Comptroller's Handbook

Examination Process

Large Bank Supervision

Version 1.0, June 2018

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References to reputation risk have been removed from this booklet as of March 20, 2025. Removal of reputation risk references is identified by a strikethrough. Refer to OCC Bulletin 2025-4.

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 risks and issues. Accordingly, examiners should apply the information in this booklet consistent with each bank's individual circumstances. (Updated in version 1.2)

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.

High-quality supervision is essential to the OCC's ability to carry out its mission. High-quality bank supervision (Updated in version 1.2)

[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.

- accounts for the unique characteristics of each bank, including size and risk profile.
- is ongoing and dynamic, responds to changing risks at each bank, and is sensitive to evolving market conditions and regulatory changes.
- uses OCC resources efficiently and effectively by allocating the greatest resources to the areas of highest risk.
- assesses whether each bank has a sound risk management system consisting of policies, processes, personnel, and control systems to measure, monitor, and control risk.
- recognizes and appropriately assesses the risks to each bank from all significant lines of business, including those subject to the primary supervision of another regulator.
- recognizes the role of functional regulators and promotes effective coordination with them.
- is based on clear communication of bankers' and examiners' responsibilities.
- includes ongoing and effective communication with bank management and the board of directors.
- is performed by examiners who have the knowledge and skills to accurately evaluate banks' conditions, identify risks, and communicate effectively with bank personnel, OCC personnel, and other regulators.
- empowers examiners to use judgment and make sound decisions.
- identifies deficient practices and violations (collectively, deficiencies) in a timely manner and requires banks to take corrective action before the deficiencies affect their conditions.[3]

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.

Portfolio managers are assigned to smaller federal branches and agencies, while full-time EICs are assigned to larger federal branches and agencies. If the parent company of the federal branch or agency has a related large bank affiliate, the examination team may also report to the EIC of the related large bank. Portfolio managers and EICs of federal branches

[3] For more information about deficient practices and violations, refer to the "Bank Supervision Process" booklet of the *Comptroller's Handbook.* (Footnote added in version 1.2)

and agencies report to one of the directors of International Banking Supervision or the EIC of a related large bank, as applicable. (Paragraph added in version 1.2)

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.[4]

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 organization 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. (Updated in version 1.2)

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 multibank organization. This consolidated risk profile is developed by combining the assessment of risks at each affiliated OCC-supervised bank, including an assessment of the

[4] 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).

material risks posed to the OCC-supervised banks by the banks' or any FRA's functionally regulated activities, as appropriate. (Updated in version 1.2)

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, 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.[5] 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.

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.

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

Regulatory Ratings

(Section updated in version 1.2)

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 uniform interagency rating systems adopted by the FFIEC to assign ratings to each OCC-supervised bank. Banks other than federal branches or agencies are rated under the Uniform Financial Institutions Rating System (UFIRS), commonly referred to as CAMELS. A bank's composite rating 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 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 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.

The CAMELS or ROCA composite and component ratings, and applicable specialty area ratings, are formally communicated to the bank's board[6] and management through the report of examination (ROE) or other formal written communication (e.g., a supervisory letter). With the exception of Community Reinvestment Act (CRA) performance evaluations, the contents of the OCC's formal written communications, including regulatory ratings, are nonpublic information as defined by 12 CFR 4.32(b)(1)(iii).[7]

[6] Federal branches and agencies do not have U.S. boards. In many cases, the OCC may communicate with head office management instead of the board. For more information applicable to specific circumstances, refer to the "Federal Branches and Agencies Supervision" booklet of the *Comptroller's Handbook.* (Footnote added in version 1.2)

[7] For more information, refer to the "Disclosure of Ratings" section of the "Bank Supervision Process" booklet of the *Comptroller's Handbook*. (Footnote added in version 1.2)

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.[8] 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

- satisfy the core assessment[9] and are sufficient in scope to assign the bank's regulatory ratings,[10] except CRA ratings.[11]
- 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.[12]
- include on-site supervisory activities.[13]
- conclude with the issuance of an ROE.[14]

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

[8] 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.

[9] 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.*

[10] "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.

[11] 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.

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

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

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

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 risk assessment system (RAS) conclusions for the bank. Examiners prepare a quarterly supervision update to document the results of ongoing supervision. A quarterly supervision update is not prepared for quarters in the supervisory cycle during which the core assessment summary is documented. (Updated in version 1.2)
- **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 may focus on credit risk; operational risk from credit card fraud, processing errors, or service interruptions; interest rate risk from low introductory rates; and compliance risk from disclosure problems.~~; and reputation risk from predatory lending practices or inadequate controls for the confidentiality and privacy of consumer information.~~ Findings from these target examinations provide input to reach RAS conclusions and assign regulatory ratings. (Updated in version 1.2)
- **Focused reviews** are generally designed to gather information about a specific product, service line of business, risk, or activity. Focused reviews are limited in scope and generally have fewer workdays than other supervisory activities. A focused review may be used for discovery purposes to inform future supervisory activities. Focused reviews are conducted over a defined time period and generally only require written communication to the bank in certain situations.[15] (Added in version 1.2)

[15] For more information about situations requiring written communication, refer to the "Bank Supervision Process" booklet of the *Comptroller's Handbook.* (Footnote added in version 1.2)

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[16] and resilience.[17] 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.

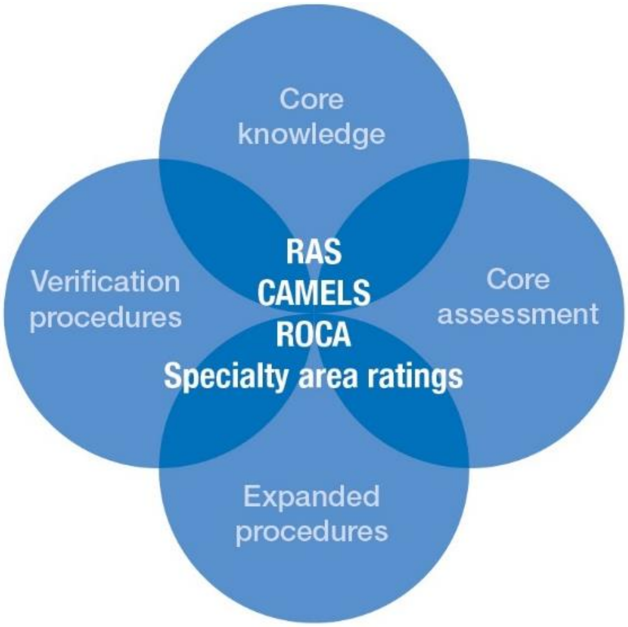
The OCC recognizes that banking is a business of assuming risks to earn profits. Midsize and large banks assume varied risks that may be complex. The foundation of midsize and large bank supervision is a risk assessment framework designed to determine whether banks effectively assess risks throughout their entire enterprise, including subsidiaries and affiliates. Under the risk-based supervision approach, examiners focus on whether banks identify and effectively manage the risks they assume. As a bank 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. (Updated in version 1.2)

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. 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.

[16] 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.

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

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 Overview

(Section updated in version 1.2)

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

Core assessment establishes the minimum conclusions examiners must reach to assess risk and assign regulatory ratings. Examiners must reach these conclusions during the course of each supervisory cycle as part of meeting the requirements of the mandatory full-scope, on-site examination. Examiners complete one consolidated core assessment summary for all OCC-supervised banks within a company during every supervisory cycle. The core assessment summary (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 banks; 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 banks because examiners use a common language and the same standards to assess risks.

Examiners should use judgment in deciding how to perform the core assessment, including the level of transaction testing needed to reach conclusions. 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 escalated consistent with OCC processes and documented in the appropriate OCC supervisory information system.

Ongoing Supervision

(Section added in version 1.2)

Ongoing supervision is the OCC's process for assessing risks and reviewing core knowledge about a bank on an ongoing basis. It is a key component of the OCC's risk-based supervision approach. Examiners conduct periodic monitoring through ongoing supervision and target examinations to determine if any changes to regulatory ratings and RAS conclusions are warranted. Examiners prepare a quarterly supervision update to document the results of ongoing supervision each quarter. A quarterly supervision update is not prepared for quarters in the supervisory cycle during which the core assessment is documented.[18]

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

- review and evaluate the consolidated financial statements for the bank and 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 warranted. 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 and communicate the rating change to the bank in writing. A CRA evaluation must be performed to change a CRA rating.
- update the consolidated risk profile of OCC-supervised banks within the organization using the RAS. One of these quarterly assessments results in documentation of the core assessment summary 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 quarterly supervision updates that document changes in the 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.

[18] For more information about the core assessment, refer to the "Core Assessment" section of this booklet. (Footnote added in version 1.2)

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.

Risk Assessment System Overview

(Section title updated in version 1.2)

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 seven ~~eight~~ categories of risk using the RAS: credit, interest rate, liquidity, price, operational, compliance, and strategic ~~and reputation~~.[19] These categories are not mutually exclusive. Risks also may be interdependent and may be positively or negatively correlated.

As the primary regulator of federally chartered banks, the OCC has the responsibility for evaluating the 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. (Updated in version 1.2)

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

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

(Section updated in version 1.2)

A sound risk management system identifies, measures, monitors, and controls risks. Because market conditions and company structures vary, no single risk management system works for all banks. The sophistication of the risk management system should be commensurate with the bank's size, complexity, and risk profile. As a bank grows more diverse and complex, the sophistication of its risk management should keep pace. Regardless of the risk management system's design, each system should identify, measure, monitor, and control risk.[20]

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.

Examinations 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.[21] If any of these areas is deficient, the bank's risk management is typically also deficient.

Measuring and Assessing Risk

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.[22] 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. (Updated in version 1.2)

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.

[20] For more information about identifying, measuring, monitoring, and controlling risk, refer to the "Corporate and Risk Governance" booklet of the *Comptroller's Handbook*. (Footnote added in version 1.2)

[21] For more information about policies, processes, personnel, and control systems, refer to the "Corporate and Risk Governance" booklet of the *Comptroller's Handbook*. (Footnote added in version 1.2)

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

Internal Controls and Audit

> **Related "Bank Supervision Process" Booklet Section** (Text box added in version 1.2)
>
> - "Examination Authority and Full-Scope, On-Site Examination Requirement" > "Assessment of Audit Functions"

Examiners evaluate and validate 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. Based on these assessments, examiners determine the amount of reliance they can place on internal controls and audit for areas under examination. Effective bank audit functions may help establish the scopes of current supervisory activities and contribute to strategies for future supervisory activities. (Updated in version 1.2)

Internal Controls

An effective system of internal controls is the backbone of the bank's risk management system. For banks covered 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.[23] Examiners should obtain an understanding of how the auditors reached their conclusions. (Updated in version 1.2)

The core assessment includes factors for assessing the bank's control environment during each supervisory cycle. The factors are consistent with industry-accepted criteria[24] 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.

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[23] 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.*

[24] 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.

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.

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

- 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[25] 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,

[25] 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.

"Internal Control" (FSAs); or other appropriate booklets of the *Comptroller's Handbook*, the *FFIEC IT Examination Handbook*, or the *FFIEC BSA/AML Examination Manual*.

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.[26]

Direct confirmation[27] with the bank's customers must have prior approval of the appropriate deputy comptroller. Examiners should notify OCC legal counsel when the OCC is considering direct confirmations. (Updated in version 1.2)

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[28] 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 annual reports for banks covered by 12 CFR 363 or voluntary submitters of such reports.[29] 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

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

[27] Direct confirmation involves the OCC confirming the accuracy of bank records directly with a bank customer. Direct confirmations are rare. (Footnote added in version 1.2)

[28] 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*.

[29] The requirements are applicable to insured banks with $500 million or more in total assets. Uninsured banks and banks below this asset threshold may choose to voluntarily comply with some or all of 12 CFR 363's requirements. (Footnote updated in version 1.2)

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*. (Updated in version 1.2)

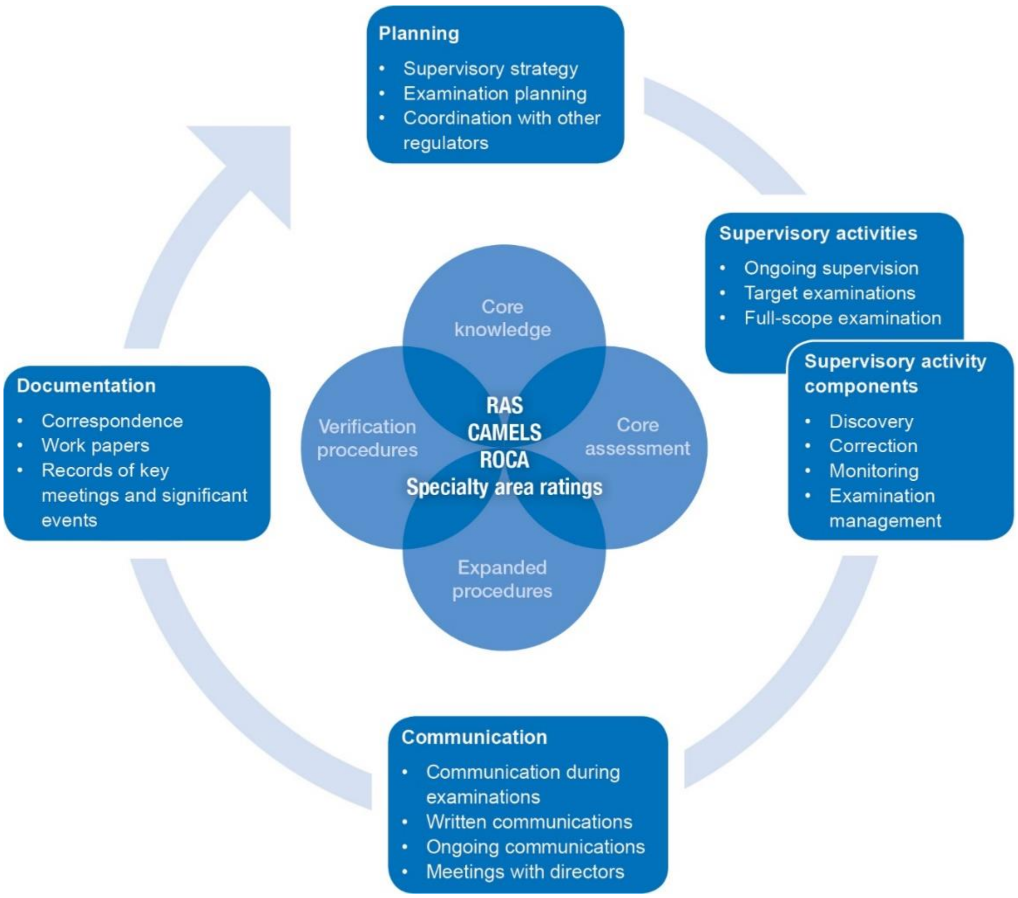
Supervisory Process

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.

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).[30] Planning includes

- 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 a multibank organization.) (Updated in version 1.2)
- 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., workdays and experience level) to complete the identified activities.

Supervisory strategies for OCC-supervised banks (e.g., within a multibank organization) are generally documented as one strategy for all OCC-supervised banks within the organization. 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. (Updated in version 1.2)

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.

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

- statutory examination requirements.
- the OCC's annual bank supervision operating plan.[31]
- 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.
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.[32] The strategy should identify the supervisory activities recommended for each quarter of the supervisory cycle. This information is often consolidated by each RAS category 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. (Updated in version 1.2)

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.

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

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

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"

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.[33]

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.

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.

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

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.

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).
- 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.[34]

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

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.

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 midsize and large banks makes monitoring an important part of effective supervision. (Updated in version 1.2)

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 deficiencies, examiners are required to meet certain minimum requirements for monitoring activities for midsize and large banks. (Updated in version 1.2)

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.
- establish expectations regarding follow-up requests throughout the examination. (Added in version 1.2)
- 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 deficiencies identified during the supervisory activity and, when appropriate, offer examples of acceptable solutions. (Updated in version 1.2)

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. (Updated in version 1.2)

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.** For federal branches and agencies that do not have boards, the OCC provides the ROE to local branch management. The OCC also provides a "head office letter" to the parent bank of U.S. regulated federal branches and agencies summarizing the general condition of the branch or agency. (Updated in version 1.2)

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 banks in the OCC's electronic supervisory information systems. The OCC maintains limited information about affiliates of OCC-supervised banks to help examiners assess risks to OCC-supervised banks from these affiliates.[35] (Updated in version 1.2)

The recorded information reflects the bank'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 this information and data, OCC senior management can review the condition of supervised banks and groups of banks. Other federal banking regulators also have access to certain information, as appropriate, through various formats. (Updated in version 1.2)

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 multibank organization should generally be recorded in the electronic file under the holding company or lead OCC-supervised bank, as appropriate. (Updated in version 1.2)
- Comments particular to a bank should be recorded in the electronic file under that bank.

[35] For more information about affiliates, refer to the "Bank Affiliates and Related Organizations" section of this booklet. (Footnote added in version 1.2)

Core Assessment

Core assessment establishes the minimum conclusions examiners must reach to assess risks and assign regulatory ratings. These minimum conclusions are documented in a core assessment summary. Examiners' conclusions for each risk consider the interrelationships with other risks and cover all applicable lines of business and functions. (Updated in version 1.2)

Core Assessment Summary

(Section updated in version 1.2)

Examiners complete one consolidated core assessment summary for all OCC-supervised banks within a multibank organization during every supervisory cycle. Examiners consider the supervisory activities conducted throughout the supervisory cycle when completing the core assessment summary. The core assessment summary (or portions thereof) may be completed or updated more often when the EIC or supervisory office deems appropriate. The core assessment summary should provide OCC management and examiners with a clear and concise narrative to support the following minimum conclusions:

- Conclusions for the quantity of risk, quality of risk management, aggregate risk, and direction of risk, for each RAS category, Bank Secrecy Act/anti-money laundering/Office of Foreign Assets Control (BSA/AML/OFAC) risk, and asset management risk, as applicable. Conclusions should be based on the definitions for quantity of risk, quality of risk management, aggregate risk, and direction of risk.[36]
- Conclusions for internal controls and audit. Conclusions should be based on the definitions in this booklet for audit and internal controls assessments.
- Conclusions for the assessment factors for the quantity of risk and quality of risk management for each RAS category, BSA/AML/OFAC risk, and asset management risk.
- Conclusions for the assessment factors for internal controls, audit, and BSA (program and each pillar).
- Conclusions for the regulatory ratings and regulatory rating assessment factors. Conclusions for regulatory ratings should be based on the regulatory rating definitions and assessment factors in the "Bank Supervision Process" booklet of the *Comptroller's Handbook.*

The assessment **factors** are the minimum standards that examiners must assess during every supervisory cycle to ensure quality supervision. Examiners must document conclusions for each risk and regulatory rating assessment factor. The **sub-factors** are material criteria, including risk appetite, risk profile, and risk governance criteria, that have been shown to

[36] For each RAS category, BSA/AML/OFAC risk, and asset management risk, this booklet includes definitions for low, moderate, and high quantity of risk and strong, satisfactory, insufficient, and weak quality of risk management. Refer to the "Bank Supervision Process" booklet for general definitions of quantity of risk, quality of risk management, aggregate risk, and direction of risk that apply to all risk assessments. (Footnote added in version 1.2)

drive the assessment factor conclusions in most banks. Examiners should consider all sub-factors and use their judgment to only document those key sub-factors in the core assessment summary that drive the assessment factor conclusions. The sub-factors in this booklet are not an exhaustive list. Given each bank's unique characteristics, there might be other sub-factors that could drive the assessment factor conclusion for a bank. Examiners can include the assessment of these other sub-factors in the core assessment summary if they drive the assessment factor conclusions.

Examiners should use judgment in the level of documentation needed to support the conclusions. 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. Examiners should avoid redundancy between risk disciplines. For example, examiners may cross-reference to comments in other parts of the core assessment to avoid duplication. Examiners should reference supporting work papers in the core assessment summary, as applicable. The core assessment summary must be documented in the OCC's supervisory information systems.

The core assessment summary serves as an important baseline for future supervisory activities. Examiners conduct periodic monitoring through ongoing supervision and target examinations to determine if any changes to regulatory ratings and RAS conclusions are warranted. These changes should be documented in the quarterly supervision update in the quarters in which the core assessment summary is not completed.

Certain core assessment sub-factors are assessed across multiple risk areas. These sub-factors are marked with a ◆ symbol. Examiners assess these sub-factors as they relate to the specific area under review. When assessing strategic risk, ~~reputation risk,~~ operational risk, audit, and internal controls, examiners should consider relevant conclusions for these sub-factors from all applicable risk areas and aggregate the conclusions as appropriate.

Risk Assessment System

Each core assessment summary must include RAS conclusions. Examiners must document a conclusion for each assessment factor. Conclusions for assessment factors are based on the examiners' assessments of relevant sub-factors. Conclusions for the quantity of risk and quality of risk management should be based on the definitions for low, moderate, and high and strong, satisfactory, insufficient, and weak, respectively.

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.

Examiners consider the factors in this section when assessing the quantity of strategic risk and quality of strategic risk management.

Summary Conclusions

(Section updated in version 1.2)

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 strategic risk.

Examiners consider both the quantity of strategic risk and quality of strategic risk management to derive conclusions for aggregate risk and the direction of risk. Examiners must draw the following conclusions for strategic risk:

- The quantity of strategic risk is (low, moderate, high).
- The quality of strategic risk management is (strong, satisfactory, insufficient, weak).
- Aggregate strategic risk is (low, moderate, high).
- The direction of strategic risk is expected to be (decreasing, stable, increasing).

Quantity of Strategic Risk

(Section updated in version 1.2)

In forming conclusions on the strategic risk factors, examiners should consider the effect of strategic and external factors from other risk areas.

Quantity of strategic risk ☐ Low ☐ Moderate ☐ High	
Factors	**Sub-factors**
Strategic ☐ Low ☐ Moderate ☐ High	• Risks associated with new activities[37] or technologies, particularly those that are innovative or unproven. Consider both actual and planned new activities and technologies.◆ • Performance relative to stated risk appetite and other risk metrics.◆ • Trends in internal, external, and regulatory findings.◆ • Bank's market, including types and diversification of products and services, customers, and geographies.

[37] New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)

	• Adequacy of strategic plans and consistency with the bank's risk appetite, financial objectives, capital plan, stress testing, and liquidity requirements. Include discussion of the nature and extent of actual or planned changes in the bank's mission, strategic objectives, core values, or risk appetite. • Effect of merger and acquisition plans and cost control initiatives. • Influence of the parent company, including foreign owners. • Volume and significance of regulatory criticism or concerns that could impede the bank from executing strategic initiatives. • Adequacy of IT infrastructure and systems to execute on strategic plans and initiatives.
External ☐ Low ☐ Moderate ☐ High	• Effect of external factors, including economic, industry, competitive, environmental, and market conditions; legislative and regulatory changes (domestic and international); and technological advancement.◆ • Amount and significance of litigation, monetary penalties, remediations, customer complaints, and referrals from potential whistleblowers.◆

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 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. Strategic decisions may be difficult or costly to reverse or modify.

Quality of Strategic Risk Management

(Section updated in version 1.2)

Conclusions should consider the effect of the quality of risk management for all applicable risk areas.

Quality of strategic risk management ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	
Factors	**Sub-factors**
Policies ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Appropriateness of policies that establish risk limits or positions, including concentration limits, whether the bank requires periodic reevaluation of limits, and whether policies delineate prudent actions to be taken if the limits are breached.◆ • Consistency of policies with the bank's strategic direction and risk appetite.◆ • Adequacy of policy approval process by the board or an appropriate board committee or designee.◆ • Appropriateness of policies over new activities and technologies.[38] • Adequacy of the formalized strategic planning framework. • Adequacy of succession planning and talent management policies.
Processes ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Effectiveness of risk management in identifying, measuring, monitoring, and controlling risk across the bank.◆ • Adequacy of processes for new activities and technologies.◆ • Adequacy of the selection, due diligence, contracting, and ongoing monitoring of third parties.[39]◆ • Adequacy of the alignment of marketing strategies and communications with the bank's corporate culture. • Adequacy of evaluating potential and consummated mergers and acquisitions or divestitures. This includes cost control initiatives. • Adequacy of processes to review alignment of the strategic plan with the risk appetite, financial objectives, capital plan, stress testing, and liquidity requirements. • Effectiveness of board oversight, monitoring, and assessment of strategic initiatives. • Effectiveness of management's risk identification and development, communication, and implementation of strategic plans consistent with board-approved risk appetite and policies. • Adequacy of processes for reviewing and communicating execution and alignment of strategic initiatives with senior management and the board. This includes effectiveness in identifying, escalating, and managing issues that affect or are applicable to strategic initiatives.
Personnel ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Overall staff sufficiency including adequacy of staffing levels, depth of technical and managerial expertise, training, and succession planning. Consider staff sufficiency for current activities and planned strategic initiatives.◆ • Appropriateness of performance management and compensation programs, including accountability for compliance with applicable laws and regulations. Such

[38] For more information about risk management of new activities, refer to OCC Bulletin 2017-43. (Footnote updated in version 1.2)

[39] For more information about third-party risk management, refer to OCC Bulletins 2013-29 and 2020-10. For third-party risk management examination procedures, refer to OCC Bulletin 2017-7. (Footnote updated in version 1.2)

	programs should exclude incentives for personnel to take excessive risks and should appropriately balance risk and reward.[40]◆ • Adequacy of the board and bank management's expertise and responsiveness to changes in the banking industry, regulatory requirements, and operating environment. • Appropriateness of hiring practices, including those related to outsourced personnel or third parties.
Control systems ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Adequacy of timely, accurate, and complete reports◆ that enable management and the board to effectively monitor the strategic plan, manage strategic risk, and make business decisions. • Scope, frequency, and effectiveness of quality assurance, quality control, and independent risk management reviews.◆ • Scope, frequency, and independence of internal and external audits.◆ • Adequacy of policies, practices, and systems protecting private or confidential information from deliberate or accidental disclosure. ◆ • Effectiveness of first, second, and third lines of defense in identifying deficiencies in policy, processes, personnel, and internal controls.◆ • Responsiveness to deficiencies, including those identified by regulators, internal or external audits, independent risk management, or self-identified by bank management.◆ • Adequacy of customer complaint, employee complaint, and whistleblower processes.◆ • Adequacy of control systems for new activities and technologies.

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 effect of reversing or modifying strategic decisions is fully assessed as part of the planning process. Strategic goals are effectively communicated and evident throughout the bank. Systems and system infrastructure capabilities 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

[40] For more information about incentive compensation, refer to OCC Bulletin 2010-24. (Footnote updated in version 1.2)

planning, may be less than comprehensive. Strategic goals are communicated and evident throughout the bank. Systems and system infrastructure capabilities 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 bank, 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 bank. Systems and system infrastructure capabilities 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 activities or acquisitions. Strategic goals are not clearly communicated and evident throughout the bank. Systems and system infrastructure capabilities 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.~~

~~Examiners consider the factors in this section when assessing the quantity of reputation risk and quality of reputation risk management.~~

~~Summary Conclusions~~

~~(Section updated in version 1.2)~~

~~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 conclusions for aggregate risk and the direction of risk. Examiners must draw the following conclusions for reputation risk:~~

- ~~The quantity of reputation risk is (low, moderate, high).~~
- ~~The quality of reputation risk management is (strong, satisfactory, insufficient, weak).~~
- ~~Aggregate reputation risk is (low, moderate, high).~~
- ~~The direction of reputation risk is expected to be (decreasing, stable, increasing).~~

~~Quantity of Reputation Risk~~

~~(Section updated in version 1.2)~~

~~In forming conclusions on the reputation risk factors, examiners should consider the effect of strategic and external factors from other risk areas.~~

~~**Quantity of reputation risk**~~ ☐ ~~**Low**~~ ☐ ~~**Moderate**~~ ☐ ~~**High**~~	
~~**Factors**~~	~~**Sub-factors**~~
~~**Strategic**~~ ☐ ~~Low~~ ☐ ~~Moderate~~ ☐ ~~High~~	• ~~Risks associated with new activities[41] or technologies, particularly those that are innovative or unproven. Consider both actual and planned new activities and technologies.◆~~ • ~~Number and criticality of third-party relationships.◆~~ • ~~The bank's core values, culture, and conduct of employees, contractors, or third parties.~~ • ~~Volume and types of assets and number of accounts under management or administration.~~ • ~~Business activities, geographies, or clients that generate exposure to reputation risk.~~ • ~~Merger and acquisition plans.~~

[41] ~~New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)~~

~~**External**~~ ~~☐ Low~~ ~~☐ Moderate~~ ~~☐ High~~	• ~~Amount and significance of litigation, monetary penalties, remediations, customer complaints, and referrals from potential whistleblowers.~~◆ • ~~The market's or public's perception of the bank or any third-party relationships as indicated by social media, negative news, and the quality of products, services, and business practices, including those perceived as unethical or deceptive.~~ • ~~The impact of publicly disclosed poor financial performance.~~ • ~~Public enforcement actions, fines, or penalties for violations of laws, rules, and regulations, unsafe and unsound practices, or breaches of fiduciary duties.~~ • ~~Public rankings from customer satisfaction surveys and the bank's public CRA rating.~~

~~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 bank has 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 activities, 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 activities, technologies, or third-party relationships.~~

~~**High:** Vulnerability to negative market and public perception is significant in light of significant litigation, large losses, substantive violations of laws and regulations, public enforcement actions, 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 activities, technologies, or third-party relationships.~~

~~Quality of Reputation Risk Management~~

~~(Updated in version 1.2)~~

~~Conclusions should consider the effect of the quality of risk management for all applicable risk areas.~~

~~Quality of reputation risk management~~ ☐ ~~Strong~~ ☐ ~~Satisfactory~~ ☐ ~~Insufficient~~ ☐ ~~Weak~~
~~Sub-factors~~
• ~~Effectiveness of risk management in identifying, measuring, monitoring, and controlling risk across the bank.~~ ◆ • ~~Adequacy of processes for new activities~~[42] ~~and technologies.~~ ◆ • ~~Responsiveness to deficiencies, including those identified by regulators, internal or external audits, independent risk management, or self-identified by bank management.~~ ◆ • ~~Adequacy of customer complaint, employee complaint, and whistleblower processes.~~ ◆ • ~~Adequacy of policies, practices, and systems protecting private or confidential information from deliberate or accidental disclosure.~~ ◆ • ~~Appropriateness of performance management and compensation programs, including accountability for compliance with applicable laws and regulations. Such programs should exclude incentives for personnel to take excessive risks and should appropriately balance risk and reward.~~[43] ◆ • ~~The adequacy of board and management oversight of reputation risk, including oversight by relevant committees.~~ • ~~Management and the board's effectiveness in creating a sound culture based on core values and ethical principles that are clearly communicated and monitored through the bank; maintaining an ethical, self-policing culture; providing incentives to reward appropriate behavior; and treating customers fairly.~~ • ~~Bank management's willingness and ability to adjust strategies based on regulatory or technological changes, market disruptions, market or public perception, and legal losses.~~ • ~~Adequacy and independence of controls used to monitor business and strategic decisions.~~ • ~~Effectiveness of the governance framework and processes to identify, measure, monitor, and control employee conduct-related issues and risks.~~ • ~~Adequacy of processes and controls to avoid conflicts of interest and other legal or control issues.~~ • ~~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 of negative news.~~ • ~~Adequacy of mitigation activities, problem-escalation processes, and rapid-response plans.~~

~~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, anticipating and responding well to changes in the market, technology, or regulatory environment 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 bank. Reputation risk management processes are well-supported throughout the bank 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. Management and board reports, internal controls, and control functions are very effective. Bank management has a clear awareness of privacy issues and uses consumer information responsibly.~~

[42] ~~New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)~~

[43] ~~For more information about incentive compensation, refer to OCC Bulletin 2010-24. (Footnote added in version 1.2)~~

~~**Satisfactory:** Bank management adequately responds to changes in the market, technology, or regulatory environment that affect the bank's reputation in the marketplace. The bank's reputation in the marketplace. The bank'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 weaknesses in management and board reports 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 in the market, technology, or regulatory environment 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. Management and board reports may exhibit moderate weaknesses. Bank management has gaps in its knowledge of privacy issues, and there may be some instances in which consumer information was not used responsibly.~~

~~**Weak:** Bank management does not take timely or appropriate actions in response to changes in the market, technology, or regulatory environment. 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 employees may not be held accountable for their actions. The bank does not adequately self-police risk. Bank management has either not initiated, or has a poor record of, corrective action to address problems. Management and board reports 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 are ineffective. 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.

Examiners consider the assessment factors in this section when assessing the quantity of credit risk and quality of credit risk management. A credit underwriting assessment must be completed once per supervisory cycle, consistent with OCC policy.

For national banks, 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. For federal savings associations, examiners should apply the guidelines in *Office of Thrift Supervision Examination Handbook* section 201, "Overview: Lending Operations and Portfolio Risk Management," other sections of the *Office of Thrift Supervision Examination Handbook*, and applicable booklets of the *Comptroller's Handbook.* (Updated in version 1.2)

Summary Conclusions

(Section updated in version 1.2)

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 credit risk. Examiners consider both the quantity of credit risk and quality of credit risk management to derive conclusions for aggregate risk and the direction of risk. Examiners must draw the following conclusions for credit risk:

- The quantity of credit risk is (low, moderate, high).
- The quality of credit risk management is (strong, satisfactory, insufficient, weak).
- Aggregate credit risk is (low, moderate, high).
- The direction of credit risk is expected to be (decreasing, stable, increasing).

Quantity of Credit Risk

(Section updated in version 1.2)

Quantity of credit risk ☐ **Low** ☐ **Moderate** ☐ **High**	
Factors	**Sub-factors**
Underwriting factors ☐ Low ☐ Moderate ☐ High	• Changes in underwriting policies and standards. • Trends in the weighted average risk ratings of existing portfolios compared with new underwriting. • Volume, composition, trend, and performance of underwriting exceptions and overrides. • Trends and volumes of booked loans and approval rates. • Trends in credit origination metrics (e.g., credit score, debt-to-income ratios, payment-to-income ratios, loan-to-values) and the associated quantity of risk layering.

	• Changes in decision-making processes for investment and securities acquisitions that affect credit risk.
Strategic ☐ Low ☐ Moderate ☐ High	• Risks associated with new activities[44] or technologies, particularly those that are innovative or unproven. Consider both actual and planned new activities and technologies.◆ • Performance relative to stated credit risk appetite and other risk metrics.◆ • Level and criticality of reliance on manual processes.◆ • Trends in internal, external, and regulatory findings.◆ • Effect of growth plans, portfolio and product mix, new products, delivery channels, third-party originations or acquisitions, syndications, concentrations, and securitizations. • Changes in strategy related to credit risk taking, which may or may not be formalized in the strategic plan, such as concentrations, asset growth, or use of technology to enhance decision making. • Extent of market share and ability to drive product terms and pricing.
External ☐ Low ☐ Moderate ☐ High	• Amount and significance of litigation, monetary penalties, remediations, customer complaints, and referrals from potential whistleblowers.◆ • Effect of economic conditions on banking and material credit portfolios. • Changes in the banking industry and competitive landscape. • Impact of geographic (including country) risks and environmental conditions on significant portfolios. • Effect of technological advancement on credit products, services, and delivery channels, and on significant loan portfolios.
Credit ☐ Low ☐ Moderate ☐ High	• Levels and trends of delinquencies, nonperforming, special mention and classified assets, losses, weighted average risk ratings, forbearances and reserves in both balance-sheet and off-balance-sheet accounts. • Trends in volume and quality of lending and fee-based credit activities, including off-balance-sheet, syndication, and investment activities. • Trends in payment, settlement, and clearing activities. • Changes in portfolio analytics, risk attributes, performance, loss forecasting, and stress testing. • Impact of credit mitigation or credit enhancement used to manage the level of on- or off-balance-sheet credit risk. • Volume of risk rating changes made by independent credit risk review, regulators, or audit.

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 the bank's financial condition or resilience 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 activities and marketing initiatives are

[44] New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)

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 the bank's financial condition or resilience is moderate. 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 portfolio growth may exist within specific products or sectors, it is in accordance with a reasonable plan. New credit activities are reasonable. Re-aging, extension, forbearance, 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 the bank's financial condition or resilience 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), less than prime, 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 activities are aggressive and often not sufficiently tested or planned for. Re-aging, extension, forbearance, renewal, and refinancing practices are used in a manner that hinders accurate credit risk identification. 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

(Section updated in version 1.2)

Quality of credit risk management ☐ **Strong** ☐ **Satisfactory** ☐ **Insufficient** ☐ **Weak**	
Factors	**Sub-factors**
Policies ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Consistency of credit policies with the bank's strategic direction and risk appetite.◆ • Adequacy of policy approval process by the board or an appropriate board committee or designee.◆ • Appropriateness of policies that establish risk limits or positions, including concentration limits, whether the bank requires periodic reevaluation of limits, and whether policies delineate prudent actions to be taken if the limits are breached.◆

	• Balance within the credit culture between credit and marketing. • Reasonableness of (1) definitions that guide policy, underwriting, and documentation exceptions and (2) guidelines for approving policy exceptions. • Consistency of underwriting expectations regardless of whether facilities are originated to hold or to distribute. • Adequacy of credit risk review policies.
Processes ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	**Overall** • Adequacy of internal controls, including segregation of duties, dual control, and authority commensurate with duties.◆ • Adequacy of processes for new activities[45] and technologies.◆ • Adequacy of the selection, due diligence, contracting, and ongoing monitoring of third parties.[46]◆ **Credit Granting** • Adequacy of controls around credit granting authorities for new and renewing extensions of credit. • Appropriateness of the approval process, marketing campaigns, and delivery channels. • Thoroughness of the underwriting analysis. • Appropriateness of the use of automation technologies and credit scoring methodologies. • Adequacy of credit analyses and approval processes for non-direct lending activities that generate credit risk. • Adequacy of counterparty credit risk management and adequacy of counterparty credit risk analysis. • Quality of analytical resources, such as scoring systems and portfolio models, and the adequacy of their periodic revalidation. • Alignment and execution of the credit decisioning process with credit policies. • Adequacy of identification and approval of exceptions before loan funding. • Adequacy of collateral valuation and approval processes. • Adequacy of processes for syndications and loan purchase activities.[47] • Adequacy of processes related to syndicated loan pipeline management. **Credit Monitoring** • Effectiveness of risk management in identifying, measuring, monitoring, and controlling risk across the bank.◆ • Adequacy of portfolio management, including the ability to identify, measure, monitor, and control risk. • Adequacy of concentration risk management.[48] • Effectiveness of portfolio management processes such as forecasting, analytics, and stress testing. • Adequacy and timeliness of ongoing credit monitoring processes.

[45] New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)

[46] For more information about third-party risk management, refer to OCC Bulletins 2013-29 and 2020-10. For third-party risk management examination procedures, refer to OCC Bulletin 2017-7. (Footnote added in version 1.2)

[47] For more information, refer to OCC Bulletin 2020-81, "Credit Risk: Risk Management of Loan Purchase Activities." (Footnote added in version 1.2)

[48] For more information, refer to the "Concentrations of Credit" booklet of the *Comptroller's Handbook*. (Footnote added in version 1.2)

	• Accuracy and integrity of internal risk rating processes and retail classification processes. • Adequacy, independence, and consistent application of valuation methodologies supporting the fair value estimates of complex and other illiquid instruments. • Volumes and trends of account management practices that have potential to increase credit risk. • Adequacy of layered credit risk monitoring. • Adequacy of sampling, analysis, and reporting by credit risk review.[49] **Collection and Workout Processes** • Development and execution of action plans and collection strategies to facilitate timely and effective collection and loss recognition. **Allowance for Loan and Lease Losses or Allowances for Credit Losses[50] and Accounting Controls** • Appropriateness of credit loss allowance[51] balances. • Adequacy of supporting documentation. • Adequacy of credit loss estimation processes.
Personnel ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Overall staff sufficiency including adequacy of staffing levels, depth of technical and managerial expertise, training, and succession planning. Consider staff sufficiency for current activities and planned strategic initiatives.◆ • Adequacy of assignment of accountabilities at all levels within the risk-taking operation and across all three lines of defense.◆ • Appropriateness of performance management and compensation programs, including accountability for compliance with applicable laws and regulations. Such programs should exclude incentives for personnel to take excessive risks and should appropriately balance risk and reward.[52]◆ • Adequacy of the staffing and autonomy of credit risk review.
Control systems ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Effectiveness of systems and system infrastructure capabilities to provide timely, accurate, and relevant reporting to bank management and the board.◆ • Adequacy of timely, accurate, complete, and relevant reports◆ for bank management and the board to assess performance of loan portfolios on an aggregate and segmented basis. • Effectiveness of first, second, and third lines of defense in identifying deficiencies in policy, processes, personnel, and internal controls.◆ • Scope, frequency, and effectiveness of quality assurance, quality control, and independent risk management reviews,◆ including independent credit risk reviews. • Scope, frequency, and independence of internal and external audits.◆

[49] For more information about credit risk review, refer to OCC Bulletin 2020-50, "Credit Risk: Interagency Guidance on Credit Risk Review Systems." (Footnote added in version 1.2)

[50] For banks that have not adopted the current expected credit losses (CECL) methodology, refer to the "Allowance for Loan and Lease Losses" booklet of the *Comptroller's Handbook* and OCC Bulletin 2006-47, "Allowance for Loan and Lease Losses (ALLL): Guidance and Frequently Asked Questions (FAQs) on the ALLL." For banks that have adopted CECL, refer to the "Allowances for Credit Losses" booklet of the *Comptroller's Handbook.* (Footnote added in version 1.2)

[51] The term "credit loss allowance" refers to the allowance for loan and lease losses or allowance for credit losses, as applicable. (Footnote added in version 1.2)

[52] For more information about incentive compensation, refer to OCC Bulletin 2010-24. (Footnote added in version 1.2)

	• Adequacy of model risk management.[53]◆ • Effectiveness of exception monitoring systems that identify, measure, and track exceptions to policy and established limits, and the adequacy of corrective actions.◆ • Responsiveness to deficiencies, including those identified by regulators, internal or external audits, independent risk management, or self-identified by bank management.◆ • Adequacy of customer complaint, employee complaint, and whistleblower processes.◆ • Adequacy of policies, practices, and systems protecting private or confidential information from deliberate or accidental disclosure.◆ • Adequacy, independence, and consistent application of collateral valuation methodologies. • Effectiveness of risk rating systems, risk quantification methods, and data maintenance systems. • Adequacy of controls associated with changes to risk appetite or credit policy.

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: Credit policies comprehensively define 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 activities 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. Reports 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. Credit loss allowance methodologies are well-defined, objective, and clearly support adequacy of current reserve levels. Personnel possess extensive technical and managerial expertise. Internal controls are comprehensive and effective. The stature, quality, and independence of credit risk review and audit support highly effective control systems.

Satisfactory: Credit policies satisfactorily define risk appetite, responsibilities, and accountabilities. Key aspects of credit policies are effectively communicated. New activities 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

[53] For more information, refer to the "Model Risk Management" booklet of the *Comptroller's Handbook.* (Footnote added in version 1.2)

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. Reports produced by these processes may require modest improvement in accuracy, timeliness, completeness, or relevance. Weaknesses in information processes (including resulting reports) 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. Credit loss allowance methodologies are satisfactory and result 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 credit risk review and audit are appropriate.

Insufficient: Credit policies do 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 activity 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. Credit loss allowance methodologies may have weaknesses that, if not corrected, could result in an inadequate reserve. 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 credit risk review and audit may not be appropriate in all areas.

Weak: Credit policies may not effectively define risk appetite, responsibilities, and accountabilities. Credit policies are not effectively communicated. New activities 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. Reports produced by these processes are inaccurate, untimely, incomplete, or insufficient to make sound management decisions. Weaknesses in information processes (including resulting reports) can lead bank management to decisions that materially affect earnings or capital. Internal grading and reporting of credit exposure do 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. Credit loss allowance methodologies are 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 credit risk 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).

For more information, refer to the "Interest Rate Risk" booklet of the *Comptroller's Handbook.* (Added in version 1.2)

Examiners consider the factors in this section when assessing the quantity of interest rate risk and quality of interest rate risk management.

Summary Conclusions

(Section updated in version 1.2)

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 interest rate risk. Examiners consider both the quantity of interest rate risk and quality of interest rate risk management to derive conclusions for aggregate risk and the direction of risk. Examiners must draw the following conclusions for interest rate risk:

- The quantity of interest rate risk is (low, moderate, high).
- The quality of interest rate risk management is (strong, satisfactory, insufficient, weak).
- 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

(Section updated in version 1.2)

Quantity of interest rate risk ☐ **Low** ☐ **Moderate** ☐ **High**	
Factors	**Sub-factors**
Repricing risk ☐ Low ☐ Moderate ☐ High	• Repricing mismatch of assets and liabilities over the short term and long term. • Volume and volatility of non-interest income streams that are sensitive to changes in interest rates. • Vulnerability of earnings and capital to large or immediate interest rate changes, such as rate shocks and gradual rate shifts, e.g., a change of 300 or 400 basis points.[54] • Effectiveness of derivatives, such as futures and interest rate swaps, in neutralizing repricing mismatches. • Lagging effect of recent changes in interest rates on earnings.
Basis risk ☐ Low ☐ Moderate ☐ High	• Volume, tenor, and variety of different indexes tied to assets and liabilities (e.g., prime, Constant Maturity Treasury, and U.S. Treasury) that may change at different times or by different amounts. • Lagging or asymmetric pricing behavior in bank-managed rates such as the rates on interest-bearing 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 level and shape (e.g., rising level with flattening slope, falling level with steepening slope, curve inverts, and twists). • Concentrations in duration mismatches between assets and liabilities at discrete points on the yield curve (e.g., key rate duration).
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 implicit and explicit options embedded in liabilities (e.g., early deposit withdrawals, nonmaturity deposit elasticities, and callable liabilities). • Potential effect of implicit/explicit options embedded in assets (e.g., loan prepayments, interest rate caps and floors in commercial loan contracts, and the volume of variable rate loans).
Strategic ☐ Low ☐ Moderate ☐ High	• Effect of the bank's overall business and funding strategies on interest rate risk (e.g., entering into new activities,[55] funding sources, speculating on the direction and volatility of interest rates, investing in supporting technology). Consider both actual and planned new activities and technologies.◆ • Performance relative to stated interest rate risk appetite and other risk metrics.◆ • Trends in internal, external, and regulatory findings.◆ • Level and criticality of reliance on manual processes.◆Flexibility and resiliency of the overall business and funding strategies, including the ability to adapt to dynamic rate environments.

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

[55] New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)

External ☐ Low ☐ Moderate ☐ High	• Effect of competition on pricing and ability to reprice assets and liabilities.

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

(Section updated in version 1.2)

Quality of interest rate risk management ☐ **Strong** ☐ **Satisfactory** ☐ **Insufficient** ☐ **Weak**	
Factors	**Sub-factors**
Policies ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Consistency of policies with the bank's strategic direction and risk appetite.◆ • Appropriateness of policies that establish risk limits or positions, including concentration limits, whether the bank requires periodic reevaluation of limits, and whether policies delineate prudent actions to be taken if the limits are breached.◆ • Adequacy of policy approval process by the board or an appropriate board committee or designee.◆
Processes ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Effectiveness of risk management in identifying, measuring, monitoring, and controlling risk across the bank.◆ • Adequacy of processes for new activities[56] and technologies.◆ Include discussion of the bank's ability to identify and effectively hedge or otherwise mitigate risk and to manage the risks involved in new products, services, and systems, especially those of a complex nature. • Quality of model assumptions and reasonableness of assumption support.

[56] New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)

	• Adequacy of stress testing processes including use of scenarios that reduce or eliminate profits. • Adequacy of sensitivity analysis for behavioral assumptions including analysis of unexpected conditions or behaviors. • 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. • Capacity and flexibility to modify interest rate risk exposures in adverse rate environments in a timely manner.
Personnel ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Overall staff sufficiency including adequacy of staffing levels, depth of technical and managerial expertise, training, and succession planning. Consider staff sufficiency for current activities and planned strategic initiatives.◆ • Adequacy of assignment of accountabilities at all levels within the risk-taking operation and across all three lines of defense.◆ • Appropriateness of performance management and compensation programs, including accountability for compliance with applicable laws and regulations. Such programs should exclude incentives for personnel to take excessive risks and should appropriately balance risk and reward.[57]◆ Effectiveness of responses to changes in market conditions.
Control systems ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Effectiveness of systems and system infrastructure capabilities to provide timely, accurate, and relevant reporting to bank management and the board.◆ Include discussion of the adequacy of risk measurement systems to capture material positions, both on- and off-balance-sheet, and the risks inherent in the positions. • Scope, frequency, and effectiveness of quality assurance, quality control, and independent risk management reviews.◆ • Scope, frequency, and independence of internal and external audits.◆ • Effectiveness of first, second, and third lines of defense in identifying deficiencies in policy, processes, personnel, and internal controls.◆ • Adequacy of model risk management.◆ Include discussion of the appropriateness of scope, frequency, expertise, and independence of model validation program for IRR models, material model assumptions, and other measurement tools.[58] • Responsiveness to deficiencies, including those identified by regulators, internal or external audits, independent risk management, or self-identified by bank 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 managing 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 levels of the bank. The

[57] For more information about incentive compensation, refer to OCC Bulletin 2010-24. (Footnote added in version 1.2)

[58] For more information, refer to the "Model Risk Management" booklet of the *Comptroller's Handbook.* (Footnote added in version 1.2)

interest rate risk management process is effective and prospective. Information processes (manual or automated) are fully appropriate for the volume and complexity of activity. Reports 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 managing 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 bank. The interest rate risk management process is adequate. Information processes (manual or automated) are adequate for the volume and complexity of activity. Reports produced by these processes may contain weaknesses in accuracy, timeliness, completeness, or relevance. Weaknesses in systems, system infrastructure capabilities, and reports 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 need to be addressed to adequately communicate guidelines for managing 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 bank. 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 systems, system infrastructure capabilities, and reports 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.

Weak: Policies are inadequate in communicating guidelines for managing 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 bank. 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. Reports produced by these processes are inaccurate, untimely, incomplete, or insufficient to make sound management decisions. Weaknesses in systems, system infrastructure capabilities, and reports 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.

For more information, refer to the "Liquidity" booklet of the *Comptroller's Handbook.* (Added in version 1.2)

Examiners consider the factors in this section when assessing the quantity of liquidity risk and quality of liquidity risk management.

Summary Conclusions

(Section updated in version 1.2)

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 liquidity risk. Examiners consider both the quantity of liquidity risk and quality of liquidity risk management to derive conclusions for aggregate risk and the direction of risk. Examiners must draw the following conclusions for liquidity risk:

- The quantity of liquidity risk is (low, moderate, high).
- The quality of liquidity risk management is (strong, satisfactory, insufficient, weak).
- Aggregate liquidity risk is (low, moderate, high).
- The direction of liquidity risk is expected to be (decreasing, stable, increasing).

Quantity of Liquidity Risk

(Section updated in version 1.2)

Quantity of liquidity risk ☐ **Low** ☐ **Moderate** ☐ **High**	
Factors	**Sub-factors**
Wholesale liabilities ☐ Low ☐ Moderate ☐ High	• Volume, composition, growth trends, and projections in current and stressed environments. Include discussion of level of customer loyalty generated through direct and operational relationships and assessment of loyalty influence on commercial deposit retention in stressed environment. • Level of credit sensitivity. • Tenor, rates paid, and collateralization requirements of Federal Home Loan Bank advances, repurchase agreements, and uninsured deposit products (focus on rate-driven deposits and deposits placed by brokers).
Retail liabilities ☐ Low ☐ Moderate ☐ High	• Volume, composition, growth trends, and projections. Include discussion of (1) origination channels (branches, online, asset management), insured versus uninsured deposits, and deposit mix, (2) how deposit characteristics affect loyalty for retail customer deposits, and (3) how operational relationships affect commercial customer deposit retention. • Tenor and rates paid on insured deposit products.
Diversification ☐ Low ☐ Moderate ☐ High	• Extent to which liabilities are diversified by individual funds provider, product, tenor, market area, and industry. Include discussion of any material funding concentrations. • Extent of asset diversification as evidenced by the variety of loans and investments or other assets that the bank could use to raise funds. • Sufficiency of diversity by marketer if bank is material user of brokered deposits.
On- and off-balance-sheet cash flows ☐ Low ☐ Moderate ☐ High	• Capacity to access additional unsecured market funding in the current 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 (e.g., is securitization used occasionally to enhance liquidity, needed in the “pipeline” financing for ongoing business, or used for funding advantage depending on environment?). – existence of concentrations by maturity dates, products, purchasers, or counterparties (high-level discussion when material). – compliance with covenants, focusing on any that may cause early securitization amortization (use of funds). – depth and breadth of secondary markets. • Presence of other off-balance-sheet items that could result in cash flows to or from the balance sheet, including – unused loan commitments. – loan pipeline commitments.

	– letters of credit or other contingent liabilities. – collateral requirement agreements. – early liability termination arrangements. – calls or options (if there are material FHLB, repo, or other liabilities). • Inability to complete any asset sales beyond planned securitization already discussed.
Net funding gaps ☐ Low ☐ Moderate ☐ High	• Volume of on- and off-balance-sheet net funding gaps in both normal environment (i.e., day-to-day activities) and stressed environments. This is best demonstrated in the contingency funding plan (include discussion of trends in funding gaps across both idiosyncratic and systemic internal stresses). • Projected growth or depletion of assets and liabilities. • If applicable, discuss overall liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements, trends, and projections.
Strategic and external ☐ Low ☐ Moderate ☐ High	• Effect of the bank's overall business and funding strategies on liquidity (e.g., entering into new activities,[59] funding sources, investing in supporting technology). Consider both actual and planned new activities and technologies.◆ • Level and criticality of reliance on manual processes.◆ • Performance relative to stated liquidity risk appetite and other risk metrics. • Trends in internal, external, and regulatory findings.◆ • How external sources of liquidity view both bank and parent company current and projected – asset quality, earnings, and capital. – ~~reputation risk or~~ other credit-sensitive 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. • Effect of competition on the bank's ability to retain funding sources.
Liquid assets ☐ Low ☐ Moderate ☐ High	• Relationship of volume and trends in liquid assets compared with volume and trends of liabilities including, if applicable, any major changes in liquid assets composition or regulatory guidelines. Consider – level of unencumbered highly liquid assets compared with liquidity needs as well as the duration and severity of the liquidity stress. – asset valuation under distressed conditions. – central bank collateral requirements. • Trends or projected changes in liquid assets, including liquidity concentrations and monetization. Include discussion of the volume and composition of money market assets such as fed funds sold, Eurodollars placed, and certificates of deposit purchased. • Intraday liquidity needs, particularly if the bank is active in payment systems. • Amount of unrealized gains or losses in the investment portfolio including discussion of accounting designations (e.g., held for maturity or available for sale).

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).

[59] New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)

Low: The bank is not vulnerable to funding difficulties if a material adverse change in market perception occurs. 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 if a material adverse change in market perception occurs. 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 if a material adverse change occurs. 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 contingency funding plan (CFP), including the sale of, or disruption in, a strategic line of business.

Quality of Liquidity Risk Management

(Section updated in version 1.2)

Quality of liquidity risk management ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	
Factors	**Sub-factors**
Policies ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Consistency of policies with the bank's strategic direction and risk appetite.◆ • Appropriateness of policies that establish risk limits or positions, including concentration limits, whether the bank requires periodic reevaluation of limits, and whether policies delineate prudent actions to be taken if the limits are breached.◆ Include discussion of appropriateness of stated limits governing balance-sheet composition (ratios), cash flow (funding gaps), and diversification of funding concentrations (including reasonableness of their periodic recalibration). • Adequacy of policy approval process by the board or an appropriate board committee or designee.◆

	• Appropriateness and effectiveness of guidelines for funding diversification and concentrations management.
Processes ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Effectiveness of risk management in identifying, measuring, monitoring, and controlling risk across the bank.◆ • Adequacy of internal controls, including segregation of duties, dual control, and authority commensurate with duties.◆ • Adequacy of processes for new activities[60] and technologies.◆ Include discussion of management's ability to (1) control liquidity risks associated with new activities and pricing decisions and (2) update systems in response to changing business, economic, and competitive conditions. • The adequacy of intraday liquidity risk management processes and oversight, such as understanding client activity, monitoring of Federal Reserve account and overdraft levels, and wire room throttle procedures. • Adequacy of collateral management processes, such as monitoring by major asset class and legal entity. Consider the ability of the custody or settlement system to operate within operational or timing requirements to deliver collateral as 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 prompt changes in liquidity risk management strategies, policies, risk limits, and contingency funding plans.[61] 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 contingency funding plan given the bank's complexity, risk profile, and role within the financial system.[62]
Personnel ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Overall staff sufficiency including adequacy of staffing levels, depth of technical and managerial expertise, training, and succession planning. Consider staff sufficiency for current activities and planned strategic initiatives.◆ • Adequacy of assignment of accountabilities at all levels within the risk-taking operation and across all three lines of defense.◆ • Appropriateness of performance management and compensation programs, including accountability for compliance with applicable laws and regulations. Such programs should exclude incentives for personnel to take excessive risks and should appropriately balance risk and reward.[63]◆

[60] New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)

[61] For more information, refer to OCC Bulletin 2010-13, "Final Interagency Policy Statement on Funding and Liquidity Risk Management."

[62] Ibid. (Footnote added in version 1.2)

[63] For more information about incentive compensation, refer to OCC Bulletin 2010-24. (Footnote added in version 1.2)

Control systems ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Effectiveness of systems and system infrastructure capabilities to provide timely, accurate, and relevant reporting to bank management and the board.◆ • Adequacy of timely, accurate, complete, and relevant reports◆ that address both on- and off-balance-sheet cash flows and aggregate exposures across business lines in both a business-as-usual and a distressed environment. • Scope, frequency, and effectiveness of quality assurance, quality control, and independent risk management reviews.◆ • Scope, frequency, and independence of internal and external audits.◆ • Effectiveness of first, second, and third lines of defense in identifying deficiencies in policy, processes, personnel, and internal controls.◆ • Adequacy of model risk management.◆ Include discussion of the existence of an independent and competent function that validates the reliability and effectiveness of models and the validity of underlying assumptions.[64] • Responsiveness to deficiencies, including those identified by regulators, internal or external audits, independent risk management, or self-identified by bank management.◆ • Effectiveness of follow-through, communication, and escalation when reporting on and resolving concerns related to policy and guideline breaches.

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 the bank's overall risk management process and anticipates and responds promptly to changing market conditions. Clearly articulated policies provide insight and guidance on appropriate risk taking and risk management. Information processes (manual or automated) are fully appropriate for the volume and complexity of activity. Reports 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 contingency funding plan exists and is fully integrated into overall risk management processes, and enables bank management to respond to potential crisis situations in a timely manner and to the bank's fullest.

Satisfactory: Bank management incorporates most of the key aspects of liquidity risk into the bank's 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. Reports produced by these processes may contain weaknesses in accuracy, timeliness, completeness, or relevance. Weaknesses in information processes (including resulting reports) 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

[64] For more information, refer to the "Model Risk Management" booklet of the *Comptroller's Handbook.* (Footnote added in version 1.2)

effectiveness is generally appropriate. There is a satisfactory contingency funding plan to manage liquidity risk, and bank management is generally prepared to manage potential crisis situations.

Insufficient: Bank management has not fully incorporated key aspects of liquidity risk into the bank's 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. Reports 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 contingency funding plan may have a specific weakness that needs to be addressed for the contingency funding plan 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. Reports produced by these processes are inaccurate, untimely, incomplete, or insufficient to make sound management decisions. Weaknesses in information processes (including resulting reports) 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.

Examiners consider the factors in this section when assessing the quantity of price risk and quality of price risk management.

Summary Conclusions

(Section updated in version 1.2)

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 price risk. Examiners consider both the quantity of price risk and quality of price risk management to derive conclusions for aggregate risk and the direction of risk. Examiners must draw the following conclusions for price risk:

- The quantity of price risk is (low, moderate, high).
- The quality of price risk management is (strong, satisfactory, insufficient, weak).
- Aggregate price risk is (low, moderate, high).
- The direction of price risk is expected to be (decreasing, stable, increasing).

Quantity of Price Risk

(Section updated in version 1.2)

Quantity of price risk ☐ **Low** ☐ **Moderate** ☐ **High**	
Factors	**Sub-factors**
Volume of open positions ☐ Low ☐ Moderate ☐ High	• Level, complexity, and liquidity of open trading positions (typically expressed by factors such as VaR, SVaR, DV01, “Greek” exposures, P&L volatility, and stress analysis). • Level, complexity, and liquidity of intraday trading exposures. • Level of loans subject to foreign exchange risk. • Frequency of back-testing exceptions, relative to confidence level for price risk models (e.g., VaR, SVaR, and DV01) and pricing models.
Options risk ☐ Low ☐ Moderate ☐ High	• Amount of assets and liabilities with nonlinear price sensitivity. • Amount of assets and liabilities that hedge positions with non-linear exposure (e.g., mortgage pipeline, mortgage servicing rights, and credit valuation adjustments [CVA]). • Amount of assets and liabilities used in hedging strategies that employ non-linear instruments (e.g., options, swaptions, caps, and floors), such as dynamic hedging.

Basis risk ☐ Low ☐ Moderate ☐ High	• Sensitivity of hedged portfolios' fair value to a change in the correlation between the hedge(s) and the portfolios.
Concentrations ☐ Low ☐ Moderate ☐ High	• Level and diversification among products or types of products, including dominant positions in products or markets and/or replication of large positions from other market participants (same way risk). • Existence of concentrations in market factors (e.g., option strike prices). • Large positions concentrated in higher-risk counterparties (e.g., reliance upon a single dealer for a product type or concentrated CVA exposure). • Level of other real estate owned as a percent of capital.[65]
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. • Aggregate fair value adjustment for market illiquidity (sometimes called concentration adjustments or blockage factors). • Volume of level 3 exposures (i.e., assets or liabilities with fair value measurement inputs that may not be readily observable in the market), and magnitude of movements from L3 to L2 (as a potential indicator of "managing" levels).
Stability of revenue ☐ Low ☐ Moderate ☐ High	• Contribution of recurring revenue from client flow vs. revenue from changes in instruments' fair values. • Revenue derived from portfolio management activities (such as profits derived from structural hedges of the balance sheet, mortgage servicing rights positions, credit valuation adjustment exposures, and other aggregated/portfolio-level hedging activities). • Volatility and cyclicality of trading profit and loss.
Strategic ☐ Low ☐ Moderate ☐ High	• Risks associated with new activities[66] or technologies, particularly those that are innovative or unproven. Consider both actual and planned new activities and technologies.◆ • Level and criticality of reliance on manual processes.◆ • Performance relative to stated price risk appetite and other risk metrics.◆ • Trends in internal, external, and regulatory findings.◆

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: The bank has a low amount of assets and liabilities that are accounted for at fair value through earnings (e.g., lending pipelines and mortgage servicing rights). Open trading positions and valuation uncertainties are immaterial. The bank can easily dispose of or effectively hedge exposures that create price risk. If exposures to foreign currency translation exist, the translation adjustments are immaterial.

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[65] For more information, refer to the "Other Real Estate Owned" booklet of the *Comptroller's Handbook.* (Footnote added in version 1.2)

[66] New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)

Moderate: Assets and liabilities that are accounted for at fair value through earnings (e.g., lending pipelines and mortgage servicing rights) are unlikely to materially affect the bank's financial condition or resilience. Open trading positions and valuation uncertainties are small compared with capital. 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. If exposures to foreign currency translation exist, the translation adjustments are not expected to have an adverse effect.

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

Quality of Price Risk Management

(Section updated in version 1.2)

Quality of price risk management ☐ **Strong** ☐ **Satisfactory** ☐ **Insufficient** ☐ **Weak**	
Factors	**Sub-factors**
Policies ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Consistency of policies with the bank's strategic direction and risk appetite.◆ • Appropriateness of policies that establish risk limits or positions, including concentration limits, whether the bank requires periodic reevaluation of limits, and whether policies delineate prudent actions to be taken if the limits are breached.◆ Include discussion of the appropriateness of limits given the level of trading and hedging activities, including the management of portfolios with complex or idiosyncratic risk exposures (e.g., mortgage servicing rights, lending pipelines, and securities financing transactions). • Adequacy of policy approval process by the board or an appropriate board committee or designee.◆ • Appropriateness of policies to address foreign currency translation hedging requirements and standards. • Consistency of valuation policies across business lines.
Processes ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Effectiveness of risk management in identifying, measuring, monitoring, and controlling risk across the bank.◆ • Adequacy of processes for new activities[67] and technologies.◆ • Adequacy of internal controls, including segregation of duties, dual control, and authority commensurate with duties.◆ Include discussion of internal controls for front, middle, and back office. • Adequacy of strategic planning process to enable the board and management to align bank mission, risk appetite, limits, and controls for price risk. • Adequacy of processes and systems designed to ensure compliance with policy. • Appropriateness of trading management oversight (e.g., oversight of risk-taking activities, approving and monitoring compliance with limits) in each line of defense. • Adequacy of independent measurement and analysis of risk under a variety of scenarios, including stress tests.

[67] New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)

	• Adequacy of the models used for testing revenue vulnerability under probable and stress test scenarios. • Effectiveness of the profit and loss "explain" function (i.e., the process through which bank management breaks down gains and losses into various components). • Independence and adequacy of valuation processes and the validity of assumptions. • Capabilities of the front-, middle-, and back-office systems to support current and projected trading operations. • Adequacy of models for higher-risk portfolios and trading strategies (e.g., mortgage servicing rights, subprime exposures, open non-linear positions, delta-one trading, illiquid products, and CVA hedging). • Adequacy of processes for booking, managing, accounting for, and disposing of other real estate owned, foreclosed assets, and assets received in exchange for debts previously contracted (DPC).
Personnel ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Overall staff sufficiency including adequacy of staffing levels, depth of technical and managerial expertise, training, and succession planning. Consider staff sufficiency for current activities and planned strategic initiatives.◆ • Adequacy of assignment of accountabilities at all levels within the risk-taking operation and across all three lines of defense.◆ • Appropriateness of performance management and compensation programs, including accountability for compliance with applicable laws and regulations. Such programs should exclude incentives for personnel to take excessive risks and should appropriately balance risk and reward.[68]◆
Control systems ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Effectiveness of systems and system infrastructure capabilities to provide timely, accurate, and relevant reporting to bank management and the board.◆ Include discussion of the ability of risk measurement and reporting systems to capture and aggregate material positions and the price risks across trading desks and business lines. • Adequacy of model risk management.◆ Include discussion of the adequacy and independence of validation processes for trading models and methods.[69] • Frequency and reliability of revaluations of individual position-taking including assets, instruments, and positions that are less liquid, are model-driven, or have poor market data. • Scope, frequency, and effectiveness of quality assurance, quality control, and independent risk management reviews.◆ • Scope, frequency, and independence of internal and external audits.◆ • Effectiveness of first, second, and third lines of defense in identifying deficiencies in policy, processes, personnel, and internal controls.◆ • Responsiveness to deficiencies, including those identified by regulators, internal or external audits, independent risk management, or self-identified by bank management.◆ • Independence of risk-monitoring and control functions from the risk-taking function(s).

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).

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[68] For more information about incentive compensation, refer to OCC Bulletin 2010-24. (Footnote added in version 1.2)

[69] For more information, refer to the "Model Risk Management" booklet of the *Comptroller's Handbook.* (Footnote added in version 1.2)

Strong: Policies reflect the bank's risk appetite, provide clear authorities and responsibilities, and delineate appropriate limits. Bank management fully understands the bank's 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 current and future activity. Reports 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 or price verification process. Bank management fully researches and documents the risk of new activities before implementation. The bank has effective price risk limits at all levels of the bank, from portfolios to bank-wide. 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: 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. Reports produced by these processes may contain weaknesses in accuracy, timeliness, completeness, or relevance. Weaknesses in information processes (including resulting reports) 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 or prices are independently verified. Bank management considers the risk of new activities before implementation. Limit structures are reasonable, clear, and effectively communicated. Limits are calibrated to give management early warning of increasing price risk and prevent staff from exposing the bank to undesired price risk. 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: 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 some aspects of price risk. Bank management may have inadequately responded to changes in market conditions. Price risk management processes may inadequately address all major exposures. Information processes (manual or automated) may not be adequate for all activities. Reports 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 activity 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 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 bank. 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 activities. Reports 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.

Examiners consider the factors in this section when assessing the quantity of operational risk and quality of operational risk management.

Summary Conclusions

(Section updated in version 1.2)

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 operational risk. Examiners consider both the quantity of operational risk and quality of operational risk management to derive conclusions for aggregate risk and the direction of risk. Examiners must draw the following conclusions for operational risk:

- The quantity of operational risk is (low, moderate, high).
- The quality of operational risk management is (strong, satisfactory, insufficient, weak).
- Aggregate operational risk is (low, moderate, high).
- The direction of operational risk is expected to be (decreasing, stable, increasing).

Quantity of Operational Risk

(Section updated in version 1.2)

Quantity of operational risk ☐ **Low** ☐ **Moderate** ☐ **High**	
Factors	**Sub-factors**
Structural ☐ Low ☐ Moderate ☐ High	• Level and criticality of reliance on manual processes.◆ • Volume, types, and complexity of bank transactions, on- and off-balance-sheet exposures, products and services offered, delivery methods employed, and models or other quantitative tools used by the bank. • Level and trend of operational errors, loss events, and near misses. • Software and hardware obsolescence, security, capacity, and operational resilience. • Volume, types, and concentrations of activities and operations that are outsourced, moved offshore, or performed by an affiliate. • Volume and severity of incidents and system outages.
Strategic ☐ Low ☐ Moderate ☐ High	• Risks associated with new activities[70] or technologies, particularly those that are innovative or unproven. Consider both actual and planned new activities and technologies.◆ • Performance relative to stated operational risk appetite and other risk metrics.◆ • Trends in internal, external, and regulatory findings.◆ • Effect of merger, acquisition, and divestiture strategies on a market, product, or geographic footprint. • Approach toward using insurance and contractual indemnifications within service-level agreements and contracts with holding company, affiliates, and third-party relationships to mitigate operational loss. • Complexity, velocity, and volume of conversions, integrations, and other system changes.

[70] New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)

External ☐ Low ☐ Moderate ☐ High	• Effect of external factors, including economic, industry, competitive, environmental, and market conditions; legislative and regulatory changes (domestic and international); and technological advancement.◆ • Amount and significance of litigation, monetary penalties, remediations, customer complaints, and referrals from potential whistleblowers.◆ • Effect of infrastructure threats on the bank's ability to deliver timely support and service. • Ability of third parties to provide and maintain performance that meets the requirements of the bank and complies with applicable laws and regulations. • Volume of cybersecurity threats/attacks, data breaches, and fraud.

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 activities, 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 activities, 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 activities, 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

(Section updated in version 1.2)

Quality of operational risk management ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	
Factors	**Sub-factors**
Policies ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Consistency of policies with the bank's strategic direction and risk appetite.◆ • Appropriateness of policies that establish risk limits or positions, including concentration limits, whether the bank requires periodic reevaluation of limits, and whether policies delineate prudent actions to be taken if the limits are breached.◆ • Adequacy of policy approval process by the board or an appropriate board committee or designee.◆ • Scope, coverage, and adequacy of operational policies, given the bank's operations (lines of business, functional areas, new or innovative technologies and activities), risk appetite, risk profile, risk limits, and strategic initiatives. • Adequacy of the operational risk management framework and taxonomy.
Processes ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Adequacy of processes for new activities[71] and technologies.◆ • Adequacy of internal controls, including segregation of duties, dual control, and authority commensurate with duties.◆ • Effectiveness of risk management in identifying, measuring, monitoring, and controlling risk across the bank.◆ • Integration of an effective operational risk management framework into control functions and each business line with processes that identify, measure, monitor, and control risk. • Adequacy of issues management and operational risk management processes that facilitate root cause analysis, the identification of risk themes, and remediations. • Effectiveness of project management capabilities to deliver projects on time, on budget, and in accordance with stakeholder requirements. • Effectiveness of change management processes, including responding satisfactorily and in a timely manner to any variety of change, internal or external (e.g., for new or innovative activities, changes in process and technologies, or changes in laws and regulations). Consider management's ability to implement changes with minimal disruptions, errors, violations, or operational losses. • Adequacy of IT asset lifecycle processes to maintain network and system architecture, operations, and stability. • Quality of physical and logical security and processes to ensure the integrity and confidentiality of systems and data, including consumer and corporate information. Include discussion of identity and access management. • Effectiveness of the data governance program. • Adequacy of monitoring and testing processes to identify when controls are deteriorating, becoming ineffective, or in need of redesign. • Adequacy of processes to detect, prevent, and respond to internal and external fraud, cybersecurity attacks, or data breaches. • Ability to monitor activities and operations that have been outsourced, moved offshore, or performed by an affiliate. Consider whether services have met the bank's operational needs. • Capacity to deliver accurate and timely services and to respond rapidly to service interruptions or to attacks, insider threats, or external intrusions.

[71] New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)

	• Adequacy of business continuity management processes.[72] • Adequacy of corporate culture.
Personnel ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Overall staff sufficiency including adequacy of staffing levels, depth of technical and managerial expertise, training, and succession planning. Consider staff sufficiency for current activities and planned strategic initiatives.◆ • Adequacy of assignment of accountabilities at all levels across all three lines of defense.◆ • Appropriateness of performance management and compensation programs, including accountability for compliance with applicable laws and regulations. Such programs should exclude incentives for personnel to take excessive risks and should appropriately balance risk and reward.[73]◆ • Adequacy of hiring practices to deter internal fraud (e.g., background checks) by bank personnel or third parties.
Control systems ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Effectiveness of the operational risk governance framework to define the structure, roles, responsibilities, reporting lines, and expectations for risk management. • Effectiveness of systems and system infrastructure capabilities to provide timely, accurate, and relevant reporting to bank management and the board.◆ • Adequacy of timely, accurate, complete, and relevant reports◆ that provide information to line-of-business managers, senior bank management, and the board. • Scope, frequency, and effectiveness of quality assurance, quality control, and independent risk management reviews.◆ • Effectiveness of first, second, and third lines of defense in identifying deficiencies in policy, processes, personnel, and internal controls.◆ • Effectiveness of the internal risk and control self-assessment structure. • Scope, frequency, and independence of internal and external audit.◆ • Effectiveness of exception monitoring systems that identify, measure, and track exceptions to policy and established limits, and the adequacy of corrective actions.◆ • Adequacy of model risk management.[74] ◆ • Adequacy of policies, practices, and systems protecting private or confidential information from deliberate or accidental disclosure.◆ • Responsiveness to deficiencies, including those identified by regulators, internal or external audits, independent risk management, or self-identified by bank management.◆ • Adequacy of customer complaint, employee complaint, and whistleblower processes.◆ • Appropriate use and independent validation of measurement tools, systems, and programs, including those developed by third parties. • Ability of personnel, systems, telecommunications networks, and business processes to resist, absorb, and recover from or adapt to an incident that may cause harm, destruction, or loss of ability to perform key business functions.

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).

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[72] For more information, refer to the "Business Continuity Management" booklet of the *FFIEC Information Technology Examination Handbook.* (Footnote added in version 1.2)

[73] For more information about incentive compensation, refer to OCC Bulletin 2010-24. (Footnote added in version 1.2)

[74] For more information, refer to the "Model Risk Management" booklet of the *Comptroller's Handbook.* (Footnote added in version 1.2)

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 bank. Qualitative statements and quantitative and qualitative measures clearly define the bank's operational risk appetite. Bank management has developed appropriate processes 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 activities, 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 that governs operations and activities that have been outsourced or moved offshore. Appropriate processes and controls exist to manage data and protect it from unauthorized change or disclosure. Appropriate reports address key operational risks, 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 bank's operational risk appetite. Bank management generally applies internal controls, sound processes, and audit coverage across the bank. 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 activities, 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. Operational risk reports are regularly provided to senior bank management and other key stakeholders. Reports 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 activities, 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 processes to ensure 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 and protect data from unauthorized change or disclosure may have specific weaknesses. Operational risk 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 bank. There may be processes in place to identify some key risks, but these processes may be ineffective. Processes to determine how to manage identified risks are poorly designed. The systems in place, if any, to respond to new activities, 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 bank 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. Reports are inadequate, and senior bank management reporting is not well-established. Reports 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.

The supervision of laws and regulations may be the responsibility of examiners across multiple risk disciplines. Examiners’ evaluations of compliance risk should consider the bank’s compliance with all applicable laws and regulations, and not only those related to consumer protection. (Updated in version 1.2)

Examiners consider the factors in this section when assessing the quantity of compliance risk and quality of compliance risk management.

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. While high complaint volumes can provide insight, even a single complaint can be an early warning sign of a problem. 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. The results of complaint data review should be applied to the quantity of risk and quality of risk management assessments. (Updated in version 1.2)

Summary Conclusions

(Section updated in version 1.2)

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 compliance risk. Examiners consider both the quantity of compliance risk and quality of compliance risk management to derive conclusions for aggregate risk and the direction of risk. Examiners must draw the following conclusions for compliance risk:

- The quantity of compliance risk is (low, moderate, high).
- The quality of compliance risk management is (strong, satisfactory, insufficient, weak).
- Aggregate compliance risk is (low, moderate, high).
- The direction of compliance risk is expected to be (decreasing, stable, increasing).

Quantity of Compliance Risk

(Section updated in version 1.2)

Quantity of compliance risk ☐ **Low** ☐ **Moderate** ☐ **High**	
Factors	**Sub-factors**
Business activity ☐ Low ☐ Moderate ☐ High	• Level and criticality of reliance on manual processes.◆ Include discussion of the number of systems used for compliance risk management and the extent that disparate systems necessitate manual coordination across lines of business or functions. • Performance relative to stated compliance risk appetite and other risk metrics.◆

	• Nature and extent of business activities, including rapid growth, expansion, new activities,[75] unique products and services, innovative technologies, delivery channels, third-party relationships, and significant merger and acquisition activity. • Quantity of BSA/AML/OFAC, Servicemembers Civil Relief Act, Flood Disaster Protection Act, fair lending, and other significant compliance risks.[76] • 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, remediations, customer complaints, and referrals from potential whistleblowers.◆ • Trends in internal, external, and regulatory findings.◆ • 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.

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 bank'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.

[75] New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)

[76] For more information, refer to the *FFIEC BSA/AML Examination Manual* and the "Servicemembers Civil Relief Act," "Flood Disaster Protection Act (Interagency)," "Fair Lending," and other booklets in the *Consumer Compliance* series of the *Comptroller's Handbook*. (Footnote added in version 1.2)

Quality of Compliance Risk Management

(Section updated in version 1.2)

Quality of compliance risk management ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	
Factors	**Sub-factors**
Policies ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Consistency of policies with the bank's strategic direction and risk appetite.◆ • Appropriateness of policies that establish risk limits or positions, including concentration limits, whether the bank requires periodic reevaluation of limits, and whether policies delineate prudent actions to be taken if the limits are breached.◆ • Adequacy of policy approval process by the board or an appropriate board committee or designee.◆ • Periodic review of the effectiveness of the compliance management system.
Processes ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Effectiveness of risk management in identifying, measuring, monitoring, and controlling risk across the bank.◆ • Adequacy of internal controls, including segregation of duties, dual control, and authority commensurate with duties.◆ • Adequacy of processes for new activities[77] and technologies.◆ • Adequacy of the selection, due diligence, contracting, and ongoing monitoring of third parties.[78]◆ • Strength of the bank's compliance culture. • Adequacy and timeliness of processes for communicating policies and expectations as well as changes to such policies and expectations to appropriate personnel. • Adequacy of processes and systems to ensure compliance with policies and applicable laws and regulations. • Capabilities of the front- and back-office systems to support current and projected operations. • Adequacy and timeliness of processes to assimilate system, legislative, regulatory, and market condition changes into all applicable aspects of the bank. • Adequacy of the budget to ensure that appropriate systems, capital, and human resources are allocated to compliance risk management and training. • Adequacy of integrating compliance considerations into all phases of corporate planning, including the development of new activities or acquisitions/assimilation of product portfolios or processes performed by third parties.

[77] New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)

[78] For more information about third-party risk management, refer to OCC Bulletins 2013-29 and 2020-10. For third-party risk management examination procedures, refer to OCC Bulletin 2017-7. (Footnote added in version 1.2)

Personnel ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Overall staff sufficiency including adequacy of staffing levels, depth of technical and managerial expertise, training, and succession planning. Consider staff sufficiency for current activities and planned strategic initiatives.◆ • Adequacy of assignment of accountabilities at all levels across all three lines of defense.◆ • Appropriateness of performance management and compensation programs, including accountability for compliance with applicable laws and regulations. Such programs should exclude incentives for personnel to take excessive risks.[79]◆ • Independence and empowerment of compliance staff. • Adequacy of training content, deployment, and staff completion.
Control systems ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Adequacy of model risk management.[80]◆ • Effectiveness of exception monitoring systems that identify, measure, and track exceptions to policy and established limits, and the adequacy of corrective actions.◆ • Scope, frequency, and effectiveness of quality assurance, quality control, and independent risk management reviews.◆ • Scope, frequency, and independence of internal and external audits.◆ • Adequacy of policies, practices, and systems protecting private or confidential information from deliberate or accidental disclosure.◆ • Effectiveness of first, second, and third lines of defense in identifying deficiencies in policy, processes, personnel, and internal controls.◆ • Responsiveness to deficiencies, including those identified by regulators, internal or external audits, independent risk management, or self-identified by bank management.◆ • Adequacy of customer complaint, employee complaint, and whistleblower processes.◆ Consider adequacy of processes to capture, analyze, and respond in a timely manner to customer complaints and identify potential compliance issues. • Adequacy of the structure of the compliance management system. • Timeliness, accuracy, completeness, and relevance of reports and monitoring (including transaction and surveillance monitoring systems used to detect and report suspicious activity). • Appropriate use and independent validation of measurement tools, systems, and programs, including those developed by third parties.

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 to and concern for all compliance issues. Bank management anticipates and addresses key aspects of compliance risk and regulatory changes. Control systems effectively identify violations or compliance system weaknesses, and corrective action is prompt and reasonable. 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

[79] For more information about incentive compensation, refer to OCC Bulletin 2010-24. (Footnote added in version 1.2)

[80] For more information, refer to the "Model Risk Management" booklet of the *Comptroller's Handbook.* (Footnote added in version 1.2)

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 and regulatory changes. Control systems are adequate for identifying violations or compliance system weaknesses but not always in a timely manner. Management is usually responsive, and corrective action is generally timely. 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.

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's actions in response to compliance issues or regulatory changes may be incomplete in certain areas. Control systems need improvement for identifying violations or compliance system weaknesses and may not consistently identify weaknesses. Management may fail to respond and implement corrective actions in a timely manner. 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 lines of business, products, services, 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 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. Control systems are ineffective in identifying violations and compliance management system weaknesses. Management is unresponsive to compliance management system weaknesses or violations, and corrective action is weak. 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 multiple or significant lines of business, products, services 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.

BSA/AML/OFAC

(Section updated in version 1.2)

The OCC is statutorily required to evaluate the adequacy of each bank's BSA compliance program during every supervisory cycle. The OCC tailors BSA/AML examination strategies and procedures based on the unique risk profile of each bank. Risk-based testing must be performed during each supervisory cycle using the appropriate section(s) of the *FFIEC BSA/AML Examination Manual*.

While OFAC sanctions regulations are not part of the BSA, evaluation of compliance with OFAC obligations is generally included in BSA/AML examinations. The OFAC review evaluates the sufficiency of a bank's implementation of OFAC policies, procedures, and processes, using applicable procedures from the OFAC section of the *FFIEC BSA/AML Examination Manual.* OFAC-related matters requiring attention (MRA) and suspected violations regarding OFAC must be reported to the Compliance Risk Policy Division of the OCC's Bank Supervision Policy Department for referral to OFAC.

Banks structure their BSA/AML compliance programs to be risk-based and to identify and report potential money laundering, terrorist financing, and other illicit financial activity. A well-developed BSA/AML risk assessment is part of sound risk management and assists examiners in understanding the bank's risk profile.[81] The development of the risk assessment generally involves the identification of specific risk categories (e.g., products, services, customers, and geographic locations) unique to the bank, and an analysis of the information identified to better assess the risks within these specific risk categories.

The scope of the BSA/AML review must include the minimum procedures in the "Scoping and Planning," "BSA/AML Risk Assessment," "Assessing the BSA/AML Compliance Program," and "Developing Conclusions and Finalizing the Exam" sections of the *FFIEC BSA/AML Examination Manual*, plus any additional procedures as determined during the scoping and planning process. The extent of examination activities necessary to evaluate a bank's BSA/AML program generally depends on the risk profile of the bank and the quality of processes implemented by the bank to identify, measure, monitor, and control risk and to report potential money laundering, terrorist financing, and other illicit financial activity. Examiners must conclude on the adequacy of the bank's BSA/AML program including the customer identification program, and each program pillar (i.e., internal controls, independent testing, designated individual(s) responsible for BSA compliance, and training).

Examiners consider the factors in this section when assessing the quantity of BSA/AML/OFAC risk and quality of BSA/AML/OFAC risk management. These factors are the minimum **standards** that examiners consider during every supervisory cycle to ensure quality supervision.

[81] For more information, refer to OCC Bulletin 2019-33, "Bank Secrecy Act/Anti-Money Laundering: Joint Statement on the Risk-Focused Approach to BSA/AML Supervision." (Footnote added in version 1.2)

Summary Conclusions

(Section updated in version 1.2)

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 BSA/AML/OFAC risk. Examiners consider both the quantity of BSA/AML/OFAC risk and quality of BSA/AML/OFAC risk management to derive conclusions for aggregate risk and the direction of risk. Examiners must draw the following conclusions for BSA/AML/OFAC risk:

- The quantity of BSA/AML/OFAC risk is (low, moderate, high).
- The quality of BSA/AML/OFAC risk management is (strong, satisfactory, insufficient, weak).
- Aggregate BSA/AML/OFAC risk is (low, moderate, high).
- The direction of BSA/AML/OFAC risk is expected to be (decreasing, stable, increasing).

Examiners conclude on the adequacy of the bank's BSA/AML program and each program pillar and derive the following conclusions:

- The BSA/AML program is (strong, satisfactory, insufficient, weak).
- BSA/AML internal controls are (strong, satisfactory, insufficient, weak).
- BSA/AML independent testing is (strong, satisfactory, insufficient, weak).
- The board (has/has not) designated a qualified BSA compliance officer responsible for coordinating and monitoring day-to-day compliance with BSA requirements. The BSA compliance officer's authority, independence, access to resources, and competence to effectively execute all duties are (strong, satisfactory, insufficient, weak).
- BSA/AML training is (strong, satisfactory, insufficient, weak).

Quantity of BSA/AML/OFAC Risk

(Section updated in version 1.2)

Quantity of BSA/AML/OFAC risk ☐ **Low** ☐ **Moderate** ☐ **High**	
Factors	**Sub-factors**
Business activity ☐ Low ☐ Moderate ☐ High	• Level and criticality of reliance on manual processes.◆ • Size and geographic locations of customer base, growth, merger/acquisitions activity. • Number of high-risk customers. • Types of products and services offered. • Delivery channels, including alternative payment methods and international book entry payment processes. • Dollar and transaction volume of activity, including cash, international wires or those conducted by non-customers. • Number and criticality of third-party relationships.

	• Location(s) of the bank or branches: in a high-intensity financial crime area (HIFCA) or high-intensity drug trafficking area (HIDTA); near an international border.
Litigation and noncompliance ☐ Low ☐ Moderate ☐ High	• Trends in internal, external, and regulatory findings.◆ • Amount and significance of litigation, monetary penalties, customer complaints, and referrals from potential whistleblowers.◆ • Level of subpoenas, 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. • Volume and dollar amount of OFAC actions (violations, fines, no action letters, or cautionary letters) or the level of voluntary self-disclosures to OFAC.

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

Low: The bank has a stable, known customer base. The bank offers limited e-banking (e.g., online account opening or internet banking transactions), or its website is informational or non-transactional. 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 banking accounts. The bank does not engage in cross-border remote deposit capture for checks and other negotiable instruments or 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, management of sovereign debt, or international book entry transfers. 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 HIDTA or HIFCA, and there are no fund transfers or account relationships involving HIDTAs or HIFCAs. There are no transactions with high-risk geographic locations.

Moderate: The bank's customer base is increasing due to branching, changes in business model, substantial changes in services and activities, merger, or acquisition. The bank has a low to moderate volume of e-banking or offers e-banking for a limited range of products and services. On the basis of information received from FinCEN Query, 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 banking accounts, typically with financial institutions with adequate AML policies and procedures in low-risk countries, and minimal international check or negotiable instrument clearing through remote deposit capture or 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 volume or dollar amount 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.

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 FinCEN Query, 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 banking 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.

Quality of BSA/AML/OFAC Risk Management

(Section updated in version 1.2)

Quality of BSA/AML/OFAC risk management ☐ **Strong** ☐ **Satisfactory** ☐ **Insufficient** ☐ **Weak**	
Factors	**Sub-factors**
Policies ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Consistency of policies with the bank’s strategic direction and risk appetite.◆ • Appropriateness of policies that establish risk limits or positions, whether the bank requires periodic reevaluation of limits, and whether policies delineate prudent actions to be taken if the limits are breached.◆ • Incorporation of BSA/AML/OFAC considerations into all products and areas of the bank. • Structure of the BSA/AML/OFAC risk management system and whether responsibility and accountability are assigned at every level.

	• Periodic review and update of the BSA/AML/OFAC compliance programs, including the customer identification program, commensurate with the bank's risk profile, and subject to approval by the board or an appropriate board committee. • Provision for program continuity despite changes in regulations, operations, management, or employee composition or structure. • Incorporation of dual controls and the segregation of duties to the extent possible. • Extent to which policies identify and establish specific BSA/AML compliance responsibilities for bank personnel and provide oversight for execution of those responsibilities, as appropriate. • Extent to which policies facilitate oversight of information technology sources, systems and processes that support BSA/AML compliance. • Customer due diligence, customer identification and account opening procedures consistent with regulatory requirements and risk profile.
Processes ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Adequacy of the selection, due diligence, contracting, and ongoing monitoring of third parties,◆ including BSA/AML outsourcing arrangements.[82] • Adequacy of processes for risk management over new activities[83] and technologies.◆ • Adequacy of internal controls, including segregation of duties, dual control, and authority commensurate with duties.◆ Include discussion of the extent to which internal controls are commensurate with the level of BSA/AML/OFAC risk. • Strength of the bank's BSA/AML/OFAC compliance culture. • Adequacy and timeliness of processes communicating policies and expectations and changes to such policies and expectations to appropriate personnel. • Adequacy of processes to identify, investigate, and report suspicious activity in a timely manner. • Appropriateness of risk assessment processes to identify, measure, monitor, and control BSA/AML and OFAC compliance risks. • Appropriateness of the approval, monitoring, and reporting processes for new business approval and policy exceptions, including those performed by third parties. • Adequacy of the budget to ensure that appropriate systems, capital, and human 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 activities, technologies, acquisitions/assimilation of product portfolios, or processes performed by third parties.
Personnel ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Overall staff sufficiency including adequacy of staffing levels, depth of technical and managerial expertise, training, and succession planning. Consider staff sufficiency for current activities and planned strategic initiatives.◆ • Appropriateness of performance management and compensation programs, including accountability for compliance with applicable laws and regulations. Such programs should exclude incentives for personnel to take excessive risks and should appropriately balance risk and reward.[84]◆ • Appropriateness of board oversight of the BSA/AML/OFAC compliance program.

[82] For more information about third-party risk management, refer to OCC Bulletins 2013-29 and 2020-10. For third-party risk management examination procedures, refer to OCC Bulletin 2017-7. (Footnote added in version 1.2)

[83] New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)

[84] For more information about incentive compensation, refer to OCC Bulletin 2010-24. (Footnote added in version 1.2)

	• Appropriateness of authority and accountability for compliance, including the qualifications of the designated BSA officer and adequacy of staffing with the skills and expertise relative to the bank's risk profile. • Depth of technical knowledge and expertise in bank-specific areas and new and emerging risk areas, including payment systems. • Appropriateness of reporting to the board. • Independence of BSA officer and compliance staff. • Level of turnover in key and frontline personnel and vacancies in critical roles. • Adequacy of training content, training that covers applicable personnel, and staff completion of training.
Control systems ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Scope, frequency, effectiveness, and independence of internal and external audits.◆ • Effectiveness of first, second, and third lines of defense in identifying deficiencies in policy, processes, personnel, and internal controls.◆ • Adequacy of policies, practices, and systems protecting private or confidential information from deliberate or accidental disclosure.◆ • Effectiveness of change management processes, including responding satisfactorily and in a timely manner to any variety of change, internal or external (e.g., for new or innovative activities, changes in process and technologies, or changes in laws and regulations).◆ • Responsiveness to deficiencies, including those identified by regulators, internal or external audits, independent risk management, or self-identified by bank management.◆ • Adequacy of customer complaint, employee complaint, and whistleblower processes.◆ • Timeliness, accuracy, completeness, and relevance of reports and monitoring (including transaction and surveillance monitoring systems used to detect and report suspicious activity), sanctions screening, and other control functions. • Appropriateness of controls to identify BSA/AML/OFAC compliance problems and assess performance.

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

Strong: Management fully understands the aspects of BSA/AML/OFAC compliance risk based on sound risk assessment processes, effectively mitigates risks, 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 with appropriate resources and staff. Qualified independent testing is in place and is effective. The bank has a board-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 due diligence, 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. Compliance systems and controls quickly adapt to changes in various government lists (e.g., OFAC, 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 FinCEN, which indicates that currency transaction reports (CTR) are accurate. Appropriate compliance controls and systems are implemented to identify compliance problems and assess performance. The bank has low turnover of key personnel and frontline personnel (e.g., customer service representatives, tellers, or other branch personnel).

Satisfactory: Bank management reasonably understands key aspects of BSA/AML/OFAC 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 with appropriate resources and staffing. Overall, qualified 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 may have minor weaknesses. The volume of correspondence from FinCEN 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. There is low turnover of key personnel, but frontline personnel in branches may have changed.

Insufficient: Bank management may not have a sufficient understanding of key aspects of BSA/AML/OFAC compliance risk. The importance of compliance may not be adequately emphasized or communicated throughout the bank. 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 FinCEN 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. Turnover in key and frontline personnel may be increasing.

Weak: Bank management does not understand or has chosen to ignore key aspects of BSA/AML/OFAC compliance risk. The importance of compliance is not emphasized or communicated throughout the bank. 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 CTRs 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 FinCEN 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. There is high turnover, especially in key personnel positions.

Asset Management Risk

(Section heading updated in version 1.2)

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.

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 heightened potential for conflicts of interest, as 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. (Updated in version 1.2)

While asset management is not a standalone category of risk in the OCC's RAS, asset management activities may expose the bank to ~~reputation~~, strategic, operational, compliance, and credit risks. Examiners should refer to the *Asset Management* series of booklets of the *Comptroller's Handbook*. (Updated in version 1.2)

Summary Conclusions

(Section updated in version 1.2)

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 asset management risk.

Examiners consider both the quantity of asset management risk and quality of asset management risk management to derive conclusions for aggregate asset management risk and the direction of asset management risk. Examiners must draw the following conclusions for asset management risk:

- The quantity of asset management risk is (low, moderate, high).
- The quality of asset management risk management is (strong, satisfactory, insufficient, weak).
- 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

(Section updated in version 1.2)

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.

Quantity of asset management risk ☐ Low ☐ Moderate ☐ High	
Factors	**Sub-factors**
Strategic risk ☐ Low ☐ Moderate ☐ High	• Risks associated with new activities[85] or technologies, particularly those that are innovative or unproven. Consider both actual and planned new activities and technologies.◆ • Alignment of asset management activities with the board's strategic objectives and risk appetite. Consider the magnitude of changes in business mission, strategic objectives, core values, or risk appetite. Consider the impact of mergers and acquisitions, divestitures, new products, services, and markets, new delivery channels, growth initiatives, cost control measures, legislative and regulatory change, market conditions, technological advances (including use of innovative technologies), 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**~~ ~~☐ 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.~~ ~~• Impact of third-party performance or public incidents.~~ ~~• Offering of products or services that may have heightened risk or complexity.~~ ~~• Nature and amount of exposure from litigation, monetary penalties, violations of laws and regulations, customer complaints, and referrals from potential whistleblowers.~~
Operational risk ☐ Low ☐ Moderate ☐ High	• Trends in internal, external, and regulatory findings.◆ • Volume, value, 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, loss events, and near misses 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. • Extent of outsourcing or offshoring. Consider the stability and quality of third parties and whether services have kept pace with changes to the bank's client service and operational needs. • 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.
Compliance risk ☐ Low ☐ Moderate ☐ High	• Volume and significance of noncompliance and nonconformance with policies and procedures, applicable laws, regulations (e.g. 12 CFR 9 and 12 CFR 12 for national banks and 12 CFR 150 and 12 CFR 151 for FSAs), governing instruments, prescribed practices, and fiduciary, suitability, and ethical standards. • 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.

[85] New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)

	• 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 referrals from potential whistleblowers. • Level of inquiries or investigations from governmental or public interest groups.
Credit risk ☐ 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.

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.

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~~. Reputation risk related to asset management activities is low and 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. ~~Reputation risk is 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. ~~Reputation risk 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

(Section updated in version 1.2)

Examiners consider the relevant factors for ~~reputation,~~ strategic, operational, compliance, and credit risk, assessing the quality of asset management risk management. Factors to consider include board and management oversight and engagement in asset management lines of business; fiduciary committee structure and oversight; volume and significance of noncompliance and nonconformance with applicable laws, regulations, governing instruments, fiduciary principles, and ethical standards; policies, procedures, practices, and standards to supervise asset management activities; management and staff skills and expertise; and the adequacy of risk management, compliance, and audit functions. Examiners should use the information in this section as appropriate based on the nature and extent of the bank's asset management activities.

Quality of asset management risk management ☐ **Strong** ☐ **Satisfactory** ☐ **Insufficient** ☐ **Weak**	
Factors	**Sub-factors**
Strategic risk management ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Board and senior bank management expertise, oversight, and engagement in asset management strategic initiatives and fiduciary responsibilities. Consider the quality, integrity, and timeliness of reporting to the board and senior management. • 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 planning and adherence to stated risk appetite, policies, and enterprise standards. Consider the adequacy of performance measurement and success in achieving goals. • Appropriateness of succession planning processes, staffing, and expertise. • Adequacy and effectiveness of legal counsel and insurance coverage.
~~**Reputation risk management**~~ ~~☐ Strong~~ ~~☐ Satisfactory~~ ~~☐ Insufficient~~ ~~☐ Weak~~	• ~~Performance in offering new activities 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. Effectiveness in identifying, managing, and mitigating potential and permitted conflicts of interest and avoiding self-dealing, 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 first, second, and third line of defense 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 ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Adequacy of model risk management. ◆ • Adequacy of processes for new activities[86] and technologies.◆ • Adequacy of the scope, depth, consistency, and coverage of operational policies, risk limits, and reports 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; and the risk escalation process. • Adequacy of the asset management control environment. Consider segregation of duties, dual control, and joint custody of fiduciary assets; discretionary disbursement and lending controls; and 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 support activities such as accounting, portfolio management, trading, settlement, clearing, reconciliation, valuation, performance measurement, tax reporting, employee benefit recordkeeping, corporate trust, transfer agent, and payments. • Adequacy of third-party risk management processes.[87] • Adequacy of the fiduciary audit function. This includes a suitable audit of all significant fiduciary activities conducted annually or under a continuous audit system. • 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.
Compliance risk management ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Adequacy of asset management-related compliance risk 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 compliance risk management systems that identify, measure, and track risk exposure. Consider the extent to which violations, noncompliance, or weaknesses 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.

[86] New activities refers collectively to new, modified, or expanded products or services. For more information, refer to OCC Bulletin 2017-43. (Footnote added in version 1.2)

[87] For more information about third-party risk management, refer to OCC Bulletins 2013-29 and 2020-10. For third-party risk management examination procedures, refer to OCC Bulletin 2017-7. (Footnote added in version 1.2)

Credit risk management ☐ 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.

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.

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 bank. 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 reports 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.

Reports 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. Reports exist but may not include important areas, or reports are not provided to senior bank management.

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 of operations and activities that have been outsourced or moved offshore is inadequate or incomplete. Systems and system infrastructure capabilities are inadequate, and reporting to senior bank management is not well established; reports do not provide a clear assessment of risk, and risk metrics, trends, and action items are not identified or developed.

Internal Controls

(Section updated in version 1.2)

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.

For more information, refer to the "Corporate and Risk Governance" booklet of the *Comptroller's Handbook* (national banks and FSAs), the "Internal Control" booklet of the *Comptroller's Handbook* (national banks), and *OTS Examination Handbook* section 340, "Internal Control" (FSAs).

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**	
Factors	**Sub-factors**
Control environment ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Effectiveness, integrity, ethical values, and competence of personnel that make up the three lines of defense • Adequacy of the corporate culture, including the standards and incentives for ethical and responsible behavior. • Oversight and direction provided by the board and its committees, especially the audit and risk management committees. • Adequacy of the organizational structure, including lines of authority and responsibility.
Risk assessment ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Adequacy of the assessment of internal and external factors that could affect the bank's operating environment, risk profile, and whether strategic objectives are achieved. • Adequacy of the identification and assessment of current, new, and emerging risks. • Effectiveness of processes that react and respond to changing risk conditions.
Control activities ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Adequacy of policies, practices, and systems protecting private or confidential information from deliberate or accidental disclosure.◆ • Adequacy of customer complaint, employee complaint, and whistleblower processes.◆ • Level of adherence to policies and processes. • Effectiveness of control activities by the first line of defense. • Adequacy of approvals and authorizations for transactions and activities. • Adequacy of segregation of duties, dual control, and authority commensurate with duties. • Adequacy and adherence to vacation requirements or periodic rotation of duties for personnel in sensitive positions. • Adequacy and frequency of independent checks or verifications of activities, including reconciliation of balances. • Effectiveness of controls designed to hold personnel accountable, including through attestations, performance management, and compensation. • Adequacy of processes to prevent, detect, and respond to misconduct. • Use and effectiveness of automation, digital innovation, and artificial intelligence, including machine learning, in internal control activities. • Adequacy of business continuity and operational resilience planning.

Accounting, information, and communication ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Timeliness, accuracy, and completeness of reports to identify and capture relevant internal and external information in a timely and consistent manner across risk disciplines. • Adequacy of accounting systems to ensure report assets, liabilities, earnings, and capital in accordance with generally accepted accounting principles and regulatory requirements. • Adequacy of processes to effectively, accurately, and securely communicate customer positions and activities (e.g., physical and online statements). • Adequacy of the bank's process to assess and implement accounting changes (United States and abroad) accurately and in timely manner.
Self-assessment and monitoring ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Trends in internal, external, and regulatory findings.◆ • Adequacy of internal control self-assessments. • Adequacy of independent audits of internal controls.[88] • Adequacy of processes to report, track, and monitor the remediation of control issues. • Adequacy of processes for timely root cause analysis and implementation of corrective actions, including any required follow-up and the modification of policies and procedures.

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 bank 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 bank has an adequate process in place to ensure that controls as described in its policy and

[88] 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.*

procedures manuals are applied. A periodic self-assessment or independent evaluation of internal controls may have minor deficiencies. The bank follows up when internal and external auditors and regulatory agencies recommend improvements to the system of internal controls.

Insufficient: The bank ascribes some importance to an adequate control environment, and the board supports that environment. The bank'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 bank'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 bank 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 bank does not ascribe importance to or emphasize the need for an adequate control environment. The bank'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 bank 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 bank's follow-up on identified control weaknesses is inadequate or lacks senior bank management commitment.

Audit

(Section updated in version 1.2)

Audit programs provide objective, independent reviews and evaluations of bank activities, internal controls, compliance, and management information systems; 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.

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[89] 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**	
Factors	**Sub-factors**
Audit committee □ Strong □ Satisfactory □ Insufficient □ Weak	• Adequacy of the composition, qualifications, expertise, and independence of the bank's audit committee. • The audit committee's access to outside counsel. • Adequacy of the audit committee charter's content, dissemination, and frequency of review and approval. • Effectiveness of the committee in assigning responsibility for the internal audit function to a chief audit executive who is qualified and independent. • Audit committee's understanding of and compliance with its statutory and regulatory duties and responsibilities. • The adequacy of audit committee meeting frequency and quality of meeting discussions. • Effectiveness of audit committee oversight, through its review of the annual audit plan and performance against the plan, any changes to the plan, staffing and resources, quality assurance results, audit concerns, emerging issues, corrective actions, and exception tracking. • Adequacy of committee's ability to work with internal and external auditors to ensure comprehensive audit coverage of bank entities and activities. • Committee's effectiveness in holding senior management accountable. • Maintenance of an open dialogue with regulators and external auditors. • Role of the committee in reviewing and approving engagement letters. • Role of the committee in overseeing the chief audit executive, including evaluating performance and setting compensation. • Role of the committee in reviewing information on customer and whistleblower complaints. • Appropriateness of periodic training to members to augment their ability to provide effective oversight.
Audit management and processes □ Strong □ Satisfactory □ Insufficient □ Weak	• Adequacy of the corporate culture and commitment to the audit function. • Independence and stature of the audit function within the bank. • 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. • Adequacy of management of any outsourced or co-sourced audit activities or functions. • Adequacy of audit risk assessments and the frequency of audits. • Adequacy of audit plans and audit schedules, including the effectiveness of the audit planning approach, the identification of the audit universe and auditable entities, and the integration of professional standards and guidance into the overall program. • Adequacy of the audit process to independently evaluate the effectiveness of the risk governance framework on an annual basis.

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

	• Existence of a quality assurance program to evaluate whether internal audit activities conform to applicable policies and procedures, laws, regulations, and industry standards and are operating effectively and efficiently. • Effectiveness of internal audit's involvement in mergers and acquisitions, new activities, and regulatory changes, including the flexibility and prioritization of audit scopes for adding new business lines and merged activities in a timely manner. • Timeliness, accuracy, consistency, completeness, and relevance of reports used to manage the audit unit. • Use and effectiveness of data analytics, automation, and digital innovation in auditing activities. • Effectiveness of processes regarding audit findings; including the timeliness and thoroughness of follow-up activities, and the effectiveness of issues management systems used by management to monitor and report significant controls findings and open audit issues to the audit committee.
Audit reporting ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Quality of reporting to the audit committee to facilitate the committee's effective oversight of the audit function. • Adequacy of written audit reports to inform stakeholders whether a department, division, or activity adheres to policies, procedures, and applicable laws and regulations and whether operating processes, internal control systems, and risk management activities are effective. • Sufficiency of written audit reports to clearly outline the root causes of deficiencies, specifically point out issues and management's commitment to correct those issues, and identify potential and emerging concerns or increasing levels of control weaknesses. • Audit rating system's effectiveness and granularity to discern differences in the severity of audit findings. • Timeliness of written audit reports. • Adequacy of work paper documentation to determine whether internal audit's scope and coverage adequately test and assess the internal control environment in the audited business line or activity, and to support the conclusions reached.[90]
Internal audit staff ☐ Strong ☐ Satisfactory ☐ Insufficient ☐ Weak	• Independence of internal audit staff. • Adequacy and competency of the internal audit staff, considering the bank's internal audit needs, staff turnover, vacancies, recruitment, training, subject matter expertise, and professional certifications. • Commitment of internal audit staff to a program of continuing education and development. • Effectiveness of succession planning within the audit department. • Adequacy of performance management and compensation. • Level of or reliance on outsourced internal audit activities.

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 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 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 bank, 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

[90] Information on work paper reviews is in the "Internal and External Audits" booklet of the *Comptroller's Handbook*.

management, new product and service deployment, changes in strategy and tactical plans, and organizational and structural changes. Management appropriately responds to audit findings.

Satisfactory: The audit program attains an adequate level of respect and stature in the bank 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. Management adequately responds to audit findings.

Insufficient: While most of the audit program attains an adequate level of respect and stature in the bank 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. Management may not adequately respond to audit findings.

Weak: The audit program does not carry sufficient stature given the bank'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. There is a lack of responsiveness to audit findings.

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:

- "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.

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

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 credit loss allowances and other valuation reserves. (Updated in version 1.2)
- 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 credit loss allowances and other asset valuation reserves. (Updated in version 1.2)
- 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 management information systems.
- 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 management information systems 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.
- 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.[91]
- 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 management information systems in general.
- Adequacy of provisions to maintain allowances for credit losses and other valuation allowance accounts. (Updated in version 1.2)

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

- Earnings exposure to market risk such as interest rate, foreign currency translation, and price risks.

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, management information systems, 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 management information systems, 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 bank'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 bank'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 bank'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 bank. In general, assignment of a composite rating may incorporate any factor that bears significantly on the overall condition and soundness of the bank.

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).

Abbreviations

(Section updated in version 1.2)

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
CVA	credit valuation adjustments
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
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 1.2)

Listed references apply to national banks and FSAs unless otherwise specified.

Laws

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 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 4.6, "Frequency of Examination of National Banks and Federal Savings Associations"
12 CFR 4.7, "Frequency of Examination of Federal Branches and Agencies"
12 CFR 9, "Fiduciary Activities of National Banks" (national banks)
12 CFR 11, "Securities and Exchange Act Disclosure Rules"
12 CFR 12, "Recordkeeping and Confirmation Requirements for Securities Transactions" (national banks)
12 CFR 16, "Securities Offerings Disclosure Rules"
12 CFR 30, "Safety and Soundness Standards"
12 CFR 150, "Fiduciary Powers of Federal Savings Associations" (FSAs)
12 CFR 151, "Recordkeeping and Confirmation Requirements for Securities Transactions" (FSAs)
12 CFR 363, "Annual Independent Audits and Reporting Requirements"

Comptroller's Handbook

Asset Management series

Consumer Compliance series
"Fair Lending"
"Flood Disaster Protection Act (Interagency)"
"Servicemembers Civil Relief Act"

Examination Process series
"Bank Supervision Process"
"Federal Branches and Agencies Supervision"
"Foreword"

Safety and Soundness series
- “Allowance for Loan and Lease Losses”
- “Allowances for Credit Losses”
- “Compliance Management Systems”
- “Concentrations of Credit”
- “Corporate and Risk Governance”
- “Interest Rate Risk”
- “Internal and External Audits”
- “Internal Control” (national banks)
- “Liquidity”
- “Loan Portfolio Management” (national banks)
- “Model Risk Management”
- “Other Real Estate Owned”
- “Related Organizations” (national banks)

OTS Examination Handbook

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

Section 201, “Overview: Lending Operations and Portfolio Risk Management”
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 2006-47, “Allowance for Loan and Lease Losses (ALLL): Guidance and Frequently Asked Questions (FAQs) on the ALLL”
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, “Liquidity: 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 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 2017-43, "New, Modified, or Expanded Bank Products and Services: Risk Management Principles"
OCC Bulletin 2019-33, "Bank Secrecy Act/Anti-Money Laundering: Joint Statement on the Risk-Focused Approach to BSA/AML Supervision"
OCC Bulletin 2020-10, "Third-Party Relationships: Frequently Asked Questions to Supplement OCC Bulletin 2013-29"
OCC Bulletin 2020-50, "Credit Risk: Interagency Guidance on Credit Risk Review Systems"
OCC Bulletin 2020-81, "Credit Risk: Risk Management of Loan Purchase Activities"

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 (most recent version only)**
1.2	March 8, 2022	Edited for clarity.	1, 5, 7–10, 12–13, 16, 22–23, 25
		Revised for consistency with "Bank Supervision Process" booklet of the *Comptroller's Handbook.*	1-2, 5, 13
		Added or clarified information about federal branches and agencies. These additions and clarifications were populated from existing OCC sources and do not introduce changes to the OCC's supervision of federal branches and agencies.	2–3, 5, 26
		Added reference or cross-reference.	2, 5, 7, 10, 12–13, 27
		Changed terminology from "company" to "organization" to avoid confusion with holding companies, which are not regulated by the OCC.	3–4, 8, 18, 27
		Added clarity about ongoing supervision and introduced quarterly supervision update to describe the output of examiners' quarterly work.	7
		Added focused review as a supervisory activity type, consistent with the OCC's current practices.	7
		Added "overview" to the section heading to distinguish from the other booklet sections titled "Core Assessment" and "Risk Assessment System."	9, 11
		Clarified terminology related to the core assessment and introduced core assessment summary to describe the output of examiners' core assessment work.	10
		Added "Ongoing Supervision" section for clarity. This section was populated with existing information about ongoing supervision and does not introduce changes to the OCC's ongoing supervision process.	10
		Revised terminology for consistency throughout the booklet or with other OCC sources.	11, 19, 24–25, 27
		Streamlined content that comes from other sources to reduce duplication.	12

Version 1.2

		Revised for consistency with "Corporate and Risk Governance" booklet of the *Comptroller's Handbook.*	12
		Clarified applicability of information.	13, 16–17, 39
		Changed "Enforcement and Compliance Division" to "OCC legal counsel."	16
		Added an item to the list of information to cover during the entrance meeting with bank management.	24
		Clarified information that is retained for OCC-supervised banks and affiliates.	27
		Combined information about the core assessment and risk assessment system into the "Core Assessment" section. Updated the core assessment factors and sub-factors • for consistency across risk areas. • to align with other OCC sources that were issued or updated since the "Large Bank Supervision" booklet was last updated. • to focus on the sub-factors most likely to drive the conclusion for each factor. • to include cross-references to relevant OCC issuances.	28–95
		Changed language to "credit loss allowances" to include allowances for loan and leases losses and allowances for credit losses.	96
		Updated "Abbreviations" section for consistency with booklet content.	101
		Updated "References" section for consistency with booklet content.	102–104
1.1	September 30, 2019	Edited for clarity	
		Changed Bureau of Consumer Financial Protection (BCFP) to CFPB	
		Updated to reflect interim final rule for expanded examination cycle pursuant to the Economic Growth, Regulatory Relief, and Consumer Protection Act	
		Updated terminology "internal controls" for consistency with other *Comptroller's Handbook* booklets	
		Consistency with other booklets in the *Examination Process* series of the *Comptroller's Handbook*	
		Added references	
		Clarified applicability to national banks or federal savings associations	
		Requirement to complete a credit underwriting assessment added for consistency with current OCC processes	

		Removed information regarding pending changes to Volcker rule; refer to OCC Bulletin 2019-32, “Volcker Rule: Final Rule”	
		Updated “Abbreviations” section for consistency with booklet content	
		Updated “References” section for consistency with the content of the booklet	