Summary of OCC's Responses to the Supervision Peer Review Recommendations
May 28, 2014

1   Report Recommendations
Empower the Large Bank Supervision (LBS) lead experts by moving more specialist resources to report directly to them.

Embed the lead experts' inputs in the supervisory planning, risk assessment, and intervention processes for large institutions. This would include having their views reflected in annual examination planning, on-site review scoping, issuance of supervisory letters, and Matters Requiring Attention (MRA). Where disagreements between lead experts and the examiners-in-charge (EIC) persist, a formal process, within LBS, should be established for escalation to more senior OCC management.

LBS should implement a robust review process that includes both LBS EICs as well as lead experts to scrutinize supervisory strategies and supervisory ratings of large banks.

OCC Response
The OCC will expand the organization, functions, and responsibilities of the LBS lead expert program to improve horizontal perspective and analysis, systemic risk identification, quality control and assurance, and resource prioritization. Resources for this expansion will come from existing teams resident in large institutions, other OCC supervision and policy units, and new hires as necessary. When fully staffed, the program will increase from 21 to 100 experts and risk specialists, and will include teams available to conduct and lead horizontal examinations as needed. This group will engage in ongoing collaboration with other OCC units, such as policy, midsize bank supervision, and economics.

In addition, the OCC will create a Large Bank Risk and Steering Committee structure, which will be instrumental in guiding supervisory strategies and will promote consistent responses to significant risks and issues. This LBS committee structure will benefit from an improved balance of institutional knowledge from resident teams and horizontal perspectives from the lead expert program. This will enable a more robust credible challenge function within LBS, including an escalation process when disagreements occur. This structure also facilitates operation of a quality control process within LBS on critical risks and issues.

2   Report Recommendation
Establish a formal rotation process for examination staff.

OCC Response
The OCC will establish a formal rotation process for large bank examiners and assistant deputy comptrollers (ADC) in locations with multiple ADCs. This process is intended to rotate large bank examiners to another large bank every five years in cities with multiple large banks and to change the work assignment or portfolio of ADCs in field locations with multiple ADCs. Increasing the use of rotational opportunities will further strengthen the supervision of national banks and federal savings associations by providing broader, fresh perspectives on a regular basis.

3   Report Recommendation

Relocate examiners who are resident in commercial banks to common OCC premises. While the "resident examiner program" facilitates access to institution management and information systems, it should be continued on a much smaller scale. In select instances, moving resident examiners to a common OCC premises may not be feasible because there is no critical mass of other OCC staff in the same geographical area.

OCC Response

The OCC will reduce the number of examiners who are on site at individual banks over time. Staffing the expanded lead expert program from on-site examiners, as well as other sources, will reduce the number of examiners resident at individual large institutions. While the decision reduces the number of examiners on site at a particular bank, it does not affect the overall number of examiners assigned to an individual institution or to the supervision of large banks as a whole. The remaining on-site examiners will continue to have unrestricted, real-time access to institutional management information systems, data platforms, and immediate face-to-face contact with institutions' management teams. The supervision of large, complex institutions will benefit from the additional horizontal view provided by the expanded lead expert program and by the regular fresh perspective provided through a formalized examiner rotation program.

4   Report Recommendations

Develop a "risk appetite statement" to provide all OCC staff with a clear and consistent understanding of what the agency is all about—what is most important to the agency.

OCC Response

The OCC will formalize an enterprise risk management (ERM) framework. This process will begin with a dedicated ERM development team, which will help determine its structure, facilitate development of a risk appetite statement and accompanying risk tolerances, and assist in the transition to a shared services environment to better support the data and analytical needs of the structure. This is expected to begin with a pilot program, and is expected to evolve over time.

5   Report Recommendation

Revise the OCC's mission statement, vision statement, strategic plan, and goals to better align with making safety and soundness of institutions the primary objective of the OCC.

OCC Response

The OCC believes its mission statement accurately conveys the agency's mission with focus on safety and soundness of institutions, fair treatment of institutions' customers, and compliance with applicable legal standards. The OCC intends to prioritize and consolidate major agency initiatives, vision statements, and strategic plans to ensure a concrete link to the mission statement.

6   Report Recommendation

The OCC should conduct a benchmarking review of its supervisory framework in comparison to international peers.

OCC Response

The OCC will conduct benchmarking activity regularly and intends to include domestic peers as well.

Benchmarking was conducted as part of the OCC's response to several report recommendations, and will be included in implementation planning as well as after the implementation of these accepted recommendations.

7   Report Recommendations
Include in the National Risk Committee (NRC) radar screen a list of the institutions most affected by the identified risks. This information would better inform the EICs of the industry-wide risks relevant to the institutions they supervise.

A process should be established to bring an OCC strategic view to material supervision matters, such as major acquisitions or horizontal reviews, arising from emerging risk identified via the NRC processes.

OCC Response
The OCC will incorporate specific institution risks and a broader strategic view into its NRC processes.

8   Report Recommendations
Create a formal policy development process (a "decision tree") with time lines, tracking, and accountability to address emerging risks to institutions when no policy exists. Importantly, this process should also clearly embed criteria and process for deciding when the OCC has to act unilaterally, even as it may continue discussions with other agencies on concerted actions.

Develop a process to clarify when strategic supervisory issues (e.g., mergers and acquisitions, intervention actions) need to be escalated to senior agency management. The protocol should include examples of situations and suggest what strategic outcomes are sought.

OCC Response
The OCC will develop a formal decision-making process, or "decision tree," including decision criteria and required action points. This process is intended to identify growing risks lacking clear policy guidelines, and establish timelines commensurate with the risk identified. Although the OCC prefers joint interagency policy development, the decision tree process will identify criteria to determine if the nature or growths of identified risks require unilateral action while continuing an interagency policy development process. This decision tree process is also intended to identify strategically significant supervisory issues, such as pivotal institution merger or acquisition applications, which require escalation to senior OCC management prior to making a decision.

9   Report Recommendations
Consider ways to incorporate more flexibility into CAMELS ratings. One approach would be to split the "2" rating into a "2" and "2+" to allow more directional guidance to institutions.

The OCC should consider the feasibility of developing alternatives to CAMELS or, if this is not a feasible option under the statutes, the OCC should work with the other agencies to prioritize the incorporation of more forward-looking elements into the CAMELS rating system to closely align it with the OCC Risk Assessment System.

OCC Response

The agency will strengthen its internal processes to identify deteriorating "2" rated banks, and to make supervisory expectations clear to such institutions' boards of directors and management earlier in the supervisory process. The working group assigned to consider this recommendation and OCC employee feedback determined that the existing CAMELS definitions include sufficient flexibility to consider forward-looking elements. The OCC does intend to update its approach to assessing risk, known as the Risk Assessment System (RAS), and provide regular examiner training to emphasize how CAMELS and RAS complement each other.

10 Report Recommendation

The OCC should undertake an analysis of the effectiveness of the MRA process and consider developing controls to manage the MRA follow-up process more effectively to promote more timely and consistent resolution of identified deficiencies by the institutions.

OCC Response

The OCC will expand its ongoing internal MRA process review. The expansion of this initiative is intended to enhance and standardize MRA definitions, methods for communication, resolution processes, establish consistent tracking mechanisms, and develop a consistent examiner reference guide.

11 Report Recommendation

Ensure ongoing focus on the staffing and human resource strategies set out in the strategic plan.

OCC Response

The OCC will continue its focus on these strategies and regularly assess progress.

12 Report Recommendation

Expand the use of employment programs to retain qualified retirement-eligible staff on a part-time basis as mentors for incoming staff and to supplement temporary staff shortages.

OCC Response

The OCC will continue developing its plan to consider and implement appropriate actions to retain retirement-eligible staff. A key part of this plan includes beginning work to implement phased retirement authorized by Congress as soon as final guidelines are issued.

13 Report Recommendation

Consider alternative career development and examination structures for a new work force environment in which the OCC may not have the benefit of lifetime career examiners because of changing demographics and a tendency of more recent college graduates to change employers more routinely.

OCC Response

The OCC will supplement its initiatives that are already under way. These include redesigning and re-emphasizing individual development plans, refreshing specialty skills career development options, strengthen mentoring programs, to provide alternative career paths, ongoing development, and

recognition for all examiners. In addition, we will review with an eye to enhance our onboarding process for experienced industry hires.

14 Report Recommendation
Coordinate EIC turnover with that of lead experts.

OCC Response
The OCC will sequence the turnover of EICs with the rotation of senior examiners assigned to supervise individual institutions to the extent possible. We will encourage lead experts to consider EIC rotations and vice-versa.

15 Report Recommendation
Complete LBS' Lean Six Sigma process. Findings from this exercise should be shared with Midsize and Community Bank Supervision (MCBS).

OCC Response
This LBS Lean Six Sigma process continues with completion estimated toward the end of 2014. LBS will share its findings with MCBS upon completion.

16 Report Recommendation
Commence work by the OCC's Enterprise Governance unit on documentation as soon as possible to identify current practices and allow the OCC to determine the standard and consistency of practices it wishes to put in place across the agency.

OCC Response
This work is now under way and is identified as one of the agency's eight strategic initiatives that involves implementing an enterprise-wide self-assessment process focused on continuous improvement of mission critical bank supervision as well as other agency functions that support our supervision processes.