk that the bank faces and is characterized as low, moderate, or high.
- **Quality of risk management** is how well risks are identified, measured, controlled, and monitored and is characterized as strong, satisfactory, insufficient, or weak.
- **Aggregate risk** is a summary conclusion about the level of supervisory concern. Aggregate risk incorporates assessments about the quantity of risk and the quality of risk management. (Examiners weigh the relative importance of each.) Examiners characterize aggregate risk as low, moderate, or high.
- **Direction of risk** is a prospective assessment of the probable movement in aggregate risk over the next 12 months and is characterized as decreasing, stable, or increasing. The direction of risk often influences the supervisory strategy, including how much validation is needed. If risk is decreasing, the examiner expects, based on current information, aggregate risk to decline over the next 12 months. If risk is stable, the examiner expects aggregate risk to remain unchanged. If risk is increasing, the examiner expects aggregate risk to be higher in 12 months.

The presence of risk is not necessarily reason for concern. Examiners determine whether the risks the bank assumes are warranted by assessing whether the risks are effectively managed in a manner consistent with safe and sound banking practices. Generally, a risk is effectively managed when it is identified, measured, monitored, controlled, and reported. Senior bank management should report to the board on the bank's overall risk profile, including aggregate and emerging risks. The bank should have the capacity to readily withstand the financial distress that a risk, in isolation or in combination with other risks, could cause.

If examiners determine that a risk is unwarranted (e.g., not effectively managed or supported by adequate capital), they must communicate to bank management and the board the need to mitigate or eliminate the unwarranted risk. Appropriate actions may include reducing exposures, increasing capital, or strengthening risk management practices.

Examiners should discuss RAS conclusions (preliminary and final) with bank management and the board during each supervisory cycle. Following preliminary discussions, examiners should adjust conclusions when appropriate. Once the risks have been clearly identified and communicated, the OCC can then focus its supervision on the areas of greater risk within the bank, the consolidated banking company, and the banking system. If a change to the RAS occurs that warrants altering the bank's supervisory strategy or requires corrective action by bank management, examiners should formally communicate the rationale for the change to bank management or the board and obtain commitments for any required corrective actions. These communications help the bank and the OCC reach a common understanding of the bank's risks, focus on the strengths and weaknesses of risk management, and achieve supervisory objectives.

Risk Management

Because market conditions and company structures vary, no single risk management system works for all banks or companies. The sophistication of risk management systems should be proportionate to the risks present and the bank's size and complexity. As an organization grows more diverse and complex, the sophistication of its risk management should keep pace.

Risk management systems of large banks must be sufficiently comprehensive to enable senior bank management to identify and effectively manage the risk throughout the company. Banks of $50 billion or more in average total consolidated assets (covered banks) are subject to heightened standards as detailed in 12 CFR 30, appendix D. Under these standards, the OCC expects covered banks to establish and adhere to a written risk governance framework to manage and control their risk-taking activities. Minimum standards are also provided for a bank's board to follow in overseeing the risk governance framework.

Sound risk management systems have several things in common; for example, they are independent of risk-taking activities. Regardless of the risk management system's design, each system should do the following:

Identify risk: To properly identify risks, the board and management should recognize and understand existing risks and risks that may arise from new business initiatives, including risks that originate in nonbank subsidiaries, affiliates, and third-party relationships, and those that arise from external market forces or regulatory or statutory changes. Risk identification should be a continual process and should occur at the transaction, portfolio, and enterprise levels. For larger, more complex banks, the board and management also should identify interdependencies and correlations across portfolios and lines of business that may amplify risk exposures. Proper risk identification is critical for banks undergoing mergers and consolidations to ensure that risks are appropriately addressed. Risk identification in merging companies begins with establishing uniform definitions of risk; a common language helps to ensure the merger's success.

Measure risk: Accurate and timely measurement of risks is essential to effective risk management systems. A bank that does not have a risk measurement system has limited ability to control or monitor risk levels. Further, the bank needs more sophisticated measurement tools as the complexity of the risk increases. Management should periodically conduct tests to ensure that the bank's measurement tools are accurate. Sound risk measurement systems assess the risks at the individual transaction, portfolio, and enterprise levels. During bank mergers and consolidations, the effectiveness of risk measurement tools is often impaired because of the incompatibility of the merging systems or other problems of integration. Consequently, the resulting company should make a concerted effort to ensure that risks are appropriately measured across the merged entity. Larger, more complex companies should assess the effect of increased transaction volumes across all risk categories.

Monitor risk: Management should monitor risk levels to ensure timely review of risk positions and exceptions. Monitoring reports should be timely and accurate and should be distributed to appropriate individuals including the board to ensure action, when needed. For larger, more complex banks, monitoring is vital to ensure that management's decisions are implemented for all geographies, products and services, and legal entities. Well-designed monitoring systems allow the board to hold management accountable for operating within established risk appetites.

Control risk: The board and management should establish and communicate risk limits through policies, standards, and procedures that define responsibility and authority. These limits should serve as a means to control exposures to the various risks associated with the bank's activities. The limits should be tools that management can adjust when conditions or risk appetites change. Management also should have a process to authorize and document exceptions to risk limits when warranted. In banks merging or consolidating, the transition should be tightly controlled; business plans, lines of authority, and accountability should be clear. Large, diversified banks should have strong risk controls covering all geographies, products and services, and legal entities to prevent undue concentrations of risk.

Refer to the "Corporate and Risk Governance" booklet of the *Comptroller's Handbook* for more information regarding risk management.

Risk Management Assessment Factors

Examinations of midsize and large banks focus on the overall integrity and effectiveness of risk management systems. Periodic validation, a vital component of examinations, verifies the integrity of these risk management systems. When examiners assess risk management systems, they consider the bank's policies, processes, personnel, and control systems. If any of these areas is deficient, the bank's risk management is typically also deficient.

- **Policies** are statements of actions adopted by the bank to pursue certain objectives. Policies guide decisions and often set standards (on risk limits, for example) and should be consistent with the bank's underlying mission, risk appetite, and core values. Policies should be reviewed periodically for effectiveness and approved by the board or designated board committee.
- **Processes** are the procedures, programs, and practices that impose order on the bank's pursuit of its objectives. Processes define how activities are carried out and help manage risk. Effective processes are consistent with the underlying policies and are governed by appropriate checks and balances (such as internal controls).
- **Personnel** are the bank staff and managers who execute or oversee processes. Bank personnel should be qualified and competent, have clearly defined roles and

responsibilities, and be held accountable for their actions. Personnel should understand the bank's mission, risk appetite, core values, policies, and processes. Banks' compensation programs should be designed to attract and retain personnel, align with strategy, and appropriately balance risk-taking and reward.[16]

- **Control systems** are the functions (such as internal and external audits and quality assurance) and information systems that bank management uses to measure performance, make decisions about risk, and assess the effectiveness of processes and personnel. Control functions should have clear reporting lines, sufficient resources, and appropriate access and authority. Management information systems (MIS) should provide timely, accurate, and relevant feedback.

Measuring and Assessing Risk

Using the OCC's core assessment standards as a guide, examiners obtain both a current and prospective view of the bank's risk profile and determine the bank's overall condition. When appropriate, this risk profile incorporates the potential material risks to the bank from functionally regulated activities conducted by the bank or the bank's FRAs.[17] Completing the core assessment provides the conclusions to complete the RAS. Together, the core assessment and the RAS enable the OCC to measure and assess existing and emerging risks, regardless of the bank's size or complexity.

Additionally, the RAS drives supervisory strategies and activities, and it helps examiners determine when to require action by bank management to address deficiencies before those deficiencies compromise the bank's safety and soundness. The RAS also facilitates discussions with bank management and the board about the bank's risks.

Internal Controls and Audit

Examiners evaluate and validate the two fundamental components of any bank's risk management system—internal controls and audit—as part of the core assessment. An accurate evaluation of internal controls and audit is critical to the proper supervision of the bank. Examiners communicate to the bank their overall assessments (strong, satisfactory, insufficient, or weak) of the system of internal controls and the audit program, along with any significant concerns or weaknesses, in the ROE. Based on these assessments, examiners determine the amount of reliance they can place on internal controls and audit for areas under examination. Effective internal controls and audit help to leverage OCC resources and establish the scope of current and planned supervisory activities. (Updated in version 1.1)

[16] Refer to OCC Bulletin 2010-24, "Incentive Compensation: Interagency Guidance on Sound Incentive Compensation Policies," for information regarding incentive compensation policies and practices.

[17] Refer to the "Functional Regulation" section of the "Bank Supervision Process" booklet.

Internal Controls

(Section updated in version 1.1)

An effective system of internal controls is the backbone of the bank's risk management system. As required by 12 CFR 363, bank management must assess the effectiveness of the bank's internal control structure annually and the external auditors must attest to bank management's assertions.[18] Examiners should obtain an understanding of how the auditors reached their conclusions for their attestation of bank management's assertions.

The core assessment includes factors for assessing the bank's control environment during each supervisory cycle. The factors are consistent with industry-accepted criteria[19] for establishing and evaluating the effectiveness of internal controls. When examiners need to use expanded procedures, they should refer to the "Internal Control" booklet of the *Comptroller's Handbook* (national banks), OTS Examination Handbook section 340, "Internal Control" (FSAs), other appropriate booklets of the *Comptroller's Handbook*, the *FFIEC IT Examination Handbook*, and the *FFIEC BSA/AML Examination Manual*. These resources provide more information on the types of internal controls commonly used in specific banking functions.

Audit

> **Related "Bank Supervision Process" Booklet Section**
>
> - "Examination Authority and Full-Scope, On-Site Examination Requirement" > "Assessment of Audit Functions"

Assessment of the bank's audit functions (internal and external) is fundamental to the OCC's overall supervisory process and forms the basis for the OCC's assessments of internal controls. Effective bank audit functions may help establish the scopes of current supervisory activities and contribute to strategies for future supervisory activities. (Updated in version 1.1)

The EIC should tailor the audit review to fit examination objectives. When doing so, he or she should consider the bank's size, complexity, scope of activities, and risk profile. Examiners responsible for audit reviews, through coordination with functional and specialty area examiners, should determine how much reliance the OCC can place on audit work. OCC examiners assess the bank's overall audit function during each supervisory cycle by

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[18] Banks that are subject to 12 CFR 363 or that file periodic reports under 12 CFR 11 and 12 CFR 16.20 may be subject to the provisions of the Sarbanes–Oxley Act. For more information, refer to the "Internal and External Audits" booklet of the *Comptroller's Handbook.*

[19] The Committee of Sponsoring Organizations of the Treadway Commission's 1992 report "Internal Control–Integrated Framework" discusses control system structures and components. The committee is a voluntary private-sector organization, formed in 1985, dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. The committee was jointly sponsored by the American Accounting Association, the American Institute of Certified Public Accountants, the Financial Executives Institute, the Institute of Internal Auditors, and the National Association of Accountants.

- drawing a conclusion about the adequacy and effectiveness of the overall audit program and the board's oversight of the audit program.
- assigning a rating to the overall audit program (strong, satisfactory, insufficient, weak).

Midsize and large bank examiners should begin with the minimum audit standards from the "Core Assessment" section of this booklet and tailor their review of audit to fit their objectives and needs. Examiners should take into consideration audit assessments in other target examinations, along with ongoing supervision activities, when completing the audit core assessment. As part of the audit reviews, examiners may need to perform expanded procedures from the "Internal and External Audits" booklet to assess the audit function.

The review of internal audit work papers, including those from outsourced internal audit, may not be waived during any supervisory cycle. The EIC has flexibility, however, in limiting the scope of the work paper reviews (i.e., the number of internal audit programs or work papers reviewed) based on his or her familiarity with the bank's audit function and findings from the previous review of internal audit. Examiners typically do not review external audit work papers[20] unless the review of the internal audit function discloses significant issues (e.g., insufficient audit coverage) or questions are raised about matters normally within the scope of an external audit program.

Examiners may identify significant audit or control discrepancies or weaknesses, or may raise questions about the audit function's effectiveness after completing the core assessment. In those situations, examiners should consider expanding the scope of the review by selecting expanded procedures in the "Internal and External Audits" or "Internal Control" booklets of the *Comptroller's Handbook* (national banks); *OTS Examination Handbook* section 340, "Internal Control" (FSAs); or other appropriate booklets of the *Comptroller's Handbook*, the *FFIEC IT Examination Handbook*, or the *FFIEC BSA/AML Examination Manual*. (Updated in version 1.1)

When reviewing the audit function, significant concerns may remain about the adequacy or independence of an audit or about the integrity of the bank's financial or risk management controls. If so, examiners should consider further expanding the audit review to include verification procedures. Even when the external auditor issues an unqualified opinion, verification procedures should be considered if discrepancies or weaknesses call into question the accuracy of the opinion. The extent to which examiners perform verification procedures is decided on a case-by-case basis after consultation with the supervisory office.[21]

Direct confirmation with the bank's customers must have prior approval of the appropriate deputy comptroller. The Enforcement and Compliance Division should be notified when direct confirmations are being considered.

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[20] Before reviewing external auditor work papers, examiners should meet with bank management and the external auditor, consult with the OCC's chief accountant, and obtain approval from the supervisory office.

[21] Internal control questionnaires and verification procedures can be found in certain booklets of the *Comptroller's Handbook*.

If examiners identify significant audit weaknesses, the EIC should recommend to the appropriate supervisory office what action the OCC should take to require the bank to correct the weaknesses. Consideration should be given to whether the bank complies with the laws and regulations[22] that establish minimum requirements for internal and external audit programs. Further, if the bank does not meet the audit system operational and managerial standards of 12 CFR 30, appendix A, possible options to consider are having bank management develop a compliance plan, consistent with 12 CFR 30, to address the weaknesses, or making the bank subject to other types of enforcement actions. In making a decision, the supervisory office considers the significance of the weaknesses, the overall audit assessment, audit-related matters requiring attention (MRA), bank management's ability and commitment to effect corrective action, and the risks posed to the bank.

For more information, refer to the "Bank Supervision Process" and "Internal and External Audits" booklets of the *Comptroller's Handbook.*

12 CFR 363 Annual Report Review

Examiners review 12 CFR 363 annual reports for banks covered by 12 CFR 363 or voluntary submitters of such reports.[23] The primary purpose of this review is to facilitate the early identification of problems in financial management of these banks. Examiners should conduct a review of the 12 CFR 363 annual reports as part of the next ongoing supervision activity or target examination, no later than the quarter following the bank's submission. Results of this review should be used in the supervisory process, for example, in examination planning, supervisory strategy considerations, subsequent examinations, and discussions with bank management, as appropriate. Examiners should promptly advise the supervisory office of any qualified or adverse opinion or disclaimer of opinion encountered. For more information, refer to appendix C, "12 CFR 363 Reporting," of the "Internal and External Audits" booklet of the *Comptroller's Handbook.*

Supervisory Process

Related "Bank Supervision Process" Booklet Section

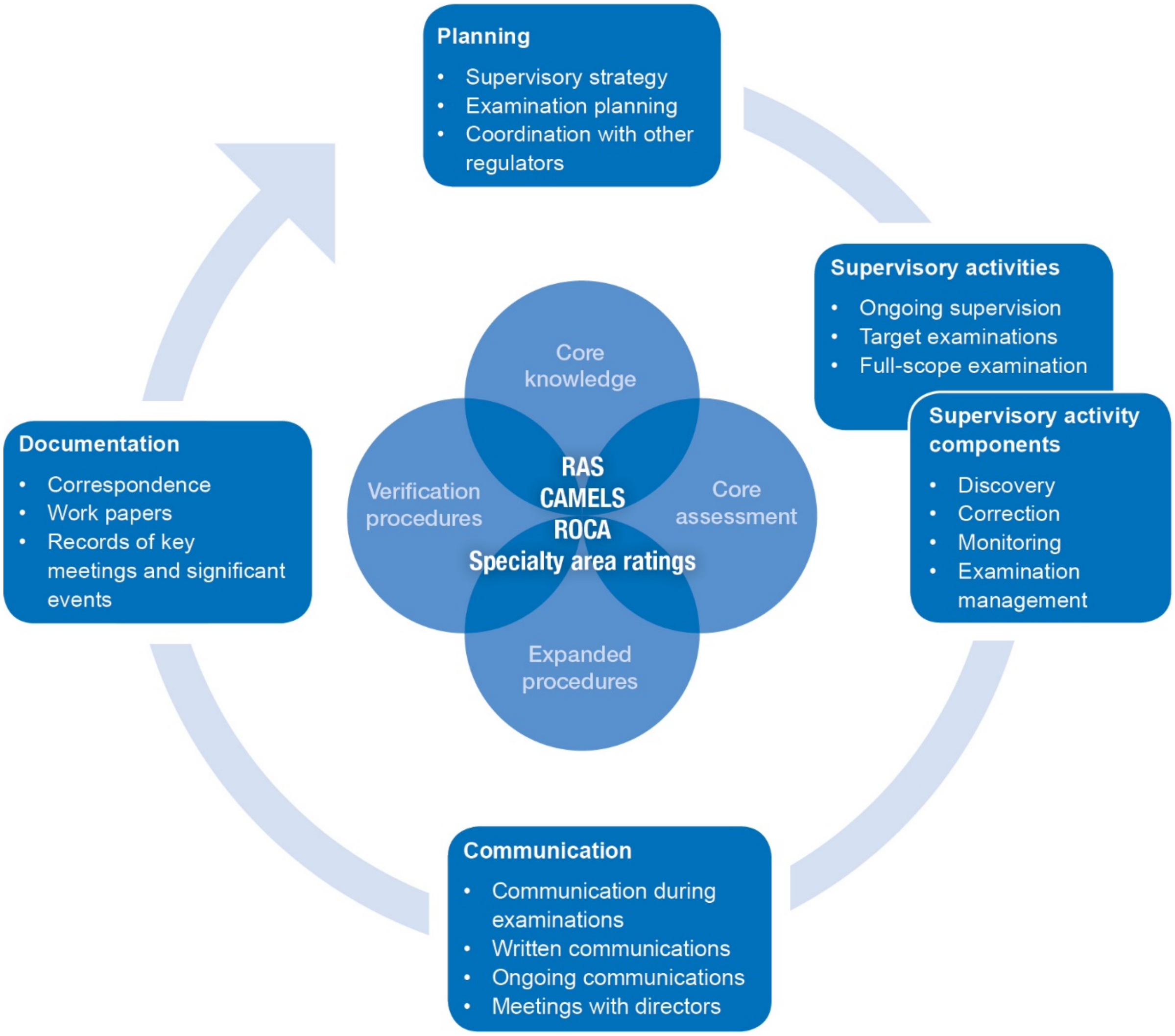
- "Risk-Based Supervision Approach" > "Supervisory Process"

The OCC fulfills its mission principally by supervising banks on an ongoing basis. In midsize and large banks, supervisory activities occur throughout the supervisory cycle. The supervisory process includes planning, supervisory activities, communication, and documentation as illustrated in figure 2. The elements of the OCC's risk-based supervision approach discussed earlier in this booklet are integrated throughout the supervisory process.

[22] For more information on the laws, regulations, and policy guidance relating to internal and external audit programs, refer to appendix A of the "Internal and External Audits" booklet of the *Comptroller's Handbook.*

[23] The requirements are applicable to all banks with $500 million or more in total assets. Banks below this asset threshold may choose to voluntarily comply with some or all of 12 CFR 363's requirements.

Figure 2: Supervisory Process



Planning

Related "Bank Supervision Process" Booklet Section
● "Risk-Based Supervision Approach" > "Supervisory Process" > "Planning"

Planning is essential to effective supervision and occurs throughout the bank's supervisory cycle. Planning requires careful and thoughtful assessment of the bank's current and anticipated risks (e.g., examiners should assess the risks of both existing and new banking activities).[24] Planning includes

[24] Refer to OCC Bulletin 2017-43, "New, Modified, or Expanded Bank Products and Services: Risk Management Principles."

- developing and maintaining a supervisory strategy for each bank. (Supervisory strategies for OCC-supervised banks are generally documented as one strategy for all OCC-supervised banks within the company.)
- examination planning that occurs before starting a supervisory activity.
- coordinating with other regulators, as appropriate.

Supervisory Strategy

Related "Bank Supervision Process" Booklet Sections

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Planning" > "Supervisory Strategy"
- "Examination Authority and Full-Scope Examination Requirement" > "Specialty Area Considerations"

The supervisory strategy is the OCC's detailed supervisory plan for the bank and outlines supervisory objectives, supervisory activities, and work plans. The supervisory strategy integrates all supervisory activities planned for the supervisory cycle and quantifies the necessary examiner resources (e.g., work days and experience level) to complete the identified activities.

Supervisory strategies for OCC-supervised banks (e.g., within a multibank holding company) are generally documented as one strategy for all OCC-supervised banks within the company. If necessary, consolidated strategies can be supplemented by plans specific to one or more affiliates. The EIC develops the supervisory strategy with input from the resident examiners or functional EICs, as appropriate. For large banks, the appropriate deputy comptroller reviews and approves each strategy. For midsize banks, the appropriate assistant deputy comptroller approves the strategy. Examiners document strategies in the appropriate OCC supervisory information system.

Each supervisory strategy includes supervisory objectives, supervisory activities, and work plans, and is based on

- core knowledge, core assessment, RAS, regulatory ratings, and the supervisory history of the bank.
- statutory examination requirements.
- the OCC's annual bank supervision operating plan.[25]
- supervisory priorities of the agency.
- economic conditions.
- banking industry trends.
- other examination guidelines (e.g., expanded procedures in the *Comptroller's Handbook*, *FFIEC IT Examination Handbook*, or *FFIEC BSA/AML Examination Manual*).

The supervisory strategy should also incorporate an assessment of the company's merger and acquisition plans and any conditions attached to corporate decisions.

[25] The OCC's Committee on Bank Supervision issues an annual bank supervision operating plan that sets forth the OCC's supervision priorities and objectives.

Supervisory objectives define the goals of supervision for the specific bank, based on its risk profile, and are the foundation for all activities and work plans. Strategies may optionally include an overview of the profiles of the bank's significant lines of business to support the supervisory objectives.

Supervisory activities are the means of achieving supervisory objectives. Each activity must be linked to at least one objective. Supervisory activities must be sufficient, in aggregate, to meet the definition of a full-scope, on-site examination.[26] The strategy should identify ongoing supervision and target examination activities recommended for each quarter of the supervisory cycle. This information is often consolidated by each RAS element included on the OCC's quarterly risk assessment and then modified to address the bank's specific risk profile, including areas of potential or actual risk, emerging risks, and regulatory mandated examination areas.

Work plans outline the scope, timing, and resources needed to meet the supervisory objectives and activities. Work plans should

- identify the complexity, workdays, and expertise of staff needed to perform the bank supervisory activities recommended for the year.
- include a preliminary budget projection of the work to be completed, including any international travel.

Work plans may also include an internal and external communications strategy for the year. This communications strategy may detail the types of information examiners exchange with boards, bank management, bank personnel, and other regulators and describes how this information is to be exchanged (i.e., meetings and reports).

Supervisory strategies are dynamic. Strategies are reviewed and updated on an ongoing basis based on company, industry, economic, legislative, and regulatory developments. Examiners should follow established procedures for receiving approval for and documenting strategy changes. Examiners should discuss supervisory strategies with bank management as the plans are made and when any of the plans are modified.

Coordination With Other Regulators

Related "Bank Supervision Process" Booklet Sections

- "Introduction" > "Bank Affiliates and Related Organizations"
- "Examination Authority and Full-Scope Examination Requirement" > "Specialty Area Considerations" > "Consumer Compliance"
- "Risk-Based Supervision Approach" > "Supervisory Process" > "Planning" > "Coordination With Other Regulators"
- Appendix A, "Functional Regulation"

[26] Refer to the "Full-Scope Examination Requirement and Types of Supervisory Activities" section of this booklet for criteria.

Effective planning for supervision of midsize and large banks, especially complex, diversified companies, requires adequate and timely communication among supervisory agencies, including functional regulators. Effective functional supervision is attained through close cooperation and coordination among the various regulators. EICs should maintain open channels of communication with other regulators and work directly with them on bank-specific items. By doing so, EICs help promote comprehensive supervision and reduce the burden of overlapping jurisdiction on the regulated entities.

Examiners should be aware of the bifurcated authorities between the CFPB and the OCC for banks with more than $10 billion in assets. The prudential regulators and the CFPB signed a Memorandum of Understanding on Supervisory Coordination dated May 16, 2012, intended to facilitate the coordination of supervisory activities involving financial institutions with more than $10 billion in assets as required under Dodd–Frank.[27] (Updated in version 1.1)

When planning supervisory activities, examiners must follow existing written sharing agreements, delegation orders, interagency agreements, OCC policies, and laws and regulations governing cooperation and information sharing with other regulators. Interagency guidelines on coordination among U.S. banking regulators are detailed in Banking Bulletin 1993-38, "Interagency Examination Coordination Guidelines." Examiners planning supervisory activities of international operations should also coordinate with the International Banking Supervision Division regarding communications with foreign bank supervisors. (Updated in version 1.1)

Supervisory Activity Components

Supervisory activities, regardless of type, include discovery, correction (when applicable), monitoring, and examination management. When assessing the bank's condition, examiners must consider the risk associated with activities performed by the bank and its nonbank subsidiaries and affiliates.

Discovery

Related "Bank Supervision Process" Booklet Section

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Supervisory Activity Components" > "Discovery"

Through discovery, examiners gain a fundamental understanding of the bank's condition, quality of management, and effectiveness of risk management systems. This understanding helps examiners focus on the areas of greatest concern. A primary objective of discovery is to validate the integrity of the bank's risk management systems. During the validation process, examiners should perform independent tests in proportion to the risks they find, to validate the bank's key control functions.

[27] Refer to OCC news release 2012-85, "Agencies Sign Memorandum of Understanding on Supervisory Coordination."

In discovery, examiners

- evaluate the bank's condition.
- identify and quantify risks.
- evaluate bank management's and the board's awareness and understanding of the significant risks.
- assess the quality of risk management.
- perform sufficient testing to verify the integrity of risk management systems (including internal and external audits and internal controls). (Updated in version 1.1)
- identify unwarranted levels of risk, deficient risk management practices, and the underlying causes of any deficiencies.

Examiners' assessments form the foundation for future supervisory activities. Bank supervision is an ongoing process that enables examiners to periodically confirm and update their assessments to reflect current or emerging risks. This revalidation is fundamental to effective supervision.

Correction

Related "Bank Supervision Process" Booklet Sections

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Supervisory Activity Components" > "Correction"
- "Supervisory Actions"

The OCC uses various supervisory actions, including MRAs, citations of violations of laws or regulations, or enforcement actions to address banks' deficiencies. In the correction process, examiners obtain commitments from bank management to correct each deficiency.[28]

The bank's plans for corrective actions should be formally communicated through action plans. Action plans detail steps or methods that bank management has determined will correct the root causes of deficiencies rather than symptoms. Bank management is responsible for developing and executing action plans. Directors are expected to hold bank management accountable for executing action plans. Action plans should

- specify actions to correct deficiencies.
- address the underlying root causes of deficiencies.
- set realistic time frames for completion.
- establish benchmarks to measure progress toward completion.
- identify the bank personnel who will be responsible for correcting deficiencies.
- detail how bank management will effectively execute the plan, and how the board will oversee bank management's actions.

[28] For more information, refer to the "Supervisory Actions" section of the "Bank Supervision Process" booklet of the *Comptroller's Handbook*.

Monitoring

> **Related "Bank Supervision Process" Booklet Section**
>
> - "Risk-Based Supervision Approach" > "Supervisory Process" > "Supervisory Activity Components" > "Monitoring"

Ongoing monitoring allows the OCC to respond in a timely manner to risks facing individual banks and the industry as a whole. The dynamic nature of large banks makes monitoring an important part of effective supervision.

In monitoring the bank, examiners

- identify current and prospective issues that affect the bank's risk profile or condition.
- determine how to focus future supervisory strategies.
- follow up on bank management's progress in correcting outstanding MRAs, violations of laws or regulations, and complying with enforcement actions, which includes
  - assessing bank-prepared action plans to resolve each deficiency, including the appropriateness of the time frames for correction.
  - determining whether the bank is executing its action plans.
  - verifying the bank's documentation to confirm that bank management completed its corrective actions.
  - validating that bank management's corrective actions are effective and sustainable.
  - recommending the use of informal or formal enforcement actions when warranted.
- communicate with bank management regarding areas of concern, if any.

Examiners must tailor monitoring to each bank. Monitoring activities are focused on assessing the bank's risks, including any potential material risks posed by functionally regulated activities conducted by the bank or FRAs. Monitoring activities are adjusted to include the risks facing each significant affiliated OCC-supervised bank. More complex banks generally require more frequent and comprehensive oversight. In addition to assessing the bank's progress in executing plans and correcting concerns, examiners are required to meet certain minimum requirements for monitoring activities for midsize and large banks.

On a quarterly basis, and generally within 55 days after the end of each quarter, examiners should

- review and evaluate the company-prepared consolidated analysis of financial condition, including its significant operating units.
- identify any significant issues that may result in changes to risk assessments and adjust the supervisory strategy to reflect the change. If an issue is identified that affects a CAMELS/ITCC rating for the lead OCC-supervised bank and any affiliated OCC-supervised banks, the examiner must update the rating. A CRA evaluation must be performed to change a CRA rating.
- update the consolidated risk profile of OCC-supervised banks within the company using the RAS summary. One of these quarterly assessments accompanies the annual core

assessment and includes a comprehensive narrative on the aggregate risk, direction of risk, quantity of risk, and quality of risk management for each risk category. The three remaining quarterly assessments are used to update the annual assessment and serve to highlight any changes in the company's or an individual bank's risk profile.

- review and update the supervisory strategy and data in the OCC's supervisory information systems to ensure they are current and accurate. The EIC should change the strategies for individual banks, if warranted. Examiners should discuss any significant changes with bank management and obtain approval from their supervisory office.

Examination Management

Related "Bank Supervision Process" Booklet Section

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Supervisory Activity Components" > "Examination Management"

The EIC (including the functional EIC or EIC of a particular activity, as applicable) is responsible for effective examination management and must provide an organized environment in which supervisory goals and objectives can be achieved within appropriate time frames. During the examination, examining staff must inform the EIC of preliminary conclusions, and the EIC must evaluate progress toward completing the supervisory objectives.

Communication

Related "Bank Supervision Process" Booklet Section

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Supervisory Activity Components" > "Communication"

Communication is essential to high-quality bank supervision. The OCC is committed to ongoing, effective communication with the banks that it supervises and with other banking and functional regulators. Communication includes formal and informal conversations and meetings, ROEs, supervisory letters, and other written materials. Regardless of form, communications should convey a consistent conclusion regarding the bank's condition. Communication should be ongoing throughout the supervisory process and tailored to the bank's structure and dynamics. The timing and form of communication depends on the situation being addressed. Examiners should communicate with bank management and the board as often as the bank's condition and supervisory findings require. Examiners should include plans for communication in the supervisory strategy.

Examiners should meet with bank management frequently and directors as needed to collect information and discuss supervisory issues. These discussions, which establish and maintain open lines of communication, are an important source of information. Examiners should document these meetings in the OCC's supervisory information systems.

When the OCC is considering an enforcement action, examiners should use care in communications with the bank related to the potential enforcement action. Examiners should consult with the supervisory office and assigned legal counsel before meeting with the bank regarding a potential enforcement action.

Communication During Examinations

Related "Bank Supervision Process" Booklet Section

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Communication" > "Communication During Examinations"

Entrance Meetings With Bank Management

The EIC meets with appropriate bank or company management at the beginning of an examination to

- explain the scope of the examination, the role of each examiner, and how the examination team conducts the examination.
- confirm the availability of bank personnel.
- identify communication contacts.
- answer any questions.

If an examination is conducted jointly with another regulator, the OCC should invite a representative from that agency to participate in the entrance meeting.

Ongoing Communication During Examinations

Ongoing communication and discussions with bank management allow examiners to obtain the information necessary to reach sound and accurate conclusions. Periodic meetings with bank management are essential during the examination. Discussion of key issues and preliminary findings prevents misunderstanding and allows bank management to provide more information.

Exit Meetings With Bank Management

After each examination is completed, the EIC holds an exit meeting with bank or company management to

- discuss the OCC's findings and conclusions.
- discuss deficiencies and obtain bank management's commitments for corrective action.
- discuss the areas of greatest risk to the bank.
- provide preliminary ratings and RAS conclusions, when applicable.
- outline plans for future supervisory activities, when possible.

The EIC should encourage bankers to respond to OCC concerns, provide clarification, ask about future supervisory plans, and raise any other questions or concerns. At the exit meeting, the examiners ask for bank management's commitment to correct weaknesses noted during the supervisory activity and, when appropriate, offer examples of acceptable solutions to identified problems.

In departmentalized banks, examiners may conduct exit meetings with bank management of specific departments or functions before the final exit meeting. The functional EICs summarize the issues and commitments for corrective actions from these meetings. The bank EIC then discusses the issues and commitments with senior bank management at the final exit meeting.

Before the exit meeting, the EIC should discuss significant findings, including preliminary ratings and RAS conclusions, with the appropriate OCC supervisory office. Meeting with the supervisory office promotes consistent application of OCC policy, and confirms that OCC management supports the conclusions and the course of action for any deficiencies. The EIC and the supervisory office should decide who attends the exit meeting on the OCC's behalf, and the EIC should inquire about the attendance of senior bank management and others. If the examination was conducted jointly with another agency, the EIC or supervisory office should invite a representative from that agency to participate in the exit meeting.

Examiners must convey significant decisions discussed during the exit meeting in written correspondence. Examiners should discuss issues with bank management before discussing them with the board, unless, in the supervisory office's view, the subject is best approached confidentially with the board.

Written Communication

Related "Bank Supervision Process" Booklet Sections

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Communication" > "Written Communication"
- "Supervisory Actions"
- "Other Supervisory Considerations" > "Disclosure of Ratings"
- "Report of Examination"

Written communication of supervisory activities and findings is essential to effective supervision. Examiners should periodically provide written communication to the board highlighting concerns that arise during the supervisory process. Written communication should focus the board's attention on the OCC's major conclusions, including any supervisory concerns.

Written communication must

- be consistent with the tone, findings, and conclusions orally communicated to the bank.
- convey the condition of the bank or, if appropriate, the condition of an operational unit of the bank.

- be addressed to the appropriate audience based on the nature of the content and how the bank or company is structured and managed.
- discuss any concerns the OCC has about bank risks or deficiencies.
- summarize the actions required to address deficiencies, including bank management's commitment to corrective action.

Reports of Examination

In addition to written communication throughout a supervisory cycle, **the OCC must provide the boards of the lead OCC-supervised bank and each affiliated OCC-supervised bank an ROE at least once during every supervisory cycle.** The ROE conveys the bank's overall condition and risk profile and summarizes examination activities and findings during the supervisory cycle. The ROE

- contains conclusions on assigned regulatory ratings, the bank's risk profile, and the adequacy of the bank's BSA/AML compliance program.
- discusses deficient risk management practices, violations, and excessive risks.
- details corrective actions to which bank management or the board has committed.

ROE requirements can be found in the "Report of Examination" section of the "Bank Supervision Process" booklet of the *Comptroller's Handbook.*

Meetings With Directors

Related "Bank Supervision Process" Booklet Section

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Communication" > "Meetings With Directors"

The OCC maintains communication with boards throughout the supervisory cycle to discuss OCC examination results and other matters of mutual interest, including current industry issues, emerging industry risks, and legislative issues. The EIC meets with the board or an authorized committee that includes outside directors after the board or committee has reviewed the ROE. If necessary, the OCC meets with the board to discuss how the board should respond to supervisory concerns and issues.

The OCC should conduct a board meeting at least once during the supervisory cycle for the lead OCC-supervised bank. More frequent meetings should be conducted when justified by the bank's condition or special supervisory needs. When meetings are routinely conducted with board committees, examiners are encouraged to meet periodically with the full board to confirm findings and facilitate effective communication. Examiners should conduct board meetings with affiliated OCC-supervised banks that are not lead OCC-supervised banks only when significant supervisory concerns exist or when meetings are expected to enhance overall supervision. Senior management of the appropriate OCC supervisory office should attend and participate in board meetings with midsize and large banks. If the examination was conducted jointly with another regulator, the supervisory office should invite a representative from that agency to participate in the board meeting.

The EIC conducting the meeting should be prepared to discuss conclusions, findings, any concerns, and methods of corrective action (if applicable). The EIC should encourage directors to ask questions or make comments.

Documentation

Related "Bank Supervision Process" Booklet Section

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Documentation"

Documentation is an ongoing process throughout the supervisory cycle. Examiners must document their decisions and conclusions. Examiners document and communicate narrative and statistical information about OCC-supervised institutions and their affiliates[29] in the agency's electronic supervisory information systems.

The recorded information reflects the institution's current condition, supervisory strategy, results of supervisory activities, the OCC's actions in response to deficiencies (i.e., MRAs, violations of laws or regulations, and enforcement actions), and bank management's progress in correcting deficiencies. Using these information and data, OCC senior management can review the condition of supervised institutions and groups of institutions. Other federal banking regulators also have access to certain information, as appropriate, through various formats.

Many electronic files are official records of the OCC and may be discoverable items in litigation. Examiners must be succinct, clear, and professional in their documentation and avoid informality that might be misunderstood or misused.

The EIC and the supervisory office are responsible for maintaining accurate and up-to-date information in supervisory information systems for their assigned institutions. Examiners should record information as follows:

- Comments pertaining to or affecting all OCC-supervised banks within a company should generally be recorded in the electronic file under the holding company or lead OCC-supervised bank, as appropriate.
- Comments particular to a bank should be recorded in the electronic file under that bank.

[29] OCC-supervised institutions and their affiliates include banks, holding companies and affiliates, federal branches and agencies, and supervised service providers.

Core Assessment

Examiners complete one core assessment for all OCC-supervised banks within a company during every supervisory cycle.[30] Examiners should also perform testing to periodically validate key control functions within the bank. The core assessment summary should be documented in the OCC's supervisory information systems.

Examiners should use judgment in the level of documentation needed to support the core assessment. The core assessment consists of assessment factors and sub-factors for each risk. Normally, there is no need for examiners to document every sub-factor under each assessment factor. The level of documentation should be commensurate with the risks facing the bank. The level of documentation may vary over time depending on changes in the bank's condition, risk profile, pending or actual enforcement actions, violations of laws or regulations, or referrals to other agencies.

Strategic Risk

Examiners consider the factors in this section when assessing the quantity of strategic risk and quality of strategic risk management. These factors are the minimum **standards** that examiners consider during every supervisory cycle.

Quantity of Strategic Risk

Examiners are required to conclude, based on the review of the core assessment factors, whether the risk is low, moderate, or high.

Quantity of strategic risk ☐ **Low** ☐ **Moderate** ☐ **High**	
Strategic factors ☐ Low ☐ Moderate ☐ High	• Magnitude of change in established corporate mission, strategic objectives, core values, or risk appetite. • Consistency of financial objectives with strategic plans. • Bank's market, including types and diversification of products and services, customers, and geographies. • Adequacy of stress testing and capital planning processes. • Risk of implementing innovative or unproven products, services, or technologies. • Merger and acquisition plans and opportunities. • Potential or planned entrance into new businesses, product lines, or delivery channels, or implementation of new systems. • Effect of cost control initiatives, if any. • Influence of the ultimate parent, including foreign owners.
External factors ☐ Low ☐ Moderate ☐ High	• Effect of economic, industry, and market conditions; legislative and regulatory changes; technological advances; and competition.

[30] Completion of the core assessment should generally result in the issuance of ROEs to the lead OCC-supervised bank and each affiliated OCC-supervised bank.

Quality of Strategic Risk Management

Examiners are required to conclude, based on the review of the core assessment factors, whether risk management is strong, satisfactory, insufficient, or weak.

Quality of strategic risk management ☐ **Strong** ☐ **Satisfactory** ☐ **Insufficient** ☐ **Weak**
• Adequacy of strategic and succession planning processes. • Board oversight of and engagement on strategic initiatives. • Board and bank management's ability to respond to changes in the banking industry and operating environment. • Priority and compatibility of personnel, technology, and capital resources allocation with strategic initiatives. • Adequacy of processes for new, modified, or expanded products or services.[31] • Past performance in offering new, modified, or expanded products or services, managing third-party relationships,[32] and evaluating potential and consummated acquisitions or divestitures. • Performance in implementing new technology or systems. • Effectiveness of bank management's methods of communicating, implementing, and modifying strategic plans, and consistency with stated risk appetite and policies. • Adequacy and independence of controls to monitor business decisions. • Responsiveness to identified deficiencies in internal controls, risk management, and compliance systems. (Updated in version 1.1) • Quality, integrity, timeliness, and relevance of reports to the board necessary to oversee strategic decisions. • Ability to identify and manage fair lending, community reinvestment, BSA/AML/OFAC (Office of Foreign Assets Control), and other compliance issues in conjunction with strategic initiatives. • Appropriateness of performance management and compensation programs, including accountability for compliance with BSA/AML/OFAC, consumer protection-related laws and regulations, and other laws and regulations. Such programs should exclude incentives for personnel to take excessive risks.[33]

Reputation Risk

Examiners consider the factors in this section when assessing the quantity of reputation risk and quality of reputation risk management. These factors are the minimum **standards** that examiners consider during every supervisory cycle.

Quantity of Reputation Risk

Examiners are required to conclude, based on the review of the core assessment factors, whether the risk is low, moderate, or high.

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[31] Examiners may refer to OCC Bulletin 2017-43 for more information regarding new, modified, or expanded bank products and services.

[32] Examiners may refer to OCC Bulletin 2013-29, "Third-Party Relationships: Risk Management Guidance," OCC Bulletin 2017-21, "Third-Party Relationships: Frequently Asked Questions to Supplement OCC Bulletin 2013-29," and OCC Bulletin 2017-7, "Third-Party Relationships: Supplemental Examination Procedures" for more information regarding third-party risk management.

[33] Examiners may refer to OCC Bulletin 2010-24 for more information regarding incentive compensation.

Quantity of reputation risk ☐ Low ☐ Moderate ☐ High	
Strategic factors ☐ Low ☐ Moderate ☐ High	• The bank's core values and conduct of employees. • Volume and types of assets and number of accounts under management or administration. • Number and types of third-party relationships. • Merger and acquisition plans and opportunities. • Potential or planned entrance into new businesses, product lines, or technologies (including new delivery channels), particularly those that may test legal boundaries.
External factors ☐ Low ☐ Moderate ☐ High	• Nature and amount of exposure from litigation, monetary penalties, violations of laws and regulations, and customer complaints. • The market's or public's perception of the bank's financial stability. • The market's or public's perception of the quality of the bank's products and services. • Effect of economic, industry, and market conditions; legislative and regulatory change; technological advances; and competition.

Quality of Reputation Risk Management

Examiners are required to conclude, based on the review of the core assessment factors, whether risk management is strong, satisfactory, insufficient, or weak.

Quality of reputation risk management ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak
• Past performance in offering new, modified, or expanded products or services, managing third-party relationships, and in conducting due diligence before startup. • Past performance in developing or implementing new technologies and systems. • Senior bank management's expertise and the board's effectiveness in maintaining an ethical, self-policing culture. • Bank management's willingness and ability to adjust strategies based on regulatory changes, market disruptions, market or public perception, and legal losses. • Quality and integrity of MIS and the development of expanded or newly integrated systems. • Adequacy and independence of controls used to monitor business decisions. • Adequacy of operational risk management and responsiveness to deficiencies in internal controls. (Updated in version 1.1) • Responsiveness to deficiencies in compliance risk management systems, including BSA/AML/OFAC-related systems. • Adequacy of customer complaint processes and the level of engagement with community groups. • Ability to manage stakeholder relations and communicate effectively with the market, public, and news media. • Effectiveness of social media monitoring and management. • Adequacy of mitigation activities, problem-escalation processes, and rapid-response plans. • Policies, practices, and systems protecting information consumers might consider private or confidential from deliberate or accidental disclosure. • Bank management's responsiveness to internal, external, and regulatory review findings. • Appropriateness of performance management and compensation programs, including accountability for compliance with BSA/AML/OFAC, consumer protection, and other laws and regulations. Such programs should exclude incentives for personnel to take excessive risks.

Credit Risk

Examiners consider the assessment factors in this section when assessing the quantity of credit risk and quality of credit risk management. These factors are the minimum **standards** that examiners consider during every supervisory cycle to ensure quality supervision. A credit underwriting assessment must be completed once per supervisory cycle, consistent with OCC policy. (Updated in version 1.1)

Examiners should apply the standards consistent with the guidelines in the "Loan Portfolio Management" booklet of the *Comptroller's Handbook* and other appropriate booklets from the "Asset Quality" series.

Quantity of Credit Risk

Examiners are required to conclude, based on the review of the core assessment factors, whether the risk is low, moderate, or high.

Quantity of credit risk ☐ **Low** ☐ **Moderate** ☐ **High**	
Underwriting factors ☐ Low ☐ Moderate ☐ High	• Changes in underwriting standards including credit score, leverage, policies, price, tenor, collateral, guarantor support, covenants, and structure. • Borrowers' ability to service debt based on debt service coverage, debt-to-income ratios, and credit history. • Volume and extent of exceptions and overrides.
Strategic factors ☐ Low ☐ Moderate ☐ High	• Effect of strategic factors including the target market, portfolio and product mix, acquisitions, diversification of repayment sources, new products and delivery channels, third-party originations, syndications, concentrations, and securitizations. • Maintenance of an appropriate balance between risk and reward.
External factors ☐ Low ☐ Moderate ☐ High	• Effect of external factors including economic, industry, competitive, and market conditions; legislative and regulatory changes; and technological advancement.
Credit factors ☐ Low ☐ Moderate ☐ High	• Levels and trends of delinquencies, nonperforming and problem assets, losses, weighted average risk ratings, and reserves in both balance-sheet and off-balance-sheet accounts. • Trends in the growth and volume of lending and fee-based credit activities, including off-balance-sheet, syndication, investment, payment, settlement, and clearing activities. • Trends in the financial performance of borrowers and counterparties. • Trends identified in loan pricing methods, portfolio analytics and models, loss forecasting, and stress testing methods. • Trends in summary ratings assigned by the bank's loan review and audit. • Effect of credit enhancement on underwriting standards and level of risk.

Quality of Credit Risk Management

Examiners are required to conclude, based on the review of the core assessment factors, whether risk management is strong, satisfactory, insufficient, or weak.

Quality of credit risk management ☐ **Strong** ☐ **Satisfactory** ☐ **Insufficient** ☐ **Weak**	
Policies ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Consistency of the credit policy with the bank's overall strategic direction and risk appetite or limits. • Appropriate balance within the credit culture between credit and marketing. • Structure of the credit operation and whether responsibility and accountability are assigned at every level. • Reasonableness of definitions that guide policy, underwriting, and documentation exceptions and of guidelines for approving policy exceptions. • Appropriateness of credit policies that establish risk limits or positions, including concentration limits, whether the bank requires periodic revaluation, and whether policies delineate prudent actions to be taken if the limits are broken. • Approval of the credit policy by the board or designated board committee. • Consistency of underwriting expectations regardless of whether facilities are originated to hold or to distribute.
Processes ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	**Credit Granting** • Appropriateness of the approval process, marketing campaigns, and delivery channels. • Adequacy of risk management processes related to syndicated loan pipeline management. • Thoroughness of the underwriting analysis, including a sensitivity analysis of borrower projections. • Sufficiency and reliability of methods used to analyze the creditworthiness of counterparties and debt issuers to ensure repayment capacity. • Quality of analytical resources, such as scoring systems and portfolio models, and the adequacy of their periodic revalidation. **Credit Monitoring** • Adequacy of portfolio management, including the ability to identify, measure, and monitor risk relating to credit structure and avoiding undue concentrations. • Adequacy of portfolio stress testing, rescoring, and behavioral scoring practices. • Adequacy of credit analysis, including financial assessment and comparison of projections to actual performance. • Frequency and reliability of verifying compliance with covenants. • Accuracy and integrity of internal risk rating processes. **Collection Efforts** • Development and execution of action plans and collection strategies to facilitate timely collection. • Timely involvement of a specialized collection unit. **Allowance for Loan and Lease Losses and Accounting Controls** • Method of evaluating and maintaining the allowance for loan and lease losses (ALLL). • Compliance with regulatory and accounting standards.

Quality of credit risk management (continued)	
Personnel ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Depth of technical and managerial expertise. • Appropriateness of performance management and compensation programs. Such programs should exclude incentives for personnel to take excessive risks. • Appropriateness of bank management's response to deficiencies identified in policies, processes, personnel, and control systems. • Level of turnover of critical staff. • Adequacy of training. • Ability of managers to implement new products, services, and systems in response to changing business, economic, or competitive conditions. • Understanding of and adherence to the bank's strategic direction and risk appetite as defined by senior bank management and the board.
Control systems ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Timeliness, accuracy, completeness, and relevance of MIS, reports, monitoring, and control functions. • Scope, frequency, and independence of the risk review, quality assurance, and internal and external audit functions. • Effectiveness of quality assurance and audit functions in identifying deficiencies in policy, processes, personnel, and internal controls. (Updated in version 1.1) • Independent use and validation of measurement controls. • Effectiveness of exception monitoring systems that identify, measure, and track incremental risk exposure by how much (in frequency and amount) the exceptions deviate from policy and established limits, and the adequacy of corrective actions. • Appropriateness of model validation activities. • Adequacy, independence, and consistent application of valuation methodologies supporting the fair value estimates of complex and other illiquid instruments. • Effectiveness of risk rating systems, quantification methods, and data maintenance systems utilized in the bank's reporting under the Internal Ratings approach in 12 CFR 3, subpart E.

Interest Rate Risk

Examiners consider the factors in this section when assessing the quantity of interest rate risk and quality of interest rate risk management. These factors are the minimum **standards** that examiners consider during every supervisory cycle.

Quantity of Interest Rate Risk

Examiners are required to conclude, based on the review of the core assessment factors, whether the risk is low, moderate, or high.

Quantity of interest rate risk ☐ Low ☐ Moderate ☐ High	
Repricing risk ☐ Low ☐ Moderate ☐ High	• Repricing mismatch of assets and liabilities over the short term and long term. • Adequacy of repricing distribution assumptions for nonmaturity deposit balances. • Volume of non-interest income streams that may be interest rate sensitive. • Vulnerability of earnings and capital to large interest rate changes, such as rate shocks and gradual rate shifts, e.g., a change of 300 or 400 basis points over 12 months.[34] • Presence of over-the-counter and exchange-traded derivatives, such as futures and interest rate swaps, used for rebalancing repricing mismatches.
Basis risk ☐ Low ☐ Moderate ☐ High	• Use of different indexes to price assets and liabilities (e.g., prime, Constant Maturity Treasury, London InterBank Offered Rate (Libor), and 11th District Cost of Funds Index) that may change at different times or by different amounts. • Lagged or asymmetric pricing behavior in bank-managed rates such as the rates on consumer deposits. • Effect of changes in cash flow and repricing correlations between hedging instruments and the positions being hedged.
Yield curve risk ☐ Low ☐ Moderate ☐ High	• Exposure of on- and off-balance-sheet positions to changes in the yield curve's absolute level and shape (e.g., rising level with flattening slope, falling level with steepening slope, curve inverts, and twists).
Options risk ☐ Low ☐ Moderate ☐ High	• Extent of written (sold) options embedded in assets (e.g., loan and mortgage prepayments, interest rate caps and floors embedded in adjustable rate loans, and callable securities). • Potential effect of written options embedded in liabilities (e.g., early deposit withdrawals, nonmaturity deposit elasticities, and callable liabilities). • Volume of over-the-counter and exchange-traded options contracts.
Strategic factors ☐ Low ☐ Moderate ☐ High	• Ability of the funding strategy to tolerate adverse interest rate movements. • Effect of the bank's overall business strategy on interest rate risk (e.g., entering into new business activities, speculating on the direction and volatility of interest rates, investing in supporting technology).
External factors ☐ Low ☐ Moderate ☐ High	• Ability to withstand changes in interest rates caused by external factors including economic conditions, industry conditions, legislative and regulatory changes, market demographics, technological changes, competition, and market conditions.

Quality of Interest Rate Risk Management

Examiners are required to conclude, based on the review of the core assessment factors, whether risk management is strong, satisfactory, insufficient, or weak.

[34] For more information, refer to OCC Bulletin 2010-1, "Interest Rate Risk: Interagency Advisory on Interest Rate Risk Management."

Quality of interest rate risk management ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	
Policies ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Consistency of the interest rate risk policy with the bank's overall strategic direction and risk appetite or limits. • Structure of the interest rate risk management function and whether responsibility and accountability are assigned at every level. • Appropriateness of guidelines that establish risk limits, including requirements that the guidelines be periodically reassessed, and whether the guidelines delineate prudent actions to be taken if the limits are broken. • Reasonableness of definitions that guide policy exceptions and guidelines for approving policy exceptions. • Approval of the interest rate risk policy by the board or an appropriate board committee. • Existence of adequate standards, given the bank's price risk, for validating an independent model.[35]
Processes ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Adequacy of processes that communicate policies and expectations to appropriate personnel. • Production of timely, accurate, complete, and relevant management information. • Adequacy of processes and systems to ensure compliance with policy. • Appropriateness of the approval, monitoring, and reporting process for policy exceptions. • Adequacy of risk measurement systems to capture material positions, both on- and off-balance-sheet, and the risks inherent in the positions. • Extent of clearly defined and reasonable measurement assumptions. • Adequacy of internal controls, including segregation of duties, dual control, and authority commensurate with duties. (Updated in version 1.1) • Sufficiency of periodic stress tests that use scenarios reducing or eliminating profits and the tests' capacity to project accurately the effect of certain conditions. • Understanding of the vulnerability to limitations or weaknesses of measurement tools. • Adequacy of the risk measurement process to consider risk from both an earnings and economic perspective. • Extent of consideration given to the effect of changing rates on noninterest income and expenses. • Flexibility to modify interest rate risk exposures in adverse rate environments in a timely manner. • Reasonableness of responses to changes in market conditions. • Capabilities of the front- and back-office systems to support current and projected interest rate processes.
Personnel ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Depth of technical and managerial expertise. • Appropriateness of performance management and compensation programs. Such programs should exclude incentives for personnel to take excessive risks. • Appropriateness of bank management's response to deficiencies identified in policies, processes, personnel, and control systems. • Level of turnover of critical staff. • Adequacy of training. • Ability of managers to implement new products, services, and systems in response to changing business, economic, and competitive conditions. • Ability of risk management to identify and manage the risks involved in new products, services, and systems, especially those of a complex nature. • Understanding of and adherence to the bank's strategic direction and risk appetite as defined by senior bank management and the board.

[35] For more information, refer to OCC Bulletin 2011-12, "Sound Practices for Model Risk Management: Supervisory Guidance on Model Risk Management."

Quality of interest rate risk management (continued)	
Control systems ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Timeliness, accuracy, completeness, and relevance of MIS, reports, monitoring, and control functions. • Scope, frequency, effectiveness, and independence of the risk review, quality assurance, and internal and external audit functions. • Effectiveness of control systems to identify and prevent internal control deficiencies. • Existence of an independent and competent audit function that validates the reliability and effectiveness of models and management processes. • Independence of risk-monitoring and control functions from the risk-taking function(s). • Independence and validation of models and other measurement tools and the validity of assumptions.

Liquidity Risk

Examiners consider the factors in this section when assessing the quantity of liquidity risk and quality of liquidity risk management. These factors are the minimum **standards** that examiners consider during every supervisory cycle.

Quantity of Liquidity Risk

Examiners are required to conclude, based on the review of the core assessment factors, whether the risk is low, moderate, or high.

Quantity of liquidity risk ☐ Low ☐ Moderate ☐ High	
Wholesale liabilities ☐ Low ☐ Moderate ☐ High	• Volume, composition, growth trends, and projections. • Level of credit sensitivity. • Level of customer loyalty generated through direct relationship management. • Tenor, rates paid, and collateralization requirements of Federal Home Loan Bank advances, repurchase agreements, and uninsured deposit products, e.g., certificates of deposit, money market deposit accounts, other savings, and brokered deposits.
Retail liabilities ☐ Low ☐ Moderate ☐ High	• Volume, composition, growth trends, and projections. • Deposit mix. • Loyalty and stability of the customer base. • Tenor and rates paid on insured deposit products (e.g., certificates of deposit, money market deposit accounts, savings, and brokered deposits).
Diversification ☐ Low ☐ Moderate ☐ High	• Extent to which liabilities are diversified by individual funds provider, product, tenor, market area, and industry, etc. • Sufficiency of diversity by marketer (i.e., individual broker or through direct placement). • Appropriateness of investment objectives or economic influences. • Extent of asset diversification as evidenced by the variety of loans and investments or other assets that the bank could use to raise funds.

Quantity of liquidity risk (continued)	
On- and off-balance-sheet cash flows ☐ Low ☐ Moderate ☐ High	• Capacity to access additional unsecured market funding – in the current environment. – in a distressed environment. • Existence of current and projected securitization activities and associated cash flows, either as a source or potential use of funds including – extent of reliance on cash flows from securitization activities (i.e., is securitization used occasionally to enhance liquidity or is it “pipeline” financing required for ongoing business?). – existence of concentrations by maturity dates, products, purchasers, or counterparties. – compliance with covenants. – depth and breadth of secondary markets. – potential for early amortization (use of funds). • Presence of other off-balance-sheet items that could result in cash flows to or from the balance sheet, including – unused loan commitments. – letters of credit or other contingent liabilities. – collateral requirement agreements. – early liability termination arrangements. – calls, options. – inability to complete planned securitization activities or asset sales.
Net funding gaps ☐ Low ☐ Moderate ☐ High	• Volume of on- and off-balance-sheet net funding gaps. • Extent of short- and long-term cash-flow gaps in the existing structure. • Projected growth or depletion of assets and liabilities. • Extent of dependence on credit-sensitive sources. • Adequacy of current and projected cash-flow projections in normal environments (i.e., day-to-day activities), as well as in significantly deteriorated environments (usually best demonstrated in the contingency funding plan (CFP)). • Ability to cover projected funding gaps when needed in a cost-effective manner.
External and environmental factors ☐ Low ☐ Moderate ☐ High	• How external sources of liquidity view the bank’s current and projected – asset quality, earnings, and capital. – reputation risk or other credit-sensitive factors that could influence customer behavior. • Effect of the parent company’s and affiliate’s current and projected – asset quality, earnings, and capital. – liquidity, especially relating to commercial paper coverage. – reputation risk, strategic risk, or other factors that could influence customer behavior. • Effect of the external market environment, including – ratings of the bank issued by credit rating agencies, including trends. – relative cost of funds (credit default swap or debt spreads over comparable U.S. Treasury securities, compared with those of competitors). – economic conditions, including job growth, migration, industry concentrations, and competition. – depth and breadth of the market. – system-wide shocks to markets and market participants.

Quantity of liquidity risk (continued)	
Liquid asset-based factors ☐ Low ☐ Moderate ☐ High	• Relationship of volume and trends in liquid assets compared with volume and trends of liabilities. • Volume and composition of money market assets such as fed funds sold, Eurodollars placed, and certificates of deposit purchased. • Volume, composition, and trend of unencumbered highly liquid assets the bank can sell or pledge under both business-as-usual and distressed conditions. Consider – level of unencumbered highly liquid assets compared with liquidity needs as well as the duration and severity of the liquidity stress. – intraday liquidity needs. – asset valuation under distressed conditions. – central bank collateral requirements. • Amount of depreciation in the investment portfolio. • Appropriateness of the unit size of investment securities to provide for effective use. • Capacity to enhance liquidity through asset sales or securitization. • The bank's experience in asset sales or securitization markets.

Quality of Liquidity Risk Management

Examiners are required to conclude, based on the review of the core assessment factors, whether risk management is strong, satisfactory, insufficient, or weak.

Quality of liquidity risk management ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	
Policies ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Consistency of the liquidity policy with the bank's overall business strategy, role in the financial system, and risk appetite or limits. • Appropriateness of stated limits. • Appropriateness of guidelines for intraday liquidity, collateral management, diversification, and concentrations. • Whether the policy establishes appropriate responsibilities and accountability at every level. • Reasonableness of definitions that guide policy exceptions and guidelines for approving policy exceptions. • Appropriateness of liquidity guidelines that establish risk limits or positions and whether periodic revaluation is required, and whether the guidelines delineate prudent actions to be taken if the limits or positions are broken. • Whether the CFP clearly establishes strategies that address liquidity shortfalls in a distressed environment. • Appropriateness of stress testing requirements (i.e., includes both institution-specific and market-wide scenarios). • Periodic approval of the liquidity policy by the board or an appropriate board committee.

<table>
<tr><th colspan="2">Quality of liquidity risk management (continued)</th></tr>
<tr><td>Processes
☐ Strong
☐ Satisfactory
☐ Insufficient
☐ Weak</td><td>
• Adequacy of the financial planning and management strategy.
• Adequacy of processes communicating policies and expectations to appropriate personnel (starting with the asset-liability committee or similar committee).
• Adequacy of MIS reports that are timely, accurate, complete, and relevant (including the aggregation of exposures across business lines) in both a business-as-usual and a distressed environment.
• Adequacy of collateral management processes, including major asset class, monitoring by legal entity, and the ability of the custody or settlement system to operate within operational or timing requirements needed to deliver collateral when or where needed.
• Adequacy of processes to monitor on- and off-balance-sheet cash flows, including access to additional funding, securitization activities, contingent liabilities, and collateral requirements.
• Adequacy of stress testing and whether stress test results cause changes in liquidity risk management strategies, policies, risk limits, and CFPs.[36] Consider
– illiquid assets markets.
– deposit run-off.
– availability of both secured and unsecured funding sources.
– margin calls and collateral requirements.
– funding tenors.
– potential draws on liquidity from off-balance-sheet or contingent claims.
– availability of contingent lines of credit.
– effect of asset quality deterioration or credit rating downgrades.
– ability to move funds across borders, currencies, and legal entities.
– access to central bank lending facilities.
– estimate of balance-sheet changes.
• Appropriateness of the bank’s CFP given the bank’s complexity, risk profile, and role within the financial system. Consider whether the CFP
– is integrated into the bank’s overall liquidity risk management framework.
– is adjusted to reflect the results of stress testing and covers a range of scenarios, including bank-specific and market-wide events.
– clearly details a range of options available to bank management to meet potential liquidity shortfalls.
– clearly specifies bank management’s roles and responsibilities, including the authority to invoke the CFP.
– includes clear communications with interested parties (e.g., employees, market participants, regulators, and shareholders).
– addresses intraday liquidity needs.
– addresses testing processes.
• Adequacy of processes and systems to ensure compliance with policy.
• Appropriateness of the approval, monitoring, and reporting process for policy exceptions.
• Adequacy of internal controls, including segregation of duties, dual control, and authority commensurate with duties. (Updated in version 1.1)
• Capabilities of the front- and back-office systems to support current and projected operations.
</td></tr>
</table>

[36] Examiners may refer to OCC Bulletin 2010-13, “Final Interagency Policy Statement on Funding and Liquidity Risk Management.”

Quality of liquidity risk management (continued)	
Personnel ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Depth of technical and managerial expertise. • Appropriateness of the performance management and compensation programs. Such programs should exclude incentives for personnel to take excessive risks. • Appropriateness of bank management's response to deficiencies identified in policies, processes, personnel, and control systems. • Level of turnover of critical staff. • Adequacy of training. • Ability of managers to implement new products, services, and systems in response to changing business, economic, and competitive conditions. • Understanding of and adherence to the bank's strategic direction and risk appetite as defined by senior bank management and the board.
Control systems ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Timeliness, accuracy, completeness, and relevance of MIS, reports, monitoring, and control functions. • Scope, frequency, effectiveness, and independence of the risk review, quality assurance, and internal and external audit functions. • Effectiveness of control systems to identify and prevent internal control deficiencies. • Appropriateness of limits governing balance-sheet composition (ratios), cash flow (funding gaps), and diversification (concentrations), as well as the appropriateness of limits on the amount provided by any one source of funds. • Existence of an independent and competent audit function that validates the reliability and effectiveness of models and management processes. • Independence of risk-monitoring and control functions from the risk-taking function(s). • Independence and validation of models and other measurement tools, and the validity of assumptions.[37]

Price Risk

Examiners consider the factors in this section when assessing the quantity of price risk and quality of price risk management. These factors are the minimum **standards** that examiners consider during every supervisory cycle.

Quantity of Price Risk

Examiners are required to conclude, based on the review of the core assessment factors, whether the risk is low, moderate, or high.

Quantity of price risk ☐ Low ☐ Moderate ☐ High	
Volume of open positions ☐ Low ☐ Moderate ☐ High	• Level of open positions as compared with historical trading revenues, risk limits, and financial condition and resilience. • Size of illiquid positions. • Total volume of assets and liabilities accounted for at fair value through earnings. • Size of held-for-sale loan portfolios. • Level of capital subject to revaluation from currency translation requirements.

[37] Examiners may refer to OCC Bulletin 2011-12 for information regarding model risk management.

Quantity of price risk (continued)	
Market factors ☐ Low ☐ Moderate ☐ High	• Price sensitivity to various market factors (e.g., foreign exchange, interest rates, equity, or commodity prices) in portfolios without options (linear portfolios). • Sensitivity of assets, derivatives, and mortgage servicing rights to valuation inputs (interest rates, prepayments, and volatilities).
Options risk ☐ Low ☐ Moderate ☐ High	• Existence of nonlinear price sensitivity to changes in market factors. • Existence of discontinuous option exposure (e.g., the exposure arising from path-dependent options). • Level of options employed to hedge mortgage servicing rights.
Basis risk ☐ Low ☐ Moderate ☐ High	• Volume of potential exposure caused by a change in the correlation between two prices (e.g., when the price of a derivative instrument and the price of its hedged asset do not move in tandem). • Volume of potential exposure between the underlying mortgage rate and hedging instruments for mortgage servicing rights.
Concentrations ☐ Low ☐ Moderate ☐ High	• Level and diversification among products or types of products. • Existence of concentrations in market factors (e.g., option strike prices). • Existence of a dominant position in products and markets. • Large positions concentrated in higher-risk counterparties.
Product liquidity ☐ Low ☐ Moderate ☐ High	• Volume of readily marketable products that generally can be liquidated or hedged within a reasonable time frame. • Volume of illiquid products whose prices may decline because managers need a relatively long time to liquidate or effectively hedge them. • Volume of level 3 exposures (i.e., assets or liabilities with fair value measurement inputs that may not be readily observable in the market). • Trend and volume of margin call disputes with counterparties.
Stability of revenue ☐ Low ☐ Moderate ☐ High	• Revenue derived from customer-initiated trades in proportion to revenue derived from proprietary trading activity. (Proprietary trading activities must be conducted in conformance with the Volcker rule and its implementing regulations. Refer to 12 USC 1851 and 12 CFR 44.) (Updated in version 1.1) • Revenue derived from portfolio management activity. • Revenue derived from changes in credit spreads. • Mismatches in mortgage servicing rights and hedging revenues.

Quality of Price Risk Management

Examiners are required to conclude, based on the review of the core assessment factors, whether risk management is strong, satisfactory, insufficient, or weak.

Quality of price risk management ☐ **Strong** ☐ **Satisfactory** ☐ **Insufficient** ☐ **Weak**	
Policies ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Consistency of policies related to activities creating price risk with the bank's overall strategic direction and risk appetite or limits. • Structure of the risk-taking operation and whether responsibility and accountability are assigned at every level. • Reasonableness of the definitions that guide policy exceptions, the guidelines for approving policy exceptions, and the reporting requirements for those exceptions. • Appropriateness of price risk guidelines that establish limits or positions, whether periodic revaluation is required, and whether the guidelines delineate prudent actions to be taken if the limits or positions are broken. • Approval of policies by the board or an appropriate board committee. • Existence of adequate standards for independent model validation given the bank's price risk. • Appropriateness of polices that establish goals for and set limits on mortgage servicing rights, lending pipelines, and held-for-sale loan portfolios. • Appropriateness of polices to address foreign currency translation hedging requirements and standards.
Processes ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Adequacy of risk measurement systems to capture material positions and the risks inherent in the positions. • Adequacy of processes that communicate policies and expectations to appropriate personnel. • Production of timely, accurate, complete, and relevant management information. • Comprehensiveness of the strategic planning process. • Adequacy of process controls over new product and systems development. • Adequacy of processes and systems to ensure compliance with policy. • Appropriateness of trading management oversight (i.e., approving and monitoring compliance with limits, communicating policies and expectations to appropriate personnel). • Adequacy of independent measurement and analysis of risk under a variety of scenarios, including stress tests. • Adequacy of the models used for testing revenue vulnerability under probable and stress test scenarios. • Adequacy of processes used to identify and evaluate low-probability, high-impact exposures. • Effectiveness of the profit and loss "explain" function (i.e., the process through which bank management breaks down trading results into their various components). • Independence and adequacy of valuation processes and the validity of assumptions. • Frequency of back-test exceptions. • Appropriateness of the approval, monitoring, and reporting processes for policy exceptions. • Adequacy of internal controls for trading operations (front- and back-office), including segregation of duties, dual control, and authority commensurate with duties. (Updated in version 1.1) • Capabilities of the front-, middle-, and back-office systems to support current and projected trading operations. • Ability to aggregate price risk across trading desks and business lines. • Adequacy of risk modeling for mortgage servicing rights, including whether it is timely, complete, product specific (e.g., a subprime model is used for subprime loans), and reflects current market practices.

Quality of price risk management (continued)	
Personnel ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Depth of technical and managerial expertise. • Appropriateness of performance management and compensation programs. Such programs should exclude incentives for personnel to take excessive risks. • Appropriateness of bank management's response to deficiencies identified in policies, processes, personnel, and control systems. • Level of turnover of critical staff. • Adequacy of training. • Ability of managers to implement new products, services, and systems in response to changing business, economic, or competitive conditions. • Understanding of and adherence to the bank's strategic direction and risk appetite as defined by senior bank management and the board.
Control systems ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Timeliness, accuracy, completeness, and relevance of MIS, reports, monitoring, and control functions. • Adequacy and independence of validation processes for trading models and methods. • Frequency and reliability of revaluations of individual position-taking. • Potential exposure to trading losses as measured under normal and adverse scenarios. • Scope, frequency, effectiveness, and independence of the risk review, quality assurance, and internal and external audit functions. • Responsiveness of control systems to prevent and respond to internal control deficiencies. • Independence of risk-monitoring and control functions from the risk-taking function(s).

Operational Risk

Examiners consider the factors in this section when assessing the quantity of operational risk and quality of operational risk management. These factors are the minimum **standards** that examiners consider during every supervisory cycle.

Quantity of Operational Risk

Examiners are required to conclude, based on the review of the core assessment factors, whether the risk is low, moderate, or high.

Quantity of operational risk ☐ **Low** ☐ **Moderate** ☐ **High**	
Structural factors ☐ Low ☐ Moderate ☐ High	• Volume, type, and complexity of transactions, products, and services offered through the bank. • Volume and severity of operational, administrative, personnel, and accounting control errors. • Level and trend of operational loss events resulting from inadequate or failed internal processes or systems, the misconduct or errors of people, and adverse external events. • Condition, security, capacity, and recoverability of systems. • Complexity and volume of conversions, integrations, and system changes. • Volume and type of activities and operations that have been outsourced or moved offshore.

Quantity of operational risk (continued)	
Strategic factors ☐ Low ☐ Moderate ☐ High	• Effect of strategy, including the development of new markets, products, services, technology, and delivery systems to maintain or enhance competitive position. • Effect of acquisition and divestiture strategies on a market, product, and geographic basis. • Approach toward hedging of operational risk and the extent to which bank management has evaluated its overall exposure and taken specific hedging actions, including insurance (e.g., self-insurance or third-party purchase). • Maintenance of an appropriate balance between technology innovation and secure operations.
External factors ☐ Low ☐ Moderate ☐ High	• Effect of external factors including economic, industry, competitive, and market conditions; legislative and regulatory changes; and technological advancement. • Effect of accounting changes (United States and abroad) on the institution and its operations. • Effect of infrastructure threats on the bank's ability to deliver timely support and service. • Ability of service providers to provide and maintain performance that meets the requirements of the bank.

Quality of Operational Risk Management

Examiners are required to conclude, based on the review of the core assessment factors, whether risk management is strong, satisfactory, insufficient, or weak.

Quality of operational risk management ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	
Policies ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Scope and coverage of the policies, given the institution's operations (lines of business and functional areas), risk profile, and strategic direction. • Consistency of policy implementation across the organization. • Adequacy of the governance structure around operational risk and the assignment of responsibility and accountability at every level. • Reasonableness of definitions that guide policy exceptions and guidelines for approving policy exceptions. • Periodic review and approval of policies by the board or an appropriate board committee. • Appropriateness of guidelines that establish risk limits, whether there is a periodic revaluation of those limits, and whether there is consideration given to actions to be taken if the limits are broken. • Existence and adequacy of any standards for validating models.
Processes ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Integration of an effective operational risk management function into the corporation and each line of business. • Adequacy of processes that communicate policies and expectations to appropriate personnel. • Adequacy of processes that ensure that line-of-business policies are consistent with umbrella policies developed at the corporate level. • Adequacy of processes and systems to ensure compliance with policy. • Appropriateness of the approval, monitoring, and reporting processes for policy exceptions. • Adequacy of internal controls, including segregation of duties, dual control, and authority commensurate with duties. (Updated in version 1.1)

Quality of operational risk management (continued)	
	• Effectiveness of incorporating project management into daily operations (e.g., systems development, capacity planning, change control, due diligence, and outsourcing). • Adequacy of processes defining the systems architecture for transaction processing and for delivering products and services. • Effectiveness of processes to ensure the integrity and security of systems. • Adequacy of documentation supporting the operational risk framework. • Adequacy of processes to ensure the reliability and retention of information (i.e., data creation, processing, storage, and delivery). • Adequacy of processes to capture and record operational loss events, including root cause analysis of operational losses with appropriate remediation. • Adequacy of monitoring processes to detect when controls are deteriorating, becoming ineffective, and are in need of redesign. • Adequacy of processes to detect and prevent internal and external fraud. • Quality of physical and logical security to appropriately protect consumer and corporate information. • Capabilities of the front- and back-office systems to support current and projected operations. • Adequacy of corporate contingency planning and business resumption covering both technology and physical infrastructure across the organization. • Adequacy of the new-product process, including consideration of BSA/AML/OFAC, consumer protection-related, and other laws and regulations. • Adequacy of the selection, due diligence, contracting, and ongoing monitoring of third-party service providers. • Ability to monitor activities and operations that have been moved offshore. • Development of IT solutions that meet the needs of end users. • Capacity to deliver timely services and to respond rapidly to normal service interruptions or to attacks, insider threats, and intrusions from external sources. • Appropriateness of risk measurement systems for the nature and complexity of activities, and how these systems are incorporated into the decision-making process. • Effectiveness and timeliness of bank management's response to audit findings.
Personnel ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Capability of operational risk management in identifying, measuring, monitoring, and controlling operational risk across the organization. • Depth of technical and managerial expertise in both the operational risk management functions and throughout the organization in ensuring that risks are managed and controls are working as designed. • Appropriateness of performance management and compensation programs, including accountability for compliance with BSA/AML/OFAC, consumer protection-related, and other laws and regulations. Such programs should exclude incentives for personnel to take excessive risks. • Role of operational risk management and the extent to which it is independent of the lines of business. • Ability of the internal audit staff to identify risk and control breakdowns and ensure appropriate remediation. • Timely and complete remediation of deficiencies in policies, processes, personnel, and control systems. • Adequacy of staffing levels and appropriate succession planning. • Adequacy of training at the corporate level, within the lines of business, and in the functional areas. • Understanding of and adherence to the strategic direction and risk appetite as defined by senior bank management and the board. • Appropriateness of hiring practices to deter internal fraud (e.g., background checks), including the hiring practices of outsourced personnel or third-party providers.

Quality of operational risk management (continued)	
Control systems ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Timeliness, accuracy, completeness, and relevance of MIS, reports, monitoring (including transaction and surveillance monitoring systems used to detect and report suspicious activity), and control functions. • Production of timely, accurate, complete, and relevant operational risk management and measurement reports to line of business managers, senior bank management, and the board. • Quality of the control environment and the extent to which controls are relevant given the institution's operations, risk profile, and overall trends in operational risk events in the institution. • Comprehensiveness of the internal risk and control self-assessment structure. • Scope, frequency, effectiveness, and independence of the risk review, quality assurance, and internal and external audit functions. • Effectiveness of exception monitoring systems that identify, measure, and track incremental risk exposure by how much (in frequency and amount) the exceptions deviate from policy and established limits, and the adequacy of corrective actions. • Independent testing of processes, including key controls, to ensure ongoing reliability and integrity of the risk management framework. • Adequacy of systems to monitor capacity and performance. • Adequacy of controls over new product and systems development. • Adequacy of controls over activities and operations that have been outsourced or moved offshore.

Compliance Risk

Examiners consider the factors in this section when assessing the quantity of compliance risk and quality of compliance risk management. These factors are the minimum **standards** that examiners consider during every supervisory cycle.

Customer Complaint Data Review

Examiners should review complaint data or reports from the OCC's Customer Assistance Group, the CFPB, and the bank before finalizing the compliance core assessment. The complaint data review should include an assessment of the volume, themes, and trends of complaints. Reviewing customer complaint data can provide examiners with indicators of potential risk management weaknesses or other deficiencies, such as violations of laws or regulations. Such deficiencies can affect any risk area. Examiners responsible for the complaint data review should communicate relevant information from the complaint data review to examiners of other functional areas and the EIC, as appropriate. (Updated in version 1.1)

Quantity of Compliance Risk

Examiners are required to conclude, based on the review of the core assessment factors, whether the risk is low, moderate, or high.

Quantity of compliance risk ☐ Low ☐ Moderate ☐ High	
Business activity ☐ Low ☐ Moderate ☐ High	• Nature and extent of business activities, including rapid growth, new or unique products and services, delivery channels, third-party relationships, and significant merger and acquisition activity. • Number of high-risk products, services, customers, and geographies for money laundering and terrorist financing activities. • Level of competition and nature and extent of advertising and marketing activities. • Span of the organization over supervisory and legal jurisdictions.
Litigation and noncompliance ☐ Low ☐ Moderate ☐ High	• Amount and significance of litigation, monetary penalties, and customer complaints. • Level of inquiries or investigations from other governmental agencies. • Volume and significance of noncompliance and nonconformance with bank policies and procedures, laws, regulations, prescribed practices, and ethical standards.

Quality of Compliance Risk Management

Examiners are required to conclude, based on the review of the core assessment factors, whether risk management is strong, satisfactory, insufficient, or weak.

Quality of compliance risk management ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	
Policies ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Appropriateness of established policies and risk limits. • Consistency of policies with the banks' overall strategic direction. • Structure of the compliance risk management system and whether responsibility and accountability are assigned at every level. • Reasonableness of definitions that determine policy exceptions and guidelines for approving policy exceptions. • Periodic review of the effectiveness of the compliance risk management system and the BSA/AML/OFAC compliance programs, and approval of compliance policies by the board or an appropriate board committee.
Processes ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Strength of the organization's compliance culture. • Adequacy of processes communicating policies and expectations and changes to such policies and expectations to appropriate personnel. • Adequacy of processes to capture and respond to consumer complaints and identify potential compliance issues. • Adequacy of processes and systems to ensure compliance with policy and applicable laws and regulations, including BSA/AML/OFAC. • Appropriateness of the approval, monitoring, and reporting processes for policy exceptions. • Adequacy of internal controls, including segregation of duties, dual control, and authority commensurate with duties. (Updated in version 1.1) • Capabilities of the front- and back-office systems to support current and projected operations. • Adequacy of processes assimilating legislative and regulatory changes into all aspects of the company. • Adequacy of the budget to ensure that appropriate resources are allocated to compliance risk management and training. • Extent to which violations, noncompliance, or weaknesses in the compliance risk management system are identified internally and corrected. • Adequacy of integrating compliance considerations into all phases of corporate planning, including the development of new products and services.

Quality of compliance risk management (continued)	
Personnel ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Depth of technical and managerial expertise. • Appropriateness of performance management and compensation programs, including accountability for compliance with BSA/AML/OFAC, consumer protection-related, and other laws and regulations. Such programs should exclude incentives for personnel to take excessive risks. • Appropriateness of bank management's response to deficiencies identified in policies, processes, personnel, and control systems. • Appropriateness of bank management's corrective actions for violations of laws and regulations and compliance with enforcement actions or conditions imposed in writing. • Independence of compliance staff. • Level of turnover of critical staff. • Adequacy of training. • Adequacy of employee screening processes. • Understanding of and adherence to the bank's strategic direction and risk appetite as defined by senior bank management and the board.
Control systems ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Timeliness, accuracy, completeness, and relevance of MIS, reports, monitoring (including transaction and surveillance monitoring systems used to detect and report suspicious activity), and control functions. • Scope, frequency, effectiveness, and independence of the risk review, quality assurance, and internal and external audit functions (including BSA/AML audits). • Appropriate use and independent validation of measurement tools, systems, and programs, including those developed by third parties. • Effectiveness of exception monitoring systems that identify, measure, and track incremental risk exposure by how much (in frequency and amount) the exceptions deviate from policy and established limits, and the adequacy of corrective actions.

BSA/AML

The OCC is required to review the BSA compliance program of each bank during every supervisory cycle.[38] The BSA/AML review must include a conclusion about the adequacy of the bank's BSA program. Risk-based transaction testing must be performed during each supervisory cycle using the appropriate section(s) of the *FFIEC BSA/AML Examination Manual*.

The scope of the BSA/AML review must include the minimum procedures in the "Core Examination Overview and Procedures for Assessing the BSA/AML Compliance Program" section of the *FFIEC BSA/AML Examination Manual*, plus any additional core or expanded procedures as determined during the scoping and planning process. The extent to which additional core or expanded procedures are used should be risk-based. Examiners conclude on the adequacy of the bank's BSA/AML program and each program pillar.[39]

[38] 12 USC 1818(s) requires the OCC to review the BSA compliance program of each insured depository institution. For this purpose, "insured depository institution" also includes uninsured federal branches and agencies and uninsured national banks. Refer to 12 USC 1813(c)(3) and 12 USC 1818(b)(5).

[39] The ROE or other formal written communication must address the overall adequacy of the bank's BSA compliance program and each program pillar, including a description of any problems, as required by 12 USC 1818(s)(2)(B). For more information, refer to the "Report of Examination" section of the "Bank Supervision Process" booklet of the *Comptroller's Handbook*.

Internal Controls

(Section updated in version 1.1)

Examiners consider the following factors when assessing internal controls. These factors are the minimum **standards** that examiners consider during every supervisory cycle. Examiners are required to conclude, based on the review of the core assessment factors, whether internal controls are strong, satisfactory, insufficient, or weak.

Internal controls ☐ **Strong** ☐ **Satisfactory** ☐ **Insufficient** ☐ **Weak**	
Control environment ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Integrity, ethical values, and competence of personnel. • Organizational structure of the bank. • Bank management's philosophy and operating style (i.e., strategic philosophy). • External influences affecting operations and practices (e.g., independent audits, regulatory environment, and competitive and business markets). • Methods of assigning authority and responsibility and of organizing and developing people. • Attention and direction provided by the board and its committees, especially the audit and risk management committees.
Risk assessment ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Assessment of external and internal factors that could affect whether strategic objectives are achieved. • Identification and analysis of risks. • Systems used to manage and monitor risks. • Processes that react and respond to changing risk conditions. • Competency, knowledge, and skills of personnel responsible for risk assessment.
Control activities ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Policies and procedures established to ensure control processes are carried out. • Reviews of operating activities. • Approvals and authorization for transactions and activities. • Segregation of duties. • Vacation requirements or periodic rotation of duties for personnel in sensitive positions. • Safeguarding access to, and use of, sensitive assets, records, and systems, including controls over material, non-public information. • Independent checks or verifications of function performance and reconciliation of balances. • Accountability.
Accounting, information, and communication ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• MIS that identify and capture relevant internal and external information in a timely manner. • Accounting systems that ensure reporting of assets and liabilities in accordance with generally accepted accounting principles and regulatory requirements. • Information systems that ensure effective communication of positions and activities. • Contingency planning for information systems.

Internal controls (continued)	
Self-assessment and monitoring ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Periodic evaluation of internal controls whether by self-assessment or independent audit.[40] • Systems to ensure timely and accurate reporting of deficiencies. • Processes to ensure timely modification of policies and procedures, as needed.

Audit

Examiners consider the following factors when assessing audit. These factors are the minimum **standards** that examiners consider during every supervisory cycle. Examiners are required to conclude, based on the review of the core assessment factors, whether audit is strong, satisfactory, insufficient, or weak.

Examiners should use expanded or verification procedures[41] when significant control concerns are evident, in areas of greater complexity, and in areas with higher risk profiles. Internal audit may be a department of the bank or holding company, or an outsourced function. For more information, refer to the "Assessment of Audit Functions" section of the "Bank Supervision Process" booklet and the "Internal and External Audits" booklet of the *Comptroller's Handbook*.

Audit ☐ **Strong** ☐ **Satisfactory** ☐ **Insufficient** ☐ **Weak**	
Audit committee ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Composition and qualifications of the company's audit committee, and whether members are independent of bank management. • Existence of an audit committee charter and the sufficiency of its content, dissemination, review, and approval. • Audit committee's understanding of and compliance with its statutory duties and responsibilities pertaining to external audit's processes and procedures, conclusions and findings, and reporting regarding the company's financial reporting control systems. • Number of audit committee meetings held and the depth of those meetings. • Engagement of discussions on new business ventures, the risks involved and planned controls. • Effectiveness of reporting to the audit committee, including annual audit plans and performance against those plans, staffing and resources, quality assurance results, audit concerns, emerging issues, corrective actions, and exception tracking. • Maintenance of an open dialogue with regulators and external auditors. • Role of the committee in reviewing and approving audit plans and engagement letters. • Role of the committee in overseeing the general auditor, including evaluating performance and setting compensation.

[40] Banks may be subject to 12 CFR 363 and section 404 of the Sarbanes–Oxley Act. For more information, refer to the "Internal and External Audits" booklet of the *Comptroller's Handbook.*

[41] Expanded procedures should be drawn from "Internal and External Audits" and other booklets of the *Comptroller's Handbook*.

Audit (continued)	
Audit management and processes ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Corporate culture and commitment to the audit function supporting an effective control environment. • Independence of the audit function. • Leadership and direction provided by audit management and its industry expertise and knowledge in relation to the sophistication and complexity of the bank's risk profile and operations. • Effective and appropriate management of any outsourced or co-sourced audit activities or functions. • Adequacy of audit plans, including the effectiveness of the audit planning horizon, the identification of the audit universe and auditable entities, and the integration of professional standards into the overall program. • Flexibility of audit scopes regarding adding new business lines and merged activities. • Timeliness, accuracy, and reliability of reports used to manage the audit unit. • Accuracy of audit risk assessments and frequency of audits. • Effectiveness of follow-up actions, including whether they are timely and thorough. • Effectiveness of audit involvement in mergers and acquisitions.
Audit reporting ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Audit rating system's effectiveness and granularity. • Timeliness of audit reports and whether they clearly outline the root causes of problems, specifically point out management issues when present, and identify areas of increased levels of control weaknesses. • Effectiveness of the internal audit program's exception/correction-tracking system used to monitor and report significant control findings and open issues from all sources and to report on the status and adequacy of corrective actions to the audit committee. • Work paper documentation on the adequacy of audit scope, coverage, and testing to assess the internal control environment in the audited unit, and to support the conclusions reached.[42]
Internal audit staff ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Independence of internal audit staff. • Overall adequacy and competency of the internal audit staff, considering the level of risk undertaken by the bank, staff turnover, vacancies, recruitment, training, subject matter expertise, and professional certifications. • Effectiveness of succession planning within the audit group. • Level of or reliance on outsourced internal audit activities.

Asset Management

The OCC defines asset management as the business of providing financial products and services to a third party for a fee or commission. Asset management activities include trust and fiduciary services, investment management, retirement planning, corporate trust administration, custody, safekeeping, securities lending services, security-holder and transfer agent services, and retail sales of nondeposit investment products. At some banks, asset management activities also include clearing, securities settlement and related payments services.

While asset management does not have a standalone risk category, asset management activities may expose the bank to reputation, strategic, operational, compliance, and credit risks.

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[42] Information on work paper reviews is in the "Internal and External Audits" booklet of the *Comptroller's Handbook*. (Footnote updated in version 1.1)

Quantity of Asset Management Risk

Examiners consider the relevant assessment factors for reputation, strategic, operational, compliance, and credit risks when assessing the quantity of asset management risk. Examiners should use the information in this section as appropriate based on the nature and extent of the bank's asset management activities. (Updated in version 1.1)

Quantity of asset management risk ☐ **Low** ☐ **Moderate** ☐ **High**	
Strategic risk factors ☐ Low ☐ Moderate ☐ High	• Consistency of asset management activities within the bank's strategic objectives and risk appetite. • Magnitude of asset management-related changes in business mission, strategic objectives, core values, or risk appetite. Consider the impact of acquisitions, divestitures, new products and markets, new delivery channels, growth initiatives, cost control measures, legislative and regulatory change, market conditions, technological advances, and competition. • Size and scope of asset management-related activities, including the volume of assets under management, assets under administration, concentrations, market share, and breadth of activities. • Adequacy of stress testing and capital allocated to the asset management lines of business. Consider historical trends and potential asset management losses, litigation, settlements, and monetary fines and surcharges, including the effect of non-recurring fees, fee waivers, and charge-offs.
Reputation risk factors ☐ Low ☐ Moderate ☐ High	• The nature of and amount of asset management-related employee misconduct. Consider risk of breaching the fiduciary duty of loyalty, potential or inherent conflicts of interest/self-dealing, and inappropriate sales practices. • Significance of third-party relationships. • Nature and amount of exposure from litigation, monetary penalties, violations of laws and regulations, and customer complaints.
Operational risk factors ☐ Low ☐ Moderate ☐ High	• Volume, type, and complexity of asset management transactions, products, and services offered through the bank and other delivery channels, including through third parties. • Level and trend of asset management operational errors and loss events resulting from inadequate or failed internal processes or systems, misconduct or errors of people, and adverse external events. • Complexity and volume of conversions, integrations, system changes, models, tools, manual processes, and employee turnover related to asset management. • Volume and type of asset management and operations that have been outsourced or moved offshore. • Effect of strategic initiatives, including development of new asset management products, services, markets, technology, and delivery systems to maintain or enhance competitive position. • Effect of external factors including economic, industry, competitive, and market conditions; legislative and regulatory changes; technological advancements; and infrastructure and cybersecurity threats.

Quantity of asset management risk (continued)	
Compliance risk factors ☐ Low ☐ Moderate ☐ High	• Nature and extent of asset management, including high growth; propensity for conflicts of interest or self-dealing; new products, services, and delivery channels; third-party relationships; and significant merger and acquisition activity. • Level of asset management products, services, customers, and geographies at high risk for money laundering and terrorist financing activities. • Number of jurisdictions in which asset management activities are conducted. Consider the amount of regulatory oversight in those jurisdictions, including outside the United States. • Amount and significance of asset management litigation, payouts, customer complaints, and whistleblower allegations. • Level of inquiries or investigations from governmental or public interest groups. • Volume and significance of noncompliance and nonconformance with policies and procedures, applicable laws, regulations, governing instruments, prescribed practices, and fiduciary, suitability, and ethical standards.
Credit risk factors ☐ Low ☐ Moderate ☐ High	• Volume, types, and complexity of credit exposure in the asset management lines of business. Consider securities lending, intraday exposures, overdrafts, and counterparty credit risk. Also consider credit exposure to clients, clearing houses, and other third parties related to securities processing, payment, settlement, and clearing activities. • Trends in the growth of asset management-related credit exposures, delinquencies, losses, and recoveries. Coordinate with credit examiners regarding private bank and margin lending credit exposures.

Quality of Asset Management Risk Management

Examiners consider the relevant factors for reputation, strategic, operational, compliance, and credit risk, assessing the quality of asset management risk management. Examiners should use the information in this section as appropriate based on the nature and extent of the bank's asset management activities. (Updated in version 1.1)

Quality of asset management risk management ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	
Strategic risk management factors ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Board and senior bank management expertise, oversight, and engagement in asset management strategic initiatives and fiduciary responsibilities. • Appropriateness of the asset management governance structure with clear first, second, and third lines of defense, and authority and responsibility to monitor adherence to policies, procedures, and controls. • Effectiveness of strategic and succession planning processes, appropriateness of staffing and expertise, and adherence to stated risk appetite, policies, and enterprise standards. • Quality, integrity, and timeliness of reports to bank management and the board for overseeing strategic decisions and managing risks associated with asset management. • Adequacy and effectiveness of legal counsel and insurance coverage.

Quality of asset management risk management (continued)	
Reputation risk management factors ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Performance in offering new products, services, or technologies; managing third-party relationships; conducting due diligence before startup; and evaluating potential and consummated acquisitions or divestitures. • Bank management's expertise and the board's effectiveness in maintaining and overseeing an ethical, self-policing culture and in identifying and avoiding potential conflicts of interest, breaches of fiduciary duty, and inappropriate sales practices. • Effectiveness of the investment risk management process in meeting fiduciary clients' needs and objectives in a prudent manner. • Adequacy, effectiveness, and independence of risk control functions to monitor business decisions and provide credible challenge. • Adequacy of processes for handling litigation and resolving customer complaints. • Effectiveness of policies, practices, and systems in protecting consumers' private information. • Bank management's responsiveness to internal, external, and regulatory findings.
Operational risk management factors ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Adequacy of the scope, depth, consistency and coverage of operational policies, risk limits, and MIS, given the asset management business line's risk profile and strategic direction. • Adequacy of processes to capture and record operational loss events, including root cause analysis of operational losses with appropriate remediation. This includes the ability to aggregate exposures across asset management business lines. • Adequacy of the risk governance structure around operational risk; assignment of responsibility and accountability; risk escalation process; segregation of duties, dual control, and joint custody and controls of fiduciary assets; discretionary disbursement and lending controls; and the effectiveness of the internal risk and control self-assessment structure. • Ability to manage, monitor, value, preserve, and safeguard client assets. • Adequacy of processes and controls to prevent internal and external fraud. • Adequacy, reliability, condition, security, capacity, recoverability, and concentration risk of asset management proprietary, legacy, and third-party systems; adequacy of corporate contingency planning and business resumption covering technology and physical infrastructure. Asset management systems include trading, payment, settlement, clearing, reconciliation, valuation, accounting, and safekeeping. • Adequacy of third-party risk management. • Adequacy of model risk management. • Ability, competency, and staffing sufficiency of internal audit to appropriately identify asset management risks and control breakdowns, correct issues on a timely basis, and track findings through validation and closure.
Credit risk management factors ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Appropriateness and consistency of established credit, securities lending, margin lending, payment processing and settlement policies, procedures, and practices within the asset management lines of business, overall strategic direction, and risk appetite. Consider risk limits, including concentrations, actions to be taken if limits are broken, and relevant management information around exposures across the asset management business. • Sufficiency and reliability of methods used to analyze the creditworthiness of counterparties and debt issuers to ensure repayment capacity.

Quality of asset management risk management (continued)	
Compliance risk management factors ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Appropriateness of established asset management policies, procedures, processes, and control systems. • Structure, strength, integrity, independence, and accountability of the asset management compliance culture and risk management system. • Adequacy of asset management-related compliance training. • Effectiveness of exception monitoring systems that identify, measure, and track risk exposure, and adequacy of corrective actions. • Extent to which violations, noncompliance, or weaknesses in the compliance risk management system are identified internally, escalated appropriately, and corrected on a timely basis. • Adequacy of processes to capture and respond to client complaints, identify potential compliance issues, and escalate those issues to the appropriate parties for resolution. • Appropriateness of performance management and compensation programs, including accountability for compliance with fiduciary, securities, consumer protection-related, and other applicable laws and regulations. These programs should not reward for excessive risk taking.

Regulatory Ratings

Regulatory ratings must be assigned at least annually for each OCC-supervised bank in the company. Examiners consider the factors in this section when assigning regulatory ratings. These factors are the minimum **standards** that examiners consider during every supervisory cycle. Examiners are required to conclude, based on the review of the core assessment, whether the composite and each component is rated 1, 2, 3, 4, or 5. Refer to the following sections of the "Bank Supervision Process" booklet for definitions of each rating:[43]

- "Uniform Financial Institutions Rating System (Commonly Known as CAMELS)"
- "Uniform Rating System for Information Technology"
- "Uniform Interagency Trust Rating System"
- "Uniform Interagency Consumer Compliance Rating System"

Refer to the "Bank Supervision Process" and "Federal Branches and Agencies Supervision" booklets of the *Comptroller's Handbook* for information regarding assigning regulatory ratings for federal branches and agencies. (Updated in version 1.1)

While the regulatory ratings are based on evaluations of the bank's financial, managerial, operational, and compliance performance, the description of each component contains explicit language emphasizing bank management's ability to manage risk. Therefore, examiners should consider RAS conclusions when assigning the corresponding component and the composite rating.

[43] For federal branches and agencies, refer to the "Bank Supervision Process" and "Federal Branches and Agencies Supervision" booklets of the *Comptroller's Handbook*.

Capital Adequacy

- Level and quality of capital and the overall financial condition of the institution.
- Ability of bank management to address emerging needs for additional capital, as reflected by the adequacy of stress testing and capital planning processes.
- Nature, trend, and volume of problem assets and the adequacy of the ALLL and other valuation reserves.
- Balance-sheet composition, including the nature and amount of intangible assets, market risk, concentration risk, and risks associated with nontraditional activities.
- Risk exposure represented by off-balance-sheet activities.
- Quality and strength of earnings, and the reasonableness of dividends.
- Prospects and plans for growth, as well as past experience in managing growth.
- Access to capital markets and other sources of capital, including support provided by a parent holding company.

Conclusion: Capital adequacy is rated (1, 2, 3, 4, or 5).

Asset Quality

- Adequacy of underwriting standards, soundness of credit administration practices, and appropriateness of risk identification practices.
- Level, distribution, severity, and trend of problem, classified, nonaccrual, restructured, delinquent, and nonperforming assets for both on- and off-balance-sheet transactions.
- Adequacy of the ALLL and other asset valuation reserves.
- Credit risk arising from or reduced by off-balance-sheet transactions, such as unfunded commitments, credit derivatives, commercial and standby letters of credit, and lines of credit.
- Diversification and quality of the loan and investment portfolios.
- Extent of securities underwriting activities and exposure to counterparties in trading activities.
- Existence of asset concentrations.
- Adequacy of loan and investment policies, procedures, and practices.
- Ability of bank management to properly administer its assets, including the timely identification and collection of problem assets.
- Adequacy of internal controls and MIS. (Updated in version 1.1)
- Volume and nature of credit documentation exceptions.

Conclusion: Asset quality is rated (1, 2, 3, 4, or 5).

Management

- Level and quality of oversight and support of institution activities by the board and bank management.
- Ability of the board and bank management, in their respective roles, to plan for and respond to risks that may arise from changing business conditions or the initiation of new activities or products.
- Adequacy of, and conformance with, appropriate internal policies and controls addressing the operations and risks of significant activities.
- Accuracy, timeliness, and effectiveness of MIS and risk monitoring systems appropriate for the institution's size, complexity, and risk profile.
- Adequacy of audits and internal controls to promote effective operations and reliable financial and regulatory reporting; safeguard assets; and ensure compliance with laws, regulations, and internal policies. (Updated in version 1.1)
- Compliance with laws and regulations.
- Adequacy of the compliance risk management process to ensure compliance with laws and regulations, including BSA/AML/OFAC. Serious deficiencies in BSA/AML compliance create a presumption that the management component rating will be adversely affected because risk management practices are less than satisfactory.[44] Support for incorporating BSA/AML examination findings into the management rating should be fully documented.
- Responsiveness to recommendations from auditors and supervisory authorities.
- Bank management depth and succession.
- Extent to which the board and bank management are affected by, or susceptible to, a dominant influence or a concentration of authority.
- Reasonableness of compensation policies and avoidance of self-dealing.
- Demonstrated willingness to serve the legitimate banking needs of the community.
- Overall performance of the institution and its risk profile.

Conclusion: Management is rated (1, 2, 3, 4, or 5).

Earnings

- Level of earnings, including trends and stability.
- Ability to provide for adequate capital through retained earnings.
- Quality and sources of earnings.
- Level of expenses in relation to operations.
- Adequacy of budgeting systems, forecasting processes, and MIS in general.
- Adequacy of provisions to maintain the ALLL and other valuation allowance accounts.
- Earnings exposure to market risk such as interest rate, foreign currency translation, and price risks.

[44] Refer to OCC Bulletin 2012-30, "BSA/AML Compliance Examinations: Consideration of Findings in Uniform Rating and Risk Assessment Systems."

Conclusion: Earnings are rated (1, 2, 3, 4, or 5).

Liquidity

- Adequacy of liquidity sources compared with present and future needs and the ability of the institution to meet liquidity needs without adversely affecting its operations or condition.
- Availability of assets readily convertible to cash without undue loss.
- Access to money markets and other sources of funding.
- Level of diversification of funding sources, both on and off the balance sheet.
- Degree of reliance on short-term, volatile sources of funds, including borrowings and brokered deposits, to fund longer-term assets.
- Trend and stability of deposits.
- Ability to securitize and sell certain pools of assets.
- Capability of bank management to properly identify, measure, monitor, and control the institution's liquidity position, including the effectiveness of funds management strategies, liquidity policies, MIS, and CFP.

Conclusion: Liquidity is rated (1, 2, 3, 4, or 5).

Sensitivity to Market Risk

- Sensitivity of the financial institution's earnings or the economic value of its capital to adverse changes in interest rates, foreign exchanges rates, commodity prices, or equity prices.
- Ability of bank management to identify, measure, monitor, and control exposure to market risk given the institution's size, complexity, and risk profile.
- Nature and complexity of interest rate risk exposure arising from nontrading positions.
- If appropriate, nature and complexity of market risk exposure arising from trading, asset management activities, and foreign operations.

Conclusion: Sensitivity to market risk is rated (1, 2, 3, 4, or 5).

Information Technology

- Adequacy and effectiveness of IT risk management practices.
- Planning for and oversight of technological resources and services and ensuring that they support the bank's strategic goals and objectives, whether these services are obtained in-house or outsourced.
- Accuracy, reliability, and integrity of automated information and associated MIS, including the protection from unauthorized change.
- Protection of bank and customer information from accidental or inadvertent disclosure.
- Effectiveness and adequacy of business resumption and contingency planning.

Conclusion: IT is rated (1, 2, 3, 4, or 5).

Asset Management

- Level and quality of oversight and support of asset management activities by the board and bank management, including committee structure and documentation of committee actions.
- Competence, experience, and knowledge of bank management with regard to the institution's business strategies, policies, procedures, and control systems.
- Adequacy of risk management practices and compliance programs relative to the size, complexity, and risk profile of the institution's asset management activities.
- Effectiveness and adequacy of policies and controls put in place to prevent and detect conflicts of interest, self-dealing, suspicious activity, and securities violations.
- Adequacy and consistency of policies and procedures given the institution's strategic plan, risk appetite, and core values.
- Adequacy of staff, facilities, and operating systems; records, accounting, and data-processing systems; segregation of duties; and trading functions and securities-lending activities.
- Level and consistency of profitability generated by the institution's asset management activities in relation to the volume and character of the institution's business.

Conclusion: Asset management (i.e., trust) is rated (1, 2, 3, 4, or 5).

Consumer Compliance

- Board and bank management effectiveness, as appropriate for their respective roles and responsibilities, based on the following assessment factors:
  - Oversight of and commitment to the institution's compliance management system.
  - Effectiveness of the institution's change management processes, including responding satisfactorily and in a timely manner to any variety of change, internal or external, to the institution.
  - Comprehension, identification, and management of risks arising from the institution's products, services, or activities.
  - Self-identification of consumer compliance issues and corrective action undertaken as such issues are identified.
- Effectiveness of the bank's consumer compliance program, based on the following assessment factors:
  - Whether the institution's policies and procedures are appropriate to the risk in the institution's products, services, and activities.
  - Degree to which compliance training is current and tailored to risk and staff responsibilities.
  - Sufficiency of the monitoring and, if applicable, audit to encompass compliance risks throughout the institution.
  - Responsiveness and effectiveness of the consumer complaint resolution process.
- Violations and consumer harm, based on the following assessment factors:
  - Root cause, or causes, of any violations of law identified during the examination.
  - Severity of any consumer harm resulting from violations.

- Duration of time over which the violations occurred.
- Pervasiveness of the violations.

Examiners should refer to the “Uniform Interagency Consumer Compliance Rating” section of the “Bank Supervision Process” booklet of the *Comptroller’s Handbook* for the full consumer compliance rating system. Examiners may also refer to the “Compliance Management Systems” booklet of the *Comptroller’s Handbook* for more information regarding compliance management systems and assigning the bank’s compliance rating.

Conclusion: Consumer compliance is rated (1, 2, 3, 4, or 5).

Composite Rating

The composite rating generally bears a close relationship to the component ratings assigned, but the composite rating is not derived by computing an arithmetic average of the component ratings. When examiners assign a composite rating, some components may be given more weight than others depending on the situation at the institution. In general, assignment of a composite rating may incorporate any factor that bears significantly on the overall condition and soundness of the financial institution.

Examiners should also consider the bank’s performance under municipal and government securities dealer requirements and the CRA when assigning the composite rating. The CRA rating is assigned periodically through the issuance of a CRA performance evaluation.

Conclusion: The bank’s composite rating is (1, 2, 3, 4, or 5).

Risk Assessment System

Conclusions from the core assessment allow examiners to assess the bank's risk profile. Although the core assessment normally only needs to be completed in full annually, examiners complete a RAS summary quarterly or more often if warranted based on the bank's risk profile or condition. Examiners complete one quarterly RAS for all OCC-supervised banks within a company. One of these quarterly assessments accompanies the annual core assessment and includes a comprehensive narrative on the aggregate risk, direction of risk, quantity of risk, and quality of risk management for each risk category. The remaining quarterly assessments update the annual assessment and serve to highlight any changes in the company's or an individual bank's risk profile.

RAS summaries should be documented in the OCC's supervisory information systems. Appropriate changes to the supervisory strategy due to changes in the risk profile should also be documented in the OCC's supervisory information systems.

Strategic Risk

Strategic risk is the risk to current or projected financial condition and resilience arising from adverse business decisions, poor implementation of business decisions, or lack of responsiveness to changes in the banking industry and operating environment. This risk is a function of a bank's strategic goals, business strategies, resources, and quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities.

The assessment of strategic risk includes more than an analysis of a bank's written strategic plan. It focuses on opportunity costs and how plans, systems, and implementation affect the bank's financial condition and resilience. It also incorporates how management analyzes external factors, such as economic, technological, competitive, regulatory, and other environmental changes, that affect the bank's strategic direction.

Summary Conclusions

Conclusions from the core assessment allow examiners to assess the quantity of strategic risk, quality of strategic risk management, aggregate strategic risk, and the direction of risk.

Examiners consider both the quantity of strategic risk and quality of strategic risk management to derive the following conclusions:

- Aggregate strategic risk is (low, moderate, high).
- The direction of strategic risk is expected to be (decreasing, stable, increasing).

Quantity of Strategic Risk

Examiners use the following definitions to determine the quantity of strategic risk. It is not necessary to meet every qualifier to be accorded a specific assessment.

Conclusion: The quantity of strategic risk is (low, moderate, high).

Low: Strategic decisions or external pressures are expected to nominally affect financial condition and resilience. Exposure reflects strategic goals that are sound, highly compatible with the business direction, and responsive to changes in the environment. Initiatives are supported by capital, communication channels, operating systems, delivery networks, staff, and other financial resources. Strategic decisions can be reversed or modified with only negligible cost or difficulty.

Moderate: Strategic decisions or external pressures are not expected to significantly affect financial condition and resilience. Exposure reflects strategic goals that, although aggressive, are compatible with the business direction and responsive to changes in the environment. Initiatives are usually supported by capital, communication channels, operating systems, delivery networks, staff, and other financial resources. Strategic decisions can be reversed or modified without significant cost or difficulty.

High: Strategic decisions or external pressures are expected to adversely affect financial condition and resilience. Strategic initiatives may be nonexistent, overly aggressive, incompatible with the business direction, or require excessive financial resources. Strategic decisions may be difficult or costly to reverse or modify. Strategic goals may be nonexistent, poorly defined, or fail to consider changes in the business environment. Initiatives may be poorly conceived or inadequately supported by capital, communication channels, operating systems, delivery networks, staff, and other financial resources.

Quality of Strategic Risk Management

Examiners use the following definitions to determine the quality of strategic risk management. It is not necessary to meet every qualifier to be accorded a specific assessment.

Conclusion: The quality of strategic risk management is (strong, satisfactory, insufficient, weak).

Strong: The board is actively engaged in the strategic planning process and monitors performance. The depth and technical expertise of staff enable bank management to effectively set strategic direction and achieve organizational efficiency. Management has a comprehensive and well-defined planning process and has a successful record in accomplishing stated strategic goals. Initiatives are supported by sound due diligence and effective risk management systems, which are an integral part of strategic planning. The impact of reversing or modifying strategic decisions is fully assessed as part of the planning process. Strategic goals are effectively communicated and evident throughout the organization. MIS effectively support strategic direction and initiatives. Bank management is aware of and effectively incorporates technology management into strategic plans.

Satisfactory: The board is engaged in the strategic planning process and monitors performance. The depth and technical expertise of staff at times may prevent bank management from being fully effective in setting strategic direction or achieving organizational efficiency. Bank management has a reasonable record of accomplishing its stated strategic goals. The quality of due diligence and risk management is consistent with the strategic issues confronting the organization. Risk management, while a part of strategic planning, may be less than comprehensive. Strategic goals are communicated and evident throughout the organization. MIS reasonably support the company's strategic direction. Bank management is aware of and usually incorporates technology management into strategic plans.

Insufficient: The board may not be engaged in the strategic planning process and may not consistently monitor performance. Weaknesses in the depth and technical expertise of staff sometimes prevent bank management from being effective in setting strategic direction or achieving organizational efficiency. Bank management has on occasion failed to achieve a specific strategic goal. The quality of due diligence and risk management, while consistent with the strategic issues confronting the organization, may overlook a key consideration. Risk management, while a part of strategic planning, may be less than comprehensive or inadequately address a specific issue. Strategic goals may not be communicated and evident throughout the organization. MIS reasonably support the company's strategic direction, but there may be some weaknesses. Bank management is aware of and usually incorporates technology management into strategic plans, although there may be specific gaps.

Weak: The board is not engaged in the strategic planning process and does not monitor performance. Insufficient depth and technical expertise of staff often prevent bank management from effectively setting strategic direction and achieving organizational efficiency. Bank management does not consistently accomplish its stated strategic goals. Less than effective risk management systems or a lack of adequate due diligence has resulted in deficiencies in management decisions and may undermine effective evaluation of resources and commitment to new products and services or acquisitions. Strategic goals are not clearly communicated and evident throughout the organization. MIS may be insufficient to support the company's strategic direction or address a changing environment. Bank management ineffectively incorporates technology management into strategic plans.

Reputation Risk

Reputation risk is the risk to current or projected financial condition and resilience arising from negative public opinion. This risk may impair a bank's competitiveness by affecting its ability to establish new relationships or services or continue servicing existing relationships. Reputation risk is inherent in all bank activities, and management should deal prudently with stakeholders, such as customers, counterparties, correspondents, investors, regulators, employees, and the community.

A bank that actively associates its name with products and services offered through outsourced arrangements or asset management affiliates is more likely to have higher reputation risk exposure. Significant threats to a bank's reputation also may result from negative publicity regarding matters such as unethical or deceptive business practices, violations of laws or regulations, high-profile litigation, or poor financial performance. The assessment of reputation risk should take into account the bank's culture, the effectiveness of its problem-escalation processes and rapid-response plans, and its engagement with news media.

Summary Conclusions

Conclusions from the core assessment allow examiners to assess the quantity of reputation risk, quality of reputation risk management, aggregate reputation risk, and the direction of risk.

Examiners consider both the quantity of reputation risk and quality of reputation risk management to derive the following conclusions:

- Aggregate reputation risk is (low, moderate, high).
- The direction of reputation risk is expected to be (decreasing, stable, increasing).

Quantity of Reputation Risk

Examiners use the following definitions to determine the quantity of reputation risk. It is not necessary to meet every qualifier to be accorded a specific assessment.

Conclusion: The quantity of reputation risk is (low, moderate, high).

Low: The institution enjoys a favorable market and public perception. The level of litigation, losses, violations of laws and regulations, and customer complaints is minimal. The potential exposure is nominal relative to the number and type of accounts, the volume of assets under management, and the number of affected transactions. There may be some plans for merger or acquisition activities or entrance into new businesses, product lines, technologies, or third-party relationships.

Moderate: Vulnerability to changes in market and public perception is elevated given the level of litigation, losses, violations of laws and regulations, and customer complaints. The potential exposure is manageable and commensurate with the volume and type of business conducted. There are substantial plans for merger or acquisition activities, or entrance into new businesses, product lines, technologies, or third-party relationships.

High: Vulnerability to changes in market and public perception is material in light of significant litigation, large losses, substantive violations of laws and regulations, or persistent customer dissatisfaction. The potential exposure may be increased by the number and type of accounts, the volume of assets under management, or the number of affected transactions.

There are significant and transformative plans for merger or acquisition activities, or entrance into new businesses, product lines, technologies, or third-party relationships.

Quality of Reputation Risk Management

(Section updated in version 1.1)

Examiners use the following definitions to determine the quality of reputation risk management. It is not necessary to meet every qualifier to be accorded a specific assessment.

Conclusion: The quality of reputation risk management is (strong, satisfactory, insufficient, weak).

Strong: Bank management effectively self-polices risk and anticipates and responds well to changes of a market, technological, or regulatory nature that may affect its reputation in the marketplace. Bank management fosters a sound culture based on strong core values and ethics that are clearly communicated and monitored throughout the institution. Reputation risk management processes are well-supported throughout the organization and have proven very successful over time. Bank management is well-versed in complex risks and has avoided conflicts of interest and other legal or control breaches. MIS, internal controls, and control functions are very effective. Bank management has a clear awareness of privacy issues and uses consumer information responsibly.

Satisfactory: Bank management adequately responds to changes of a market, technological, or regulatory nature that affect the institution’s reputation in the marketplace. The institution’s culture is sound, but core values may not be consistently communicated or monitored. Bank management has a good record of self-policing and correcting problems. Any deficiencies in MIS are minor. Reputation risk management processes are adequate. The bank has avoided conflicts of interest and other legal or control breaches. Other risk management processes, internal controls, and control functions are generally effective. Bank management understands privacy issues and uses consumer information responsibly, although some exceptions may be noted.

Insufficient: Bank management’s response to changes of a market, technological, or regulatory nature may not be timely or appropriate. Bank management may not adequately self-police risk or its corrective actions may not be fully effective. Reputation risk management processes may have deficiencies. The bank’s culture is generally sound, but there may be isolated incidences of employee misconduct. Conflicts of interest or other legal or control breaches are isolated. Risk management processes, internal controls, or control functions may need improvement. MIS may exhibit moderate weaknesses. Bank management has gaps in its knowledge of privacy issues and there may be some instances where consumer information was not used responsibly.

Weak: Bank management does not take timely or appropriate actions in response to changes of a market, technological, or regulatory nature. Weaknesses may be observed in one or more critical operational, administrative, or investment activities. Employee conduct may demonstrate a disregard for or unawareness of ethics. There may be incentives for employees to take excessive risks or they are not held accountable for their actions. The institution's performance in self-policing risk is suspect. Bank management has either not initiated, or has a poor record of, corrective action to address problems. Management information at various levels of the organization may exhibit significant weaknesses. Reputation risk management processes are poor or nonexistent. Conflicts of interest and other legal or control breaches may be evident. Risk management processes, internal controls, or control functions may be less than effective. Bank management is not aware of significant privacy issues or sometimes uses consumer information irresponsibly.

Credit Risk

Credit risk is the risk to current or projected financial condition and resilience arising from an obligor's failure to meet the terms of any contract with the bank or otherwise perform as agreed. Credit risk is found in all activities in which settlement or repayment depends on counterparty, issuer, or borrower performance. Credit risk exists any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet.

Credit risk is the most recognizable risk associated with banking. This definition encompasses more than the traditional definition associated with lending activities. Credit risk also arises in conjunction with a broad range of bank activities, including selecting investment portfolio products, derivatives trading partners, or foreign exchange counterparties. Credit risk also arises due to country or sovereign exposure, as well as indirectly through guarantor performance.

Summary Conclusions

Conclusions from the core assessment allow examiners to assess the quantity of credit risk, quality of credit risk management, aggregate credit risk, and the direction of risk.

Examiners consider both the quantity of credit risk and quality of credit risk management to derive the following conclusions:

- Aggregate credit risk is (low, moderate, high).
- The direction of credit risk is expected to be (decreasing, stable, increasing).

Quantity of Credit Risk

Examiners use the following definitions to determine the quantity of credit risk. It is not necessary to meet every qualifier to be accorded a specific assessment.

Conclusion: The quantity of credit risk is (low, moderate, high).

Low: Current or prospective exposure to loss of earnings or capital is minimal. Credit exposures reflect conservative risk selection, underwriting and structures. The volume of substantive exceptions or overrides to the conservative underwriting standards poses minimal risk. Exposures represent a well-diversified distribution by investment grade (or equivalently strong nonrated borrowers) and borrower leverage. Borrowers operate in stable markets and industries. Risk of loss from concentrations is minimal. Limited sensitivity exists due to deteriorating economic, industry, competitive, regulatory, and technological factors. The bank's compensation is adequate to justify the risk being assumed. Portfolio growth presents no concerns and new products and marketing initiatives are conservative. Re-aging, extension, renewal, and refinancing practices are sound and pose no increased risk. The volume of troubled credits is low relative to capital and can be resolved in the normal course of business. Credit-related losses do not meaningfully affect current reserves and result in modest provisions relative to earnings.

Moderate: Current or prospective exposure to loss of earnings or capital does not materially affect financial condition. Credit exposures reflect acceptable risk selection, underwriting and structures. Substantive exceptions or overrides to the sound underwriting standards may exist, but do not pose advanced risk. Exposures may include noninvestment grade (or the nonrated borrower equivalent) or leveraged borrowers, but borrowers typically operate in less volatile markets and industries. Exposure does not reflect significant concentrations. Vulnerability may exist due to deteriorating economic, industry, competitive, regulatory, and technological factors. The bank's compensation is adequate to justify the risk being assumed. While advanced portfolio growth may exist within specific products or sectors, it is in accordance with a reasonable plan. New credit products are reasonable. Re-aging, extension, renewal, and refinancing practices are satisfactory. The volume of troubled credits does not pose undue risk relative to capital and can be resolved within realistic time frames. Credit-related losses do not seriously deplete current reserves or necessitate large provisions relative to earnings.

High: Current or prospective exposure to loss of earnings or capital is material. Credit exposures reflect aggressive risk selection, underwriting, and structures. A large volume of substantive exceptions or overrides to sound underwriting standards exists. Exposures are skewed toward noninvestment grade (or the nonrated borrower equivalent) or highly leveraged borrowers, or borrowers operating in volatile markets and industries. Exposure reflects significant concentrations. Significant vulnerability exists due to deteriorating economic, industry, competitive, regulatory, and technological factors. The bank's compensation is inadequate to justify the risk being assumed. Portfolio growth, including products or sectors within the portfolio, is aggressive. New products are aggressive and often not sufficiently tested or planned for. Re-aging, extension, renewal, and refinancing practices are immoderate. The volume of troubled credits may be large relative to capital and may require an extended time to resolve. Credit-related losses may seriously deplete current reserves or necessitate large provisions relative to earnings.

Quality of Credit Risk Management

Examiners use the following definitions to determine the quality of credit risk management. It is not necessary to meet every qualifier to be accorded a specific assessment.

Conclusion: The quality of credit risk management is (strong, satisfactory, insufficient, weak).

Strong: The credit policy function comprehensively defines risk appetite, responsibilities, and accountabilities. All aspects of credit policies are effectively communicated. The credit culture, including compensation, strikes an appropriate balance between marketing and credit considerations. New products and initiatives are fully researched, tested, and approved before implementation. The credit granting process is extensively defined, well-understood, and adhered to consistently. Credit analysis is thorough and timely. Risk measurement and monitoring systems are comprehensive and allow bank management to implement appropriate actions in response to changes in asset quality and market conditions. Information processes (manual or automated) are fully appropriate for the volume and complexity of activity. Any weaknesses are minor, with potential for nominal effect on earnings or capital. MIS produced by these information processes are accurate, timely, and complete, providing relevant information necessary for sound management decisions. Credit administration is effective. Bank management is effective and actively identifies and manages portfolio risk, including the risk relating to credit structure, policy exceptions, and concentrations. The ALLL methodology is well-defined, objective and clearly supports adequacy of current reserve levels. Personnel possess extensive technical and managerial expertise. Internal controls are comprehensive and effective. The stature, quality, and independence of internal loan review and audit support highly effective control systems. (Updated in version 1.1)

Satisfactory: The credit policy function satisfactorily defines risk appetite, responsibilities, and accountabilities. Key aspects of credit policies are effectively communicated. New products and initiatives are sometimes launched without sufficient research and testing. The credit culture, including compensation, appropriately balances marketing and credit considerations. The credit granting process is well-defined and understood. Credit analysis is adequate. Risk measurement and monitoring systems permit bank management to capably respond to changes in asset quality or market conditions. Information processes (manual or automated) are adequate for the volume and complexity of activity. MIS produced by these processes may require modest improvement in accuracy, timeliness, completeness, or relevance. Weaknesses in information processes (including resulting MIS) are minor. Internal grading and reporting accurately stratify portfolio quality. Credit administration is adequate. Bank management adequately identifies and monitors portfolio risk, including the risk relating to credit structure and policy exceptions. Bank management's attention to credit risk diversification is adequate. The ALLL methodology is satisfactory and results in sufficient coverage of inherent credit losses. Personnel possess requisite technical and managerial expertise. Key internal controls are in place and effective. The stature, quality, and independence of internal loan review and audit are appropriate.

Insufficient: The credit policy function does not fully define risk appetite, responsibilities, and accountabilities related to specific aspects of the credit portfolio. Key aspects of credit policies are not always effectively communicated. A new product or initiative may have been launched without sufficient research and testing. A specific gap in the credit culture, including compensation, has been identified, so that credit considerations may not have been adequately considered in a specific activity. The credit granting process in a specific area may not be well-defined and understood. Risk measurement and monitoring systems do not always permit bank management to respond to changes in asset quality or market conditions. Information processes (manual or automated) may need specific improvements to remain adequate for the volume and complexity of activity. Internal grading and reporting may misstate specific aspects of portfolio quality, for example in a specific industry or product type. Gaps in credit administration can be remediated in a reasonable time. Bank management may omit from appropriate monitoring certain aspects of portfolio risk, the risk relating to credit structure, and policy exceptions in a specific product or credit activity. Bank management's attention to credit risk diversification may have resulted in an adverse concentration. The ALLL methodology may have a gap that, if not corrected, could reduce coverage of inherent credit losses. Personnel may lack technical and managerial expertise in a specific area. A few key internal controls may be lacking or ineffective. The stature, quality, and independence of internal loan review and audit may not be appropriate in all areas.

Weak: The credit policy function may not effectively define risk appetite, responsibilities, and accountabilities. Credit policies are not effectively communicated. New products and initiatives are often launched without sufficient research, testing, and risk analysis. The credit culture, including compensation, overemphasizes marketing relative to credit considerations. The credit granting process is not well-defined or well-understood. Credit analysis is insufficient relative to the risk. Risk measurement and monitoring systems may not permit bank management to implement timely and appropriate actions in response to changes in asset quality or market conditions. Information processes (manual or automated) are inappropriate for the volume and complexity of activity. MIS reports produced by these processes are inaccurate, untimely, incomplete, or insufficient to make sound management decisions. Weaknesses in information processes (including resulting MIS reports) can lead bank management to decisions that materially affect earnings or capital. Internal grading and reporting of credit exposure does not accurately stratify the portfolio's quality. Credit administration is ineffective. Bank management is unable to identify and monitor portfolio risk, including the risk relating to credit structure or policy exceptions. Bank management's attention to credit risk diversification is inadequate. The ALLL methodology is flawed and may result in insufficient coverage of inherent credit losses. Personnel lack requisite technical and managerial expertise. Key internal controls may be absent or ineffective. The stature, quality, or independence of internal loan review or audit is lacking.

Interest Rate Risk

Interest rate risk is the risk to current or projected financial condition and resilience arising from movements in interest rates. Interest rate risk results from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships among different yield curves affecting bank activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-related options embedded in bank products (options risk).

The assessment of interest rate risk should consider risk from both an accounting perspective (i.e., the effect on the bank's accrual earnings) and an economic perspective (i.e., the effect on the market value of the bank's portfolio equity). In some banks, interest rate risk is included in the broader category of market risk. In contrast with price risk, which focuses on the mark-to-market portfolios (e.g., trading accounts), interest rate risk focuses on the value implications for accrual portfolios (e.g., held-to-maturity and available-for-sale accounts).

Summary Conclusions

Conclusions from the core assessment allow examiners to assess the quantity of interest rate risk, quality of interest rate risk management, aggregate interest rate risk, and the direction of risk.

Examiners consider both the quantity of interest rate risk and quality of interest rate risk management to derive the following conclusions:

- Aggregate interest rate risk is (low, moderate, high).
- The direction of interest rate risk is expected to be (decreasing, stable, increasing).

Quantity of Interest Rate Risk

Examiners use the following definitions to determine the quantity of interest rate risk. It is not necessary to meet every qualifier to be accorded a specific assessment.

Conclusion: The quantity of interest rate risk is (low, moderate, high).

Low: Exposure reflects minimal repricing, basis, yield curve, and options risk. Positions used to manage interest rate risk exposure are well-correlated to underlying risks. No significant mismatches on longer-term positions exist. Interest rate movements would have minimal adverse effect on the financial performance of the bank.

Moderate: Exposure reflects manageable repricing, basis, yield curve, and options risk. Positions used to manage interest rate risk exposure are somewhat correlated. Mismatches on longer-term positions exist but are managed. Interest rate movements would not have a significant adverse effect on the financial performance of the bank.

High: Exposure reflects significant repricing, basis, yield curve, or options risk. Positions used to manage interest rate risk exposure are poorly correlated. Significant mismatches on longer-term positions exist. Interest rate movements could have a significant adverse effect on the financial performance of the bank.

Quality of Interest Rate Risk Management

Examiners use the following definitions to determine the quality of interest rate risk management. It is not necessary to meet every qualifier to be accorded a specific assessment.

Conclusion: The quality of interest rate risk management is (strong, satisfactory, insufficient, weak).

Strong: Policies are sound and effectively communicate guidelines for bank management of interest rate risk, including responsibilities, risk appetite, and limits. Bank management fully understands all aspects of interest rate risk management from the earnings and economic perspectives, as appropriate. Bank management anticipates and quickly responds to changes in market conditions. Interest rate risk is well-understood at all appropriate levels of the organization. The interest rate risk management process is effective and prospective. Information processes (manual or automated) are fully appropriate for the volume and complexity of activity. MIS produced by these information processes are accurate, timely, and complete, with relevant information necessary for sound management decisions. Limit structures provide clear parameters for risk under normal and adverse scenarios. The design and supporting technology of risk measurement tools, including models, are fully appropriate for the size and complexity of activity. Assumptions, software logic, and data input are documented, and independently validated and tested to ensure the measurement tools can accurately measure risks. Staff responsible for measuring exposures and monitoring risk limits is independent from staff executing risk-taking decisions.

Satisfactory: Policies are generally sound and adequately communicate guidelines for management of interest rate risk, although minor weaknesses may be evident. Bank management reasonably understands the key aspects of interest rate risk management from the earnings and economic perspectives, as appropriate. Bank management adequately responds to changes in market conditions. Knowledge of interest rate risk exists at appropriate levels throughout the organization. The interest rate risk management process is adequate. Information processes (manual or automated) are adequate for the volume and complexity of activity. MIS produced by these processes may contain weaknesses in accuracy, timeliness, completeness, or relevance. Weaknesses in information processes (including resulting MIS) are minor. Limit structures are reasonable and sufficient to control the risk under normal and adverse interest rate scenarios. The design and supporting technology of risk measurement tools, including models, are adequate for the size and complexity of activity. Assumptions, software logic, and data input are documented, and independently validated and tested, but the measurement tools provide only a reasonable approximation of risks. Weaknesses are not so significant that they lead bank management to decisions that materially affect earnings or capital. Staff responsible for measuring exposures and monitoring risk is independent from staff executing risk-taking decisions.

Insufficient: Policies have a few specific gaps that must be addressed to adequately communicate guidelines for management of interest rate risk. Bank management understands the key aspects of interest rate risk management from the earnings and economic perspectives, but may not fully evaluate them. Limits or controls over risk positions may need specific enhancements to ensure they are fully measured and controlled. Bank management may fail to respond to changes in market conditions in a timely manner. Gaps in the knowledge of interest rate risk may exist at a specific level in the organization. The interest rate risk management process may have gaps, but these are not so severe as to warrant an overall “weak” rating. Information processes (manual or automated) may need strengthening to address a specific activity. A weakness in information processes (including resulting MIS) may need to be addressed to mitigate potential for ill-informed decisions that materially affect financial performance. The limit structure may have a specific omission that detracts from bank management's ability to fully control risk. The design and supporting technology of risk measurement tools, including models, may need to be strengthened to address a specific activity or product. Assumptions, software logic, and data may have gaps in documentation and independent validation. These weaknesses are not so significant that they lead bank management to decisions that materially affect financial performance, but this could occur if they are not remediated. Staff members responsible for measuring exposures and monitoring risk are not fully independent from staff executing risk-taking decisions.

Weak: Policies are inadequate in communicating guidelines for management of interest rate risk. Bank management may not satisfactorily understand interest rate risk management from the earnings or economic perspective. Bank management does not take timely or appropriate actions in response to changes in market conditions. Knowledge of interest rate risk is lacking at appropriate management levels throughout the organization. The interest rate risk management process is deficient, given the relative size and complexity of the bank's on- and off-balance-sheet exposures. Information processes (manual or automated) are inappropriate for the volume and complexity of activity. MIS produced by these processes are inaccurate, untimely, incomplete, or insufficient to make sound management decisions. Weaknesses in information processes (including resulting MIS) can lead bank management to decisions that materially affect financial condition and resilience. Limit structures are not reasonable, or do not reflect an understanding of the risks under normal and adverse scenarios. The design and supporting technology of risk measurement tools, including models, are inappropriate for the size and complexity of activity. Risk measurement validation or testing is either not performed or seriously flawed. Risks are inaccurately measured, impairing the ability of bank management to make sound decisions. The potential effect on earnings or capital can be material. Staff responsible for measuring exposures and monitoring risk is not independent from staff executing risk-taking decisions.

Liquidity Risk

Liquidity risk is the risk to current or projected financial condition and resilience arising from an inability to meet obligations when they come due. Liquidity risk includes the inability to access funding sources or manage fluctuations in funding levels. Liquidity risk also results from a bank's failure to recognize or address changes in market conditions that affect its ability to liquidate assets quickly and with minimal loss in value.

The nature of liquidity risk has changed in recent years. Increased investment alternatives for retail depositors and sophisticated off-balance-sheet products with complicated cash-flow implications are examples of factors that complicate liquidity risk.

Summary Conclusions

Conclusions from the core assessment allow examiners to assess the quantity of liquidity risk, quality of liquidity risk management, aggregate liquidity risk, and the direction of risk.

Examiners consider both the quantity of liquidity risk and quality of liquidity risk management to derive the following conclusions:

- Aggregate liquidity risk is (low, moderate, high).
- The direction of liquidity risk is expected to be (decreasing, stable, increasing).

Quantity of Liquidity Risk

Examiners use the following definitions to determine the quantity of liquidity risk. It is not necessary to meet every qualifier to be accorded a specific assessment.

Conclusion: The quantity of liquidity risk is (low, moderate, high).

Low: The bank is not vulnerable to funding difficulties should a material adverse change in market perception occur. Exposure from the liquidity risk profile is negligible. Sources of deposits and borrowings are widely diversified, with no material concentrations. Ample funding sources and structural cash-flow symmetry exist in all tenors. Stable deposits and a strong market acceptance of the bank's name offer the bank a competitive liability cost advantage. Bank management has identified reasonable alternatives to credit-sensitive funding, if relied on, and can easily implement the alternatives with no disruption in strategic lines of business.

Moderate: The bank is not excessively vulnerable to funding difficulties should a material adverse change in market perception occur. Exposure from the liquidity risk profile is manageable. Sources of funding are reasonably diverse but minor concentrations may exist, and funds providers may be moderately credit sensitive. Some groups of providers may share common investment objectives or be subject to similar economic influences. Sufficient funding sources and structural balance-sheet and cash-flow symmetry exist to provide stable, cost-effective liquidity in most environments, without significant disruption in strategic lines of business.

High: The bank's liquidity profile makes it vulnerable to funding difficulties should a material adverse change occur. Significant concentrations of funding may exist, or there may be a significant volume of providers that are highly credit-sensitive. Large funds providers may share common investment objectives or be subject to similar economic influences. The bank may currently, or potentially, experience market resistance, which could affect its ability to access needed funds at a reasonable cost. There may be an increasing demand for liquidity with declining medium- and long-term alternatives. Funding sources and balance-sheet structures may currently result in, or suggest, potential difficulty in sustaining long-term liquidity on a cost-effective basis. Potential exposure due to high liability costs or unplanned asset reduction may be substantial. Liquidity needs may trigger the necessity for funding alternatives under a CFP, including the sale of, or disruption in, a strategic line of business.

Quality of Liquidity Risk Management

Examiners use the following definitions to determine the quality of liquidity risk management. It is not necessary to meet every qualifier to be accorded a specific assessment.

Conclusion: The quality of liquidity risk management is (strong, satisfactory, insufficient, weak).

Strong: Bank management incorporates key aspects of liquidity risk into its overall risk management process, and anticipates and responds promptly to changing market conditions. There are clearly articulated policies that provide clear insight and guidance on appropriate risk-taking and management. Information processes (manual or automated) are fully appropriate for the volume and complexity of activity. MIS produced by these information processes are accurate, timely, and complete, with relevant information necessary for sound management decisions. Liquidity planning is fully integrated with strategic planning, budgeting, and financial management processes. Bank management gives appropriate attention to managing balance-sheet symmetry, cash flows, cost effectiveness, and evaluating liquidity alternatives. A comprehensive CFP exists and is fully integrated into overall risk management processes, and enables the bank to respond to potential crisis situations in a timely manner and to the fullest capacity of the bank.

Satisfactory: Bank management incorporates most of the key aspects of liquidity risk into its overall risk management process. Bank management adequately responds to changes in market conditions. Liquidity risk management policies and practices are adequate, although there may be some shortfalls. Liquidity planning is integrated with the strategic planning, budgeting, and financial management processes. Information processes (manual or automated) are adequate for the volume and complexity of activity. MIS produced by these processes may contain weaknesses in accuracy, timeliness, completeness, or relevance. Weaknesses in information processes (including resulting MIS) are minor. Bank management realistically assesses the funding markets and pays sufficient attention to diversification. Bank management attention to balance-sheet symmetry, cash flow, and cost effectiveness is generally appropriate. Bank management has a satisfactory CFP to manage liquidity risk and is generally prepared to manage potential crisis situations.

Insufficient: Bank management has not fully incorporated key aspects of liquidity risk into its overall risk management process. Bank management on occasion has not adequately responded to changes in market conditions in a timely fashion. Liquidity risk management policies and practices are adequate, although there are gaps that may need to be addressed. Liquidity planning may not be fully integrated with the strategic planning, budgeting, and financial management processes. Information processes (manual or automated) may have gaps given the volume and complexity of specific activities. MIS produced by these processes may contain significant weaknesses in accuracy, timeliness, completeness, or relevance in specific areas. These weaknesses, if not addressed, may lead bank management to decisions that materially affect financial condition and resilience. Bank management may not fully assess the funding markets and may need to focus increased attention on diversification. Bank management attention to balance-sheet symmetry, cash flow, and cost may have omitted specific considerations. The CFP may have a specific weakness that needs to be addressed for the CFP to continue to enable the bank to manage potential crisis situations.

Weak: Bank management does not satisfactorily address key aspects of liquidity risk. Bank management is not anticipating or implementing timely or appropriate actions in response to changes in market conditions. Policies are inadequate or incomplete, deficient in one or more material respects. Liquidity planning is not integrated in the strategic planning, budgeting, and financial management processes. Information processes (manual or automated) are inappropriate for the volume and complexity of activity. MIS produced by these processes are inaccurate, untimely, incomplete, or insufficient to make sound management decisions. Weaknesses in information processes (including resulting MIS) can lead bank management to decisions that materially affect financial condition and resilience. Bank management has not realistically assessed the bank's access to the funding markets, has paid insufficient attention to diversification, or has limited awareness of large funds providers and their sensitivity. Bank management attention to balance-sheet and cash-flow symmetry is inadequate. The contingency planning process is deficient, inhibiting bank management's ability to minimize liquidity problems in a deteriorating scenario or to manage potential crisis situations. Bank management's evaluation of liquidity alternatives does not adequately consider cost effectiveness or the availability of these alternatives in a variety of market environments.

Price Risk

Price risk is the risk to current or projected financial condition and resilience arising from changes in the value of either trading portfolios or other obligations that are entered into as part of distributing risk. These portfolios typically are subject to daily price movements and are accounted for primarily on a mark-to-market basis. This risk occurs most significantly from market-making, dealing, and position-taking in interest rate, foreign exchange, equity, commodities, and credit markets.

Price risk also arises from bank activities whose value changes are reflected in the income statement, such as in lending pipelines, other real estate owned, and mortgage servicing rights. The risk to earnings or capital resulting from the conversion of a bank's financial statements from foreign currency translation also should be assessed under price risk. As with interest rate risk, many banks include price risk in the broader category of market risk.

Summary Conclusions

Conclusions from the core assessment allow examiners to assess the quantity of price risk, quality of price risk management, aggregate price risk, and the direction of risk.

Examiners consider both the quantity of price risk and quality of price risk management to derive the following conclusions:

- Aggregate price risk is (low, moderate, high).

- The direction of price risk is expected to be (decreasing, stable, increasing).

Quantity of Price Risk

Examiners use the following definitions to determine the quantity of price risk. It is not necessary to meet every qualifier to be accorded a specific assessment.

Conclusion: The quantity of price risk is (low, moderate, high).

Low: Exposure reflects limited open or illiquid price risk positions. The bank is not exposed to material losses as a result of changes in market prices. Exposures subject to price risk are readily marketable or have well-defined hedges. The bank has a low volume of assets and liabilities that are accounted for at fair value (e.g., lending pipelines and mortgage servicing rights). If exposures to foreign currency translation exist, the translation adjustments are immaterial.

Moderate: Exposure reflects moderate open or illiquid price risk positions, limiting the potential for significant loss. The bank has access to a variety of risk management instruments and markets at reasonable costs, given the size, tenor and complexity of open positions. Assets and liabilities that are accounted for at fair value (e.g., lending pipelines and mortgage servicing rights) are unlikely to materially affect the bank's financial condition. If exposures to foreign currency translation exist, the translation adjustments are not expected to have an adverse effect.

High: Exposure reflects significant open or illiquid price risk positions. Exposures may be difficult or costly to close out or hedge due to size, complexity, or generally illiquid markets, tenors, or products. A significant volume of assets and liabilities are accounted for at fair value (e.g., lending pipelines and mortgage servicing rights), and valuation changes have significant potential to adversely affect the bank's condition. If exposures to foreign currency translation exist, the translation adjustments could have a material adverse effect.

Quality of Price Risk Management

Examiners use the following definitions to determine the quality of price risk management. It is not necessary to meet every qualifier to be accorded a specific assessment.

Conclusion: The quality of price risk management is (strong, satisfactory, insufficient, weak).

Strong: Approved policies reflect the bank's risk appetite, provide clear authorities and responsibilities, and delineate appropriate limits. Bank management fully understands price risk and actively monitors products, market trends, and changes in market conditions. Information processes (manual or automated) are fully appropriate for the volume and complexity of activity. MIS produced by these information processes are accurate, timely, and complete, with relevant information necessary for sound management decisions. Models and methodologies are independently validated, tested, and documented. There is a sound independent valuation process for significant positions. Bank management fully researches and documents the risk of new product initiatives before implementation. Limit structures are reasonable, clear, and effectively communicated. The limits also reflect a clear understanding of the risk under normal and adverse scenarios. Staff responsible for measuring and monitoring price risk is well-qualified and independent from risk-taking activities. Bank management has a rigorous program for stress testing positions. If exposures to foreign currency translation exist, bank management fully understands all aspects of the risk.

Satisfactory: Approved policies provide generally clear authorities, reasonable limits, and assignment of responsibilities. Bank management understands the key aspects of price risk. Bank management adequately responds to changes in market conditions. Price risk management processes address major exposures. Information processes (manual or automated) are adequate for the volume and complexity of activity. MIS produced by these processes may contain weaknesses in accuracy, timeliness, completeness, or relevance. Weaknesses in information processes (including resulting MIS) are minor. Risk measurement tools and methods may have minor deficiencies or weaknesses, but are sufficient, given the size and complexity of activities. Models and methodologies are validated and acceptable. Positions are independently valued. Bank management considers the risk of new product initiatives before implementation. Limit structures are reasonable, clear, and effectively communicated. Limits also reflect an understanding of the risk under normal and adverse scenarios. Staff responsible for measuring and monitoring price risk is qualified and independent from risk-taking activities. Processes for stress testing positions are generally adequate. If exposures to foreign currency translation exist, bank management understands the key aspects of the risk.

Insufficient: Approved policies provide generally clear authorities, reasonable limits, and assignment of responsibilities, but this may be lacking in specific areas. Bank management may not have identified important aspects of price risk. Bank management may have inadequately responded to changes in market conditions. Price risk management processes may not address all major exposures. Information processes (manual or automated) may not be adequate for all activities. MIS produced by these processes may have specific weaknesses in accuracy, timeliness, completeness, or relevance that need to be addressed to ensure decisions do not adversely affect financial condition and resilience. Risk measurement tools and methods may have specific deficiencies or weaknesses that need to be addressed given the size and complexity of activities. Some models and methodologies may not be appropriate or validated. All positions may not have sufficiently independent valuations. Bank management may not have considered all risk in a significant new product initiative before implementation. Limit structures may have specific gaps or may not be fully communicated. Specific limits may not fully reflect an understanding of the risk under normal and adverse scenarios. Staff responsible for measuring and monitoring price risk may have weaknesses in specific areas, impacting their effectiveness or independence. Processes for stress testing positions may have gaps. If exposures to foreign currency translation exist, bank management may not understand all aspects of the risk.

Weak: Bank management does not satisfactorily address key aspects of price risk, and the underlying policies may have significant weaknesses. Bank management is not implementing timely or appropriate actions in response to changes in market conditions. Knowledge of price risk may be lacking at appropriate management levels throughout the organization. The price risk management process is deficient in one or more of the following ways: Risk measurement tools and methods are inadequate given the size and complexity of activities. Processes (manual or automated) are inappropriate for the volume and complexity of activity. MIS produced by these processes are inaccurate, untimely, incomplete, or insufficient to make sound management decisions. Position valuations are performed infrequently, exclude major products, or may not be sufficiently independent. Bank management does not adequately consider the risk of new product initiatives before implementation. Limit structures may not be reasonable, clear, or effectively communicated. Limits also may not reflect a complete understanding of the risk. Staff responsible for measuring and monitoring price risk is not independent of risk-taking activities. The bank does not have a formal program to stress test positions. If exposures to foreign currency translation exist, bank management does not satisfactorily address key aspects of the risk.

Operational Risk

Operational risk is the risk to current or projected financial condition and resilience arising from inadequate or failed internal processes or systems, human errors or misconduct, or adverse external events. Operational losses may result from internal fraud; external fraud; inadequate or inappropriate employment practices and workplace safety; failure to meet professional obligations involving clients, products, and business practices; damage to physical assets; business disruption and systems failures; and failures in execution, delivery, and process management. Operational losses do not include opportunity costs, forgone revenue, or costs related to risk management and control enhancements implemented to prevent future operational losses.

The quantity of operational risk and the quality of operational risk management are heavily influenced by the quality and effectiveness of a bank’s system of internal controls. The quality of the audit function, although independent of operational risk management, also is a key assessment factor. Audit can affect the operating performance of a bank by helping to identify and validate correction of weaknesses in risk management or controls. The quality of due diligence, risk management of third-party relationships, business continuity planning, and controls protecting the confidentiality, integrity, and availability of bank information are other key assessment factors for mitigating operational risk. (Updated in version 1.1)

Summary Conclusions

Conclusions from the core assessment allow examiners to assess the quantity of operational risk, quality of operational risk management, aggregate operational risk, and the direction of risk.

Examiners consider both the quantity of operational risk and quality of operational risk management to derive the following conclusions:

- Aggregate operational risk is (low, moderate, high).

- The direction of operational risk is expected to be (decreasing, stable, increasing).

Quantity of Operational Risk

Examiners use the following definitions to determine the quantity of operational risk. It is not necessary to meet every qualifier to be accorded a specific assessment.

Conclusion: The quantity of operational risk is (low, moderate, high).

Low: Operational loss events and control failures are expected to have little effect on the bank's current or projected financial condition and resilience. The complexity of products and services, the volume of transaction processing, and the state of internal systems expose the bank to minimal risk from fraud, errors, execution issues, or processing disruptions. The risks related to new products, outsourcing, accounting issues, technology changes, bank acquisitions or divestitures, and external threats are minimal and well-understood. Process and control breakdowns are rare and exceptions to risk appetite and limits are infrequent.

Moderate: Operational loss events and control failures are expected to have a limited or manageable effect on the bank's current or projected financial condition and resilience. The complexity of products and services, the volume of transaction processing, and the state of internal systems expose the bank to increased risks from fraud, errors, execution issues, or processing disruptions. The risks related to new products, outsourcing, accounting issues, technology changes, bank acquisitions or divestitures, and external threats are manageable. Process and control breakdowns and exceptions to risk appetite and limits are increasing.

High: Operational loss events and control failures are expected to have a significant adverse effect on the bank's current or projected financial condition and resilience. One significant loss or multiple large losses are more likely to materialize. The complexity of products and services, the volume of transaction processing, and the state of internal systems expose the bank to significant risks from fraud, errors, execution issues, or processing disruptions. The risks related to new products, outsourcing, accounting issues, technology changes, bank acquisitions or divestitures, and external threats are substantial and may not have been fully analyzed. Process and control breakdowns may be of significant concern. Exceptions to risk appetite and limits are frequent or routine.

Quality of Operational Risk Management

Examiners use the following definitions to determine the quality of operational risk management. It is not necessary to meet every qualifier to be accorded a specific assessment.

Conclusion: The quality of operational risk management is (strong, satisfactory, insufficient, weak).

Strong: Bank management anticipates and addresses key aspects of risks associated with operational changes, systems development, emerging technologies, and external threats. Bank management consistently applies robust internal controls, sound processes, and audit coverage across the organization. Qualitative statements and quantitative and qualitative measures clearly define the organization's operational risk appetite. Bank management has developed appropriate tools to identify key risks and processes to determine how those risks will be managed (e.g., accept the risk, institute a corresponding control, or hedge against the risk). Systems are in place to respond to new and emerging products, evolving technologies, changes in strategic direction, and fundamental shifts in external factors. There are strong governance and staffing processes in place covering the corporate function, the lines of business, and the functional areas. Bank management comprehensively plans for continuity and reliability of service, including services provided by third parties. There is an effective and thorough monitoring and control system in place governing operations and activities that have been outsourced or moved offshore. Appropriate processes and controls exist to manage data and protect the data from unauthorized change or disclosure. Bank management has appropriate MIS, and reports that address key operational risks and include risk metrics, trends, and action items are regularly provided to senior bank management and other key stakeholders.

Satisfactory: Bank management satisfactorily responds to risks associated with operational changes, systems development, emerging technologies, and external threats. There are qualitative statements and quantitative and qualitative measures that define the organization's operational risk appetite. Bank management generally applies internal controls, sound processes, and audit coverage across the organization. Bank management has developed appropriate tools to identify most key risks and processes to determine how those risks will be managed (e.g., accept the risk, institute a corresponding control, or hedge against the risk), although these tools may need further enhancement. Systems are in place to respond to new and emerging products, evolving technologies, changes in strategic direction, and fundamental shifts in external factors. There are adequate governance and staffing processes in place covering the corporate function, the lines of business, and the functional areas. Bank management adequately plans for continuity and reliability of significant services, including services provided by third parties. There is an adequate monitoring and control system in place over operations and activities that have been outsourced or moved offshore. Processes and controls to manage data and protect the data from unauthorized change or disclosure are adequate. Bank management has generally adequate MIS on operational risk, which are regularly provided to senior bank management and other key stakeholders. These MIS may have minor weaknesses, such as the lack of fully developed or identified risk metrics, trends, and action items.

Insufficient: Bank management on occasion has failed to respond in a timely manner to risks associated with operational changes, systems development, emerging technologies, and external threats. Bank management may have gaps in its analysis of risks resulting in weaknesses in specific operating processes, internal controls, and audit coverage. Bank management may need to develop additional tools to identify selected key risks and processes to determine how those risks will be managed. There may be a specific weakness that makes responses to new and emerging products, evolving technologies, changes in strategic direction, and fundamental shifts in external factors less than fully effective. There may be specific weaknesses in governance and staffing processes covering the corporate function, the lines of business, and functional areas, although not so pronounced as to warrant a “weak” rating. Bank management’s plans for continuity and reliability of significant services, including services provided by third parties, need improvement. There may be gaps in monitoring and controls over operations and activities that have been outsourced or moved offshore. Processes and controls to manage data and protect the data from unauthorized change or disclosure may have specific weaknesses. Bank management has MIS on operational risk, but reports may not include important areas or are not regularly provided to senior bank management and other key stakeholders.

Weak: Bank management may not take timely and appropriate actions to respond to operational changes, systems development, emerging technologies, and external threats. Bank management does not properly analyze risks and has insufficient operating processes, internal controls, and audit coverage in significant or all areas of the organization. There may be tools in place to identify some key risks, but these tools may be ineffective. Processes to determine how to manage identified risks are poorly designed. The systems in place, if any, to respond to new and emerging products, emerging technologies, changes in strategic direction, and fundamental shifts in external factors have weaknesses. Governance and staffing processes may not be well-defined, and clear responsibility for operational risk management across the organization may not be clearly established and developed. Bank management has not sufficiently planned for continuity and reliability of services. The monitoring and control system in place over operations and activities that have been outsourced or moved offshore is inadequate or incomplete. Processes and controls to manage data and protect the data from unauthorized change or disclosure are deficient or nonexistent. MIS are inadequate, and senior bank management reporting is not well-established. MIS do not provide a clear assessment of operational risk, and risk metrics, trends, and action items are not identified or developed.

Compliance Risk

Compliance risk is the risk to current or projected financial condition and resilience arising from violations of laws or regulations, or from nonconformance with prescribed practices, internal bank policies and procedures, or ethical standards. This risk exposes a bank to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk can result in diminished reputation, harm to bank customers, limited business opportunities, and lessened expansion potential.

Compliance risk is not limited to risk from failure to comply with consumer protection-related laws and regulations; it encompasses the risk of noncompliance with *all* laws and regulations, as well as prudent ethical standards and contractual obligations. It also includes the exposure to litigation (known as legal risk) from all aspects of banking, traditional and nontraditional.

Summary Conclusions

Conclusions from the core assessment allow examiners to assess the quantity of compliance risk, quality of compliance risk management, aggregate compliance risk, and the direction of risk.

Examiners consider both the quantity of compliance risk and quality of compliance risk management to derive the following conclusions:

- Aggregate compliance risk is (low, moderate, high).
- The direction of compliance risk is expected to be (decreasing, stable, increasing).

Quantity of Compliance Risk

Examiners use the following definitions to determine the quantity of compliance risk. It is not necessary to meet every qualifier to be accorded a specific assessment.

Conclusion: The quantity of compliance risk is (low, moderate, high).

Low: The nature and extent of business activities limit the company's potential exposure to violations or noncompliance. The bank has few violations, and bank management quickly and adequately addresses violations when uncovered with no effect on reputation, capital, earnings, or business opportunity. The bank's history of complaints or litigation is good.

Moderate: The nature and extent of business activities may increase the potential for violations or noncompliance. The bank may have violations outstanding that are correctable in the normal course of business with little effect on reputation, capital, earnings, or business opportunity. The bank's history of complaints or litigation is not a concern.

High: The nature and extent of business activities significantly increase the potential for serious or frequent violations or noncompliance. The bank may have substantive violations outstanding that could affect reputation, capital, earnings, or business opportunity. The bank may have a history of serious complaints or litigation.

Quality of Compliance Risk Management

Examiners use the following definitions to determine the quality of compliance risk management. It is not necessary to meet every qualifier to be accorded a specific assessment.

Conclusion: The quality of compliance risk management is (strong, satisfactory, insufficient, weak).

Strong: Bank management demonstrates a high commitment and concern for all compliance issues. Bank management anticipates and addresses key aspects of compliance risk. Bank management takes timely and effective actions in response to compliance issues or regulatory changes. Compliance risk management systems, transaction and surveillance monitoring systems, and information processes are sound, and the bank has a strong control culture, which has proven effective. Bank management provides substantial resources and has established timely enforced accountability for compliance performance. Compliance considerations are an integral part of product or system developments. Compliance training programs are effective. Bank management has a strong understanding of consumer privacy issues and has implemented sound controls over privacy of consumer information. Control systems and technology are effectively used to identify violations and nonconformance at the point of transaction as well as after the transaction.

Satisfactory: Bank management demonstrates a reasonable commitment and concern for all compliance issues. Bank management addresses key aspects of compliance risk. Bank management takes appropriate actions in response to compliance issues or regulatory changes. Compliance risk management systems, transaction and surveillance monitoring systems, and information processes are adequate to avoid significant or frequent violations or noncompliance. Bank management has established or enforced accountability for compliance performance and corrects problems in the normal course of business. Compliance considerations are incorporated into product or system developments. Bank management provides adequate resources and training given the complexity of products and operations. Bank management understands and has adequately addressed consumer privacy issues. Control systems are adequate to manage compliance at inception.

Insufficient: Bank management demonstrates a reasonable commitment and concern for all compliance issues, but may not fully address key aspects of compliance risk. Bank management actions in response to compliance issues or regulatory changes may be incomplete in selected areas. Compliance risk management systems, transaction and surveillance monitoring systems, and information processes may have some weaknesses that could potentially result in significant violations or noncompliance. Bank management has established or enforced accountability for compliance performance but may not fully correct problems in the normal course of business. Compliance considerations may not have been incorporated into specific product or system developments. Bank management provides marginally adequate resources and training given the complexity of products and operations. Bank management understands and has adequately addressed consumer privacy issues, but may have gaps in specific areas. Control systems are adequate to manage compliance at inception in most areas but may on occasion contain weaknesses.

Weak: Bank management generally does not demonstrate a reasonable commitment or concern for all compliance issues. Bank management does not satisfactorily address key aspects of compliance risk. Bank management is not anticipating or implementing timely or appropriate actions in response to compliance issues or regulatory changes. Compliance risk management systems, transaction and surveillance monitoring systems, and information processes are deficient. Bank management has not provided adequate resources or training, or has not established or enforced accountability for compliance performance. Errors are often not detected internally, or corrective actions are often ineffective and not timely. Compliance considerations are not incorporated into product or system developments. Bank management has not adequately addressed the privacy of consumer records. Control systems are not used or are ineffectively used to identify violations or nonconformance.

Other Risks

This section provides examiners with information regarding assessing the bank's risks that are not formally part of the OCC's RAS. (Updated in version 1.1)

Asset Management

Offering asset management products and services exposes banks to a broad range of risks. The nature, scope, and complexity of these products and services determine the quantity of those risks. The failure to consider and plan for specific asset management products and services, and associated risks, may increase the bank's overall strategic risk. Reputation risk is inherently high due to the nature of the fiduciary relationship, and because individual and institutional clients' assets are frequently invested in products managed by or selected by the bank. The volume of transactions associated with asset management products and services can be substantial, resulting in elevated operational risk. Banks engaged in asset management activities are subject to a variety of laws and regulations specific to asset management, leading to inherently high compliance risk. Many asset management business lines are subject to credit risk from intraday exposures, overdrafts, counterparty credit risk, or securities lending services. Bank management should have sufficient risk management and control processes in place to lower the aggregate risk.

Examiners should use the information in this section as appropriate based on the nature and extent of the bank's asset management activities. Examiners should assess the strategic, reputation, operational, compliance, and credit risk (if applicable) factors specific to asset management lines of business to determine the overall impact on asset management risk. Examiners should leverage the individual risk categories within the "Risk Assessment System" section of this booklet when determining the quantity, quality of risk management, aggregate, and direction of asset management risk. (Updated in version 1.1)

Summary Conclusions

Conclusions from the core assessment allow examiners to assess the quantity of asset management risk, quality of asset management risk management, aggregate asset management risk, and the direction of risk.

Examiners consider both the quantity of asset management risk and quality of asset management risk management to derive the following conclusions:

- Aggregate asset management risk is (low, moderate, high).
- The direction of asset management risk is expected to be (decreasing, stable, increasing).

Quantity of Asset Management Risk

The following definitions provide information for determining the quantity of asset management risk. It is not necessary to meet every qualifier to be accorded a specific assessment. (Updated in version 1.1)

Conclusion: The quantity of asset management risk is (low, moderate, high).

Low: The majority of the asset management risk factors are low. Strategic decisions, external pressures, loss events, and control failures are expected to have little effect on the bank's current or projected financial condition and resilience. Market and public perceptions are favorable. The levels of litigation, losses, violations of laws and regulations, and customer complaints are minimal. The complexity of products and services, the volume of transactions, and the state of internal systems expose the bank to minimal risk from fraud, errors, execution issues, or processing disruptions. The risks related to new products, outsourcing, offshoring, bank acquisitions or divestitures, model/tool use, and technology are minimal and well-understood. Risk of loss from credit exposures is minimal.

Moderate: One or more of the asset management risk factors are moderate and the majority of the others are low. Strategic decisions, external pressures, or loss events and control failures are not expected to significantly affect the bank's current or projected financial condition and resilience. Vulnerability to changes in market and public perception is somewhat elevated given the level of litigation, losses, violations of laws and regulations, and customer complaints. The complexity of products and services, the volume of transactions, and the state of internal systems may expose the bank to increased risks from fraud, errors, execution issues, or processing disruptions. Risks related to new products, outsourcing, offshoring, bank acquisitions or divestitures, model/tool use, and technology are manageable. Credit exposures do not reflect significant concentrations.

High: One or more of the asset management risk factors are high and the identified concerns materially raise the overall aggregate risk to high. Strategic decisions, external pressures, or significant loss events and control failures are expected to adversely affect the bank's current or projected financial condition and resilience. Vulnerability to changes in market and public perception is material in light of significant litigation, large losses, substantive violations of laws and regulations, or persistent customer dissatisfaction. The risk of errors, execution issues, or fraud is increased by the complexity of products and services, volume of transactions, number and type of accounts, volume of assets under management, or the state of internal systems. Risks related to new products, outsourcing, offshoring, bank acquisitions or divestitures, model/tool use, and technology are substantial and may not have been fully analyzed. Process and control breakdowns may be of significant concern. Credit exposures reflect significant concentrations, and credit losses may seriously deplete current reserves or necessitate large provisions relative to earnings.

Quality of Asset Management Risk Management

The following definitions provide information for determining the quality of asset management risk management. It is not necessary to meet every qualifier to be accorded a specific assessment. (Updated in version 1.1)

Conclusion: The quality of asset management risk management is (strong, satisfactory, insufficient, weak).

Strong: The majority of the risk management processes related to asset management risk are strong. The board and senior bank management are actively engaged and demonstrate appropriate oversight of the bank's fiduciary responsibilities and asset management activities. The depth and technical expertise of staff enable bank management to effectively identify, measure, monitor, and control risk. Bank management has a strong governance structure and effectively self-polices risk and anticipates and responds well to change. There are robust internal controls, sound processes, and audit coverage across the organization. Bank management takes timely and effective actions in response to compliance, audit, or regulatory issues or regulatory changes. Risk measurement and monitoring systems are comprehensive and allow management to implement appropriate actions in response to changes in market conditions. Bank management has developed appropriate tools, including models, to identify key risks and processes to determine how those risks will be managed. Compliance risk management systems are sound, and the bank has a strong control culture, which has proven effective. Bank management fosters a sound culture based on strong core values and ethics that are clearly communicated and monitored. The bank has effective controls to avoid conflicts of interest, self-dealing, and other legal or control breaches. Appropriate MIS are regularly provided to senior bank management and address key risks, risk metrics, trends, and action items.

Satisfactory: One or more of the risk management processes related to asset management risk factors are satisfactory. The board and senior bank management are engaged and demonstrate satisfactory oversight of the bank's fiduciary responsibilities and asset management activities. The depth and technical expertise of staff at times may prevent bank management from being fully effective in identifying, measuring, monitoring, and controlling the risks. Bank management satisfactorily responds to risks associated with change. Operating processes, internal controls, and audit coverage are generally sound. Risk management processes are adequate, and bank management has developed appropriate tools, including models, to identify and manage key risks, although these tools may need further enhancement. Bank management takes appropriate actions in response to compliance, audit, or regulatory issues or regulatory changes. Compliance risk management systems are adequate to avoid significant or frequent violations or noncompliance. The bank has adequate controls to avoid conflicts of interest, self-dealing, and other legal or control breaches. MIS are generally adequate and reports are provided regularly to senior bank management, but may have minor weaknesses.

Insufficient: One or more of the risk management processes related to asset management risk are insufficient. The board and senior bank management may not be engaged or may not consistently demonstrate appropriate oversight of fiduciary responsibilities or asset management activities. Weaknesses in the depth and technical expertise of staff sometimes prevent bank management from being effective in identifying, measuring, monitoring, or controlling the risks. Bank management on occasion has failed to respond in a timely manner to risks associated with change. Operating processes, internal controls, and audit coverage may have gaps resulting in weaknesses in some areas. Risk management and due diligence processes, internal controls, or control functions may need improvement. Management may need to develop additional tools, including models, to identify selected key risks and processes to determine how those risks will be managed. Bank management's actions in response to compliance, audit, and regulatory issues or regulatory changes may be incomplete in selected areas or may not be corrected in the normal course of business. Compliance risk management systems may have some weaknesses that could result in significant or occasional violations or noncompliance. The bank's culture is generally sound, but there may be isolated incidences of employee misconduct. Conflicts of interest, self-dealing, or other legal or control breaches are isolated. There may be gaps in monitoring and controls over operations and activities that have been outsourced or moved offshore. MIS exist but may not include important areas, or reports are not provided to senior bank management. (Updated in version 1.1)

Weak: One or more of the risk management processes related to asset management risk are weak. The board and senior bank management are not engaged and do not demonstrate appropriate governance or oversight of fiduciary responsibilities or asset management activities. Insufficient depth and technical expertise of staff often prevent bank management from effectively identifying, measuring, monitoring, and controlling risks. Bank management does not take timely or appropriate actions in response to change, and does not properly analyze risks. Operating processes, internal controls, and audit coverage in significant or all lines of business are insufficient. Risk management and due diligence processes, internal controls, or control functions may be less than effective. There may be tools or models in place to identify some key risks, but these tools or models may be ineffective. Errors are often not detected internally. Bank management has not initiated or has a poor record of corrective action to address problems. Compliance risk management systems are deficient. Employee conduct may demonstrate a disregard for or unawareness of ethics. Conflicts of interest, self-dealing, and other legal or control breaches may be evident. Monitoring over operations and activities that have been outsourced or moved offshore is inadequate or incomplete. MIS are inadequate, and reporting to senior bank management is not well established; MIS do not provide a clear assessment of risk, and risk metrics, trends, and action items are not identified or developed. (Updated in version 1.1)

BSA/AML/OFAC Risk

This section provides considerations for assessing the bank's BSA/AML/OFAC risk. (Updated in version 1.1)

Summary Conclusions

Conclusions from the core assessment allow examiners to assess the quantity of BSA/AML/OFAC risk, quality of BSA/AML/OFAC risk management, aggregate BSA/AML/OFAC risk, and the direction of risk.

Examiners consider both the quantity of BSA/AML/OFAC risk and quality of BSA/AML/OFAC risk management to derive the following conclusions:

- Aggregate BSA/AML/OFAC risk is (low, moderate, high).
- The direction of BSA/AML/OFAC risk is expected to be (decreasing, stable, increasing).

Quantity of BSA/AML/OFAC Risk

This section provides considerations for determining the quantity of BSA/AML/OFAC risk. It is not necessary to meet every qualifier to be accorded a specific assessment. This section includes information from appendixes J and M of the *FFIEC BSA/AML Examination Manual.* (Updated in version 1.1)

Conclusion: The quantity of BSA/AML/OFAC risk is (low, moderate, high).

Low: The bank has a stable, known customer base. The bank does not offer e-banking, or its website is informational or nontransactional. On the basis of information received from the BSA-reporting database, there are few or no large currency or structured transactions. The bank has a few high-risk customers and businesses; these may include nonresident aliens, foreign individuals (including accounts with U.S. powers of attorney), and foreign commercial customers. There are no overseas branches and no foreign correspondent financial institution accounts. The bank does not engage in pouch activities, offer special-use accounts, offer payable through accounts, or provide U.S. dollar draft services. There are few international accounts, or there is a very low volume of currency activity in the accounts. The bank offers limited or no private banking services or trust and asset management products or services. The number of funds transfers for customers and noncustomers is limited; there are limited third-party transactions, and no foreign funds transfers. There are no other types of international transactions, such as trade finance, cross-border automated clearing house, and management of sovereign debt. The bank has no history of OFAC actions, and there is no evidence of apparent violation or circumstances that might lead to a violation. The bank is not in a high-intensity drug trafficking area (HIDTA) or high-intensity financial crime area (HIFCA), and there are no fund transfers or account relationships involving HIDTAs or HIFCAs. There are no transactions with high-risk geographic locations. The bank has low turnover of key personnel or frontline personnel (e.g., customer service representatives, tellers, or other branch personnel).

Moderate: The bank's customer base is increasing due to branching, merger, or acquisition. The bank is beginning e-banking and offers limited products and services. On the basis of information received from the BSA-reporting database, there is a moderate volume of large currency or structured transactions. There is a moderate number of high-risk customers and businesses. The bank has overseas branches or a few foreign correspondent financial institution accounts, typically with financial institutions with adequate AML policies and procedures in low-risk countries, and minimal pouch activities, special-use accounts, payable through accounts, or U.S. dollar draft services. There is a moderate level of international accounts with unexplained currency activity. The bank offers limited domestic private banking services or trust and asset management products or services over which the bank has investment discretion. The strategic plan may be to increase trust business. There is a moderate number of funds transfers, and few international funds transfers from personal or business accounts, which typically are in low-risk countries. The bank has limited other types of international transactions. The bank has a small number of recent actions (e.g., actions within the last five years) by OFAC, including notice letters or civil money penalties, and there is evidence that the bank addressed the issues and is not at risk of similar violations in the future. The bank is in a HIDTA or HIFCA, or has some fund transfers or account relationships that involve HIDTAs or HIFCAs. The bank has minimal transactions with high-risk geographic locations. There is low turnover of key personnel, but frontline personnel in branches may have changed.

High: The bank has a large and growing customer base in a wide and diverse geographic area. The bank offers a wide array of e-banking products and services (e.g., account transfers, e-bill payment, or accounts opened via the internet). On the basis of information received from the BSA-reporting database, there is a significant volume of large currency or structured transactions. There is a large number of high-risk customers and businesses. The bank has overseas branches or maintains a large number of foreign correspondent financial institution accounts with financial institutions that have inadequate AML policies and procedures, particularly those located in high-risk jurisdictions; or the bank offers substantial pouch activities, special-use accounts, payable through accounts, or U.S. dollar draft services. There is a large number of international accounts with unexplained currency activity. The bank offers significant domestic and international private banking or trust and asset management products or services. Private banking or trust and asset management services are growing. Products offered include investment management services, and trust accounts are predominantly nondiscretionary, rather than the bank having full investment discretion. There is a large number of noncustomer funds transfer transactions and payable upon proper identification transactions. There are frequent funds transfers from personal or business accounts to or from high-risk jurisdictions or financial secrecy havens or jurisdictions. The bank has a high number of other types of international transactions. The bank has been subject to multiple recent actions by OFAC, and the bank has not addressed these issues, leading to an increased risk of the bank undertaking similar violations in the future. The bank is in a HIDTA and a HIFCA, or has a large number of fund transfers or account relationships that involve HIDTAs or HIFCAs. The bank has a significant volume of transactions with high-risk geographic locations. There is high turnover, especially in key personnel positions.

Quality of BSA/AML/OFAC Risk Management

The following definitions provide considerations for determining the quality of BSA/AML/OFAC risk management. It is not necessary to meet every qualifier to be accorded a specific assessment. (Updated in version 1.1)

Conclusion: The quality of BSA/AML/OFAC risk management is (strong, satisfactory, insufficient, weak).

Strong: Management fully understands the aspects of compliance risk and exhibits strong commitment to compliance. Compliance considerations are effectively incorporated into all products and areas of the bank. Deficiencies are usually self-identified. Such deficiencies are minor, and when identified, bank management promptly implements meaningful corrective action. Authority and accountability for compliance are clearly defined and enforced, including designation of a qualified BSA officer. Independent testing is in place and is effective. The board has approved a BSA compliance program that includes well-defined policies, procedures, controls, and information systems. Training is appropriate and effective and covers applicable personnel, and necessary resources have been provided to appropriate personnel. Effective customer identification processes and account-opening procedures are in place. Bank management has identified and developed controls that are applied appropriately to high-risk areas, products, services, and customers of the bank. Compliance systems and controls quickly adapt to changes in various government lists (e.g., OFAC, Financial Crimes Enforcement Network [FinCEN], and other government-provided lists). Compliance systems and controls effectively identify and appropriately report suspicious activity. Systems are commensurate with risk. There is a low volume of correspondence from the Internal Revenue Service (IRS), which indicates that currency transaction reports (CTR) are accurate. Appropriate compliance controls and systems are implemented to identify compliance problems and assess performance.

Satisfactory: Bank management reasonably understands key aspects of compliance, and its commitment is generally clear and satisfactorily communicated. Compliance considerations are generally incorporated into products and areas of the bank. Deficiencies are generally self-identified, and bank management is responsive to identified deficiencies. Deficiencies can be corrected in the normal course of business without significant investment of money or bank management attention. Authority and accountability are defined, but some refinements are needed. A qualified BSA officer has been designated. Overall, independent testing is in place and effective. Some weaknesses, however, are noted. The board has approved a BSA compliance program that addresses most policies, procedures, controls, and information systems. Training is conducted and bank management provides adequate resources given the bank's risk profile; some areas, however, are not covered within the training program. Customer identification processes and account-opening procedures are generally in place but not well applied to all high-risk areas. Bank management is aware of high-risk areas, products, services, and customers, but controls are not always appropriately applied to manage this risk. Compliance systems and controls are generally adequate and adapt to changes in various government lists (e.g., OFAC, FinCEN, and other government-provided lists). Compliance systems and controls identify suspicious activity. Monitoring systems, however, are not fully comprehensive or may have some weaknesses. The volume of correspondence from the IRS indicates minor errors in CTR reporting. No shortcomings of significance are evident in compliance controls or systems. Probability of serious future violations or noncompliance is within acceptable tolerance.

Insufficient: Bank management may not have a sufficient understanding of key aspects of compliance risk. The importance of compliance may not be adequately emphasized or communicated throughout the organization. Compliance considerations may not be adequately incorporated into a key product or area of the bank. Deficiencies may not be self-identified. Bank management may not be sufficiently responsive to identified deficiencies. Deficiencies may not be correctable in the normal course of business. Authority and accountability for compliance need improvement. A qualified BSA officer may have been designated, but the role and responsibilities of the BSA officer may not be clear. Independent testing is in place but may not be sufficiently effective. The board has approved a BSA compliance program, but the program may not sufficiently address policies, procedures, controls, and information systems. Training is conducted consistently but may not sufficiently cover important regulatory and risk areas. Bank management may need to provide additional resources given the bank's risk profile. Customer identification and beneficial ownership processes and account-opening procedures may not be adequately in place or effective. Bank management is not sufficiently aware of high-risk areas, products, services, and customers, and controls to manage this risk may need improvement. Compliance systems and controls need improvement to comply with and adapt to changes in various government lists (e.g., OFAC, FinCEN, and other government-provided lists). Compliance systems and controls need improvement to identify suspicious activity. Monitoring systems may need improvement. The volume of correspondence from the IRS indicates an elevated level of errors in CTR reporting. Compliance controls or systems need improvement. The probability of future violations or noncompliance may be outside the acceptable tolerance.

Weak: Bank management does not understand or has chosen to ignore key aspects of compliance risk. The importance of compliance is not emphasized or communicated throughout the organization. Compliance considerations are not adequately incorporated into several key products or areas of the bank. Deficiencies are not self-identified. Bank management may only respond when violations are cited. Deficiencies are significant and may require substantial time and resources to correct. Authority and accountability for compliance have not been clearly established. No BSA officer or an unqualified one may have been appointed. The role of the BSA officer is unclear. Independent testing is not in place or is ineffective. The board may not have approved a BSA compliance program. Policies, procedures, controls, and information systems are significantly deficient. For example, there may be substantial failures to file CTR and/or suspicious activity reports. Training is either not performed or not consistent and does not cover important regulatory and risk areas. Bank management does not provide necessary resources given the bank's risk profile. Customer identification processes and account-opening procedures are absent or ineffective. Bank management is not aware of or chooses to ignore high-risk areas of the bank. Inadequate policies, procedures, and controls have resulted in instances of unreported suspicious activity, unreported large currency transactions, structured transactions, and/or substantive violations of law. Compliance systems and controls are inadequate to comply with and adapt to changes in various government lists (e.g., OFAC, FinCEN, and other government-provided lists). Compliance systems and controls are ineffective in identifying and reporting suspicious activity. The volume of correspondence from the IRS indicates a substantive volume of CTR reporting errors. The likelihood of continued compliance violations or noncompliance is high because a sufficient corrective action program does not exist or extended time is needed to implement such a program.

Internal Controls and Audit

Internal Controls

(Section updated in version 1.1)

A system of internal controls includes the systems, policies, procedures, and processes effected by the board, bank management, and other personnel to safeguard bank assets, limit or control risks, and achieve the bank's objectives.

Summary Conclusion

(Section updated in version 1.1)

Conclusions from the core assessment allow examiners to assess internal controls. Examiners use the following definitions to assess internal controls. It is not necessary to meet every qualifier to be accorded a specific assessment.

Conclusion: The overall system of internal controls is (strong, satisfactory, insufficient, weak).

Strong: The board and senior bank management have established an organizational culture that provides for strong internal controls and appropriate standards and incentives for ethical and responsible behavior. The system of internal controls allows the bank to achieve objectives in operational effectiveness and efficiency and provides for reliable financial reporting, safeguarding of assets and information, and compliance with applicable laws and regulations. Controls are effective in limiting operational losses, and new controls are implemented in a timely manner in areas found to have deficiencies. The organization has an effective process in place to ensure that controls as described in its policy and procedures manuals are operating effectively, and these controls are periodically reviewed through a self-assessment and an independent evaluation. Follow-up is required when internal and external auditors and regulatory agencies recommend improvements to the system of internal controls, and that follow-up is timely and appropriate.

Satisfactory: The board and senior bank management have established an organizational culture that provides for adequate internal controls and appropriate standards and incentives for ethical and responsible behavior. The system of internal controls generally allows the bank to achieve objectives in operational effectiveness and efficiency, and provides for reliable financial reporting, safeguarding of assets and information, and compliance with applicable laws and regulations. Controls are effective in limiting operational losses, and new controls are implemented in a timely manner in areas found to have deficiencies. The organization has an adequate process in place to ensure that controls as described in its policy and procedures manuals are applied. A periodic self-assessment or independent evaluation of internal controls may have minor deficiencies. The organization follows up when internal and external auditors and regulatory agencies recommend improvements to the system of internal controls.

Insufficient: The organization ascribes some importance to an adequate control environment, and the board supports that environment. The organization's culture generally provides for adequate internal controls and appropriate ethical and responsible behavior. The system of internal controls may not, however, provide for reliable financial reporting, safeguarding of assets and information, and compliance with applicable laws and regulations in all areas. Controls implemented in areas found to have deficiencies may not fully remediate them. The organization's process to ensure that controls as described in its policy and procedures manuals are applied may have weaknesses or may not have been fully implemented in all areas. A periodic self-assessment or independent evaluation of internal controls may have significant deficiencies in specific areas. The organization generally follows up when internal and external auditors and regulatory agencies recommend improvements to the system of internal controls, but actions taken may not be completed in a timely manner or may not be fully effective.

Weak: The organization does not ascribe importance to or emphasize the need for an adequate control environment. The organization's culture does not consistently provide for adequate internal controls and appropriate and responsible behavior. The system of internal controls does not completely provide for the achievement of objectives in operational effectiveness and efficiency, reliable financial reporting, safeguarding of assets and information, and compliance with applicable laws and regulations. Controls cannot easily be implemented in areas found to have deficiencies. The organization has an inadequate process to ensure that controls as described in its policy and procedures manuals are applied as they are meant to be applied. A periodic self-assessment or independent evaluation of internal controls may be lacking or have significant deficiencies. The organization's follow-up on identified control weaknesses is inadequate or lacks senior bank management commitment. (Updated in version 1.1)

Audit

Audit programs provide objective, independent reviews and evaluations of bank activities, internal controls, compliance, and MIS; help maintain or improve the effectiveness of bank risk management processes, controls, and corporate governance; and provide reasonable assurance that transactions are recorded accurately and in a timely manner and that financial and regulatory reports are accurate and complete.

Summary Conclusion

Conclusions from the core assessment allow examiners to assess the audit program. Examiners use the following definitions to assess the audit program. It is not necessary to meet every qualifier to be accorded a specific assessment. Examiners consider the key attributes in the audit core assessment when assessing the audit program. These key attributes are normally present to distinguish between assessments, but examiners need to factor in the bank's size, the nature of its activities, and its risk profile to arrive at an overall assessment.

Examiners should also consider whether the audit program includes appropriate risk-based coverage of consumer protection-related laws and regulations, the bank's BSA/AML/OFAC program, and compliance risk management systems.

Conclusion: The overall audit program is (strong, satisfactory, insufficient, weak).

Strong: The audit program attains the highest level of respect and stature in the organization, which is continually confirmed by the attitudes, actions, and support of the board and management. Audit's role is independent, clearly spelled out, and incorporated into overall corporate risk management, new product and service deployment, changes in strategy and tactical plans, and organizational and structural changes.

Satisfactory: The audit program attains an adequate level of respect and stature in the organization and is supported by the actions of the board and management. Audit's role in overall corporate risk management and participation in new product and service deployment, changes in strategy and tactical plans, and organizational and structural changes may be limited, but is conducted in accordance with its assigned responsibilities.

Insufficient: While most of the audit program attains an adequate level of respect and stature in the organization and is generally supported by the actions of the board and management, this may not be the case in certain lines of business or over certain processes or risks. Audit's role in overall corporate risk management and participation in new product and service deployment, changes in strategy and tactical plans, and organizational and structural changes may be limited. This role may not always be conducted in accordance with its assigned responsibilities.

Weak: The audit program does not carry sufficient stature given the organization's risk profile. The audit program does not have the full support of or appropriate oversight by the board and management. Audit's role is unclear and not incorporated into overall corporate risk management, new product and service deployment, changes in strategy and tactical plans, and organizational and structural changes.

Abbreviations

(Section updated in version 1.1)

ALLL	allowance for loan and lease losses
BSA/AML	Bank Secrecy Act/anti-money laundering
CAMELS	capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk
CFP	contingency funding plan
CFPB	Consumer Financial Protection Bureau
CFR	Code of Federal Regulations
CFTC	U.S. Commodity Futures Trading Commission
CRA	Community Reinvestment Act
CTR	currency transaction report
Dodd–Frank	Dodd–Frank Wall Street Reform and Consumer Protection Act
EIC	examiner-in-charge
FFIEC	Federal Financial Institutions Examination Council
FinCEN	Financial Crimes Enforcement Network
FRA	functionally regulated affiliate
FSA	federal savings association
HIDTA	high-intensity drug trafficking area
HIFCA	high-intensity financial crime area
IRS	Internal Revenue Service
ITCC	information technology, trust, consumer compliance, and CRA
Libor	London InterBank Offered Rate
MIS	management information systems
MRA	matter requiring attention
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
RAS	risk assessment system
ROCA	risk management, operational controls, compliance, and asset quality
ROE	report of examination
SEC	U.S. Securities and Exchange Commission
UFIRS	Uniform Financial Institutions Rating System
USC	U.S. Code

References

(Section updated in version 1.1)

Laws

12 USC 1813(c), "Definitions Relating to Depository Institutions"
12 USC 1818(b), "Cease-and-Desist Proceedings"
12 USC 1818(s), "Compliance With Monetary Transaction Recordkeeping and Report Requirements"
12 USC 1820(d), "Annual Onsite Examinations of All Insured Depository Institutions Required"
12 USC 1820(i), "Flood Insurance Compliance by Insured Depository Institutions"
12 USC 1851, "Prohibitions on Proprietary Trading and Certain Relationships with Hedge Funds and Private Equity Funds" (Volcker Rule)
12 USC 3105(c), "Foreign Bank Examinations and Reporting"
12 USC 5481, "Bureau of Consumer Financial Protection"
12 USC 5515, "Supervision of Very Large Banks, Savings Associations, and Credit Unions"

Regulations

12 CFR 3, "Capital Adequacy Standards"
12 CFR 4, "Organization and Functions, Availability and Release of Information, Contracting Outreach Program, Post-Employment Restrictions for Senior Examiners"
12 CFR 11, "Securities and Exchange Act Disclosure Rules"
12 CFR 16, "Securities Offerings Disclosure Rules"
12 CFR 30, "Safety and Soundness Standards"
12 CFR 44, "Proprietary Trading and Certain Interests in and Relationships with Covered Funds" (implementing the Volcker rule)
12 CFR 363, "Annual Independent Audits and Reporting Requirements"

Comptroller's Handbook

Comptroller's Handbook booklets apply to the OCC's supervision of national banks and FSAs unless otherwise specified.

"Bank Supervision Process"
"Compliance Management Systems"
"Corporate and Risk Governance"
"Federal Branches and Agencies Supervision"
"Foreword"
"Internal and External Audits"
"Internal Control" (national banks)
"Loan Portfolio Management"
"Related Organizations" (national banks)

OTS Examination Handbook

The *OTS Examination Handbook* applies to the OCC's supervision of FSAs.

Section 340, "Internal Control"
Section 380, "Transactions With Affiliates"
Section 730, "Related Organizations"

OCC Issuances

Listed OCC issuances apply to national banks and FSAs.

Banking Bulletin 1993-38, "Interagency Examination Coordination Guidelines"
OCC Bulletin 1998-21, "Shared National Credit Program: SNC Program Description and Guidelines"
OCC Bulletin 2009-8, "Country Risk: Changes to the Interagency Country Exposure Review Committee Process"
OCC Bulletin 2010-1, "Interest Rate Risk: Interagency Advisory on Interest Rate Risk Management"
OCC Bulletin 2010-13, "Final Interagency Policy Statement on Funding and Liquidity Risk Management"
OCC Bulletin 2010-24, "Incentive Compensation: Interagency Guidance on Sound Incentive Compensation Policies"
OCC Bulletin 2011-12, "Sound Practices for Model Risk Management: Supervisory Guidance on Model Risk Management"
OCC Bulletin 2012-30, "BSA/AML Compliance Examinations: Consideration of Findings in Uniform Rating and Risk Assessment Systems."
OCC news release 2012-85, "Agencies Sign Memorandum of Understanding on Supervisory Coordination"
OCC Bulletin 2013-29, "Third-Party Relationships: Risk Management Guidance"
OCC Bulletin 2017-7, "Third-Party Relationships: Supplemental Examination Procedures"
OCC Bulletin 2017-21, "Third-Party Relationships: Frequently Asked Questions to Supplement OCC Bulletin 2013-29"
OCC Bulletin 2017-43, "New, Modified, or Expanded Bank Products and Services: Risk Management Principles"

Other

Basel Committee on Banking Supervision, "Core Principles for Effective Banking Supervision"
Committee of Sponsoring Organizations of the Treadway Commission, "Internal Control–Integrated Framework"
FFIEC Bank Secrecy Act/Anti-Money Laundering Examination Manual
FFIEC Information Technology Examination Handbook

Table of Updates Since Publication

Refer to the "Foreword" booklet of the *Comptroller's Handbook* for more information regarding the OCC's process for updating and revising *Comptroller's Handbook* booklets.

The following table is populated with the booklet's version number, date of updated booklet, reasons for updates, and page numbers of updates.

Version 1.0: Published June 28, 2018			
Version number	**Date**	**Reason**	**Affected pages**
1.1	September 30, 2019	Edited for clarity	1, 4, 10, 21, 52–56, 85–87, 89, 91
		Changed Bureau of Consumer Financial Protection (BCFP) to CFPB	4, 21, 47
		Updated to reflect interim final rule for expanded examination cycle pursuant to the Economic Growth, Regulatory Relief, and Consumer Protection Act	5
		Updated terminology "internal controls" for consistency with other *Comptroller's Handbook* booklets	14–15, 30–31, 34, 36, 40, 43, 45, 48, 50–51, 57–58, 66–67, 69, 79, 88, 94–95
		Consistency with other booklets in the *Examination Process* series of the *Comptroller's Handbook*	15, 22
		Added references	16
		Clarified applicability to national banks or federal savings associations	16
		Requirement to complete a credit underwriting assessment added for consistency with current OCC processes	32
		Removed information regarding pending changes to Volcker rule; refer to OCC Bulletin 2019-32, "Volcker Rule: Final Rule"	42
		Updated "Abbreviations" section for consistency with booklet content	97
		Updated "References" section for consistency with the content of the booklet	98–99