

# Examination Process (EP)

## **Federal Branches and Agencies Supervision**

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# Introduction

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The Office of the Comptroller of the Currency's (OCC) *Comptroller's Handbook* booklet, "Federal Branches and Agencies Supervision," is prepared for use by OCC examiners in connection with their examination and supervision of federal branches and agencies of foreign banking organizations (FBO). The booklet provides guidance on assessing the safety and soundness, effectiveness of risk management systems, and compliance with laws and regulations of federal branches and agencies. Each federal branch and agency is different and may present specific issues. Accordingly, examiners should apply the information in this booklet consistent with each federal branch's or agency's individual circumstances. (Updated December 3, 2015)

## Background

FBOs have long conducted banking operations in the United States through branches and agencies, as well as through subsidiaries.<sup>1</sup> FBO branches and agencies typically operate in major U.S. cities and primarily conduct wholesale business, such as trade and corporate financing and serve FBO customers' U.S. banking needs. Such offices obtain their funding mainly from interbank markets and related parties. A small number of grandfathered branches of FBOs in the United States accept retail deposits and are insured by the Federal Deposit Insurance Corporation (FDIC). Branches and agencies are exposed to the same risks as domestic commercial banks. Nonetheless, they are not stand-alone entities in their corporate structures, and certain aspects of their risk profile are affected by the financial condition of the FBO head office (HO). Moreover, consideration of an FBO's home country's economic, political, and financial environment, including coordination with home country banking supervisors, are important elements of effective supervision of an FBO's U.S. operation.

With the passage of the International Banking Act (IBA) of 1978 (12 USC 3101 et seq.), FBOs could opt to conduct banking operations through a branch or agency licensed by the OCC.<sup>2</sup> Such licensed entities are known as federal branches and agencies.

A federal branch is an FBO's office licensed by the OCC to exercise such banking powers as accepting nonretail deposits and, subject to separate OCC approval, exercising fiduciary powers. Before 1991, insured federal branches (like insured state branches) could accept retail and nonretail deposits. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) generally prohibited an FBO's branches from accepting insured deposits; however, it grandfathered insured federal branches in existence on the date of the FDICIA's enactment, permitting such branches to continue accepting insured deposits.

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<sup>1</sup> For supervisory policies regarding operations through an FBO's subsidiary bank, refer to the "Large Bank Supervision" or "Bank Supervision Process" booklets of the *Comptroller's Handbook*. (Footnote updated June 28, 2018)

<sup>2</sup> Before passage of the IBA, FBOs could only establish state-licensed branches and agencies, which are supervised by the relevant state banking supervisory authority and the Board of Governors of the Federal Reserve System.

In addition to federal branches, FBOs can establish one or a combination of the following nonsubsidiary U.S. offices through a federal license:

- **Limited federal branch:** An FBO's office licensed by the OCC that may accept deposits that an Edge Act corporation is authorized to accept. (An Edge Act corporation is a corporation licensed by the Board of Governors of the Federal Reserve System (FRB) to engage in activities incidental to international business and may accept deposits from foreign sources.) In addition, a limited federal branch can exercise fiduciary powers and conduct activities authorized for federal agencies.
- **Federal agency:** An FBO's office licensed by the OCC to conduct certain banking activities. The federal agency may not, however, accept deposits or exercise fiduciary powers. A federal agency primarily makes commercial loans and finances international transactions. Although a federal agency cannot accept deposits, it can maintain credit balances.

The OCC may permit federal branches to open loan production offices (LPO) and certain other offices engaged in representational activities on the same basis and subject to the same conditions as national banks. These LPOs are supervised by the OCC as part of its supervision of the federal branch or agency.<sup>3</sup>

The OCC, consistent with applicable statutes, may modify regulations and supervisory policies governing federal branches and agencies to promote safety and soundness and to maintain competitive equality between federal branches and agencies and national banks.

Section 165 of the Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd–Frank) requires foreign banking organizations with operations in the United States to comply with enhanced standards and requirements. The FRB issued the final rule for Enhanced Prudential Standards (Regulation YY) that applies to certain foreign banking organizations<sup>4</sup> in 2014 to implement standards and requirements in the areas of risk-based capital and leverage, liquidity, risk management and risk committee, and capital stress testing. Requirements are tiered and are more stringent for the largest FBOs with large U.S. operations. Federal branches and agencies may be subject to certain requirements of the rule. (Updated June 28, 2018)

In certain aspects of their risk profiles, federal branches and agencies resemble large national banks more closely than community banks, because they are often part of large, internationally active FBOs. These FBOs have intricate legal and financial structures and offer sophisticated products and services. The risks assumed by federal branch or agency management are part of the parent FBO's global business strategy. The OCC, therefore, applies its large bank supervisory policies to federal branches and agencies to the extent necessary. Where appropriate, this booklet refers to the "Large Bank Supervision" booklet of the *Comptroller's Handbook*, which provides guidance on assessing risks. Examiners should

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<sup>3</sup> The FRB may consider an LPO to be a representative office under its regulations, requiring an application under the IBA, 12 USC 3107.

<sup>4</sup> Refer to 12 CFR 252. (Footnote added June 28, 2018)

refer to other *Comptroller's Handbook* booklets for relevant examination procedures on specific activities and products. The purpose of this booklet is to

- articulate the OCC's risk-based supervision approach as it applies to federal branches and agencies. (Updated June 28, 2018)
- highlight special considerations arising from legal and operational structures that differentiate federal branches and agencies from national banks.
- define terms commonly used in the supervision of FBOs' U.S. operations.

Supervision of federal branches and agencies resides in International Banking Supervision (IBS), which includes IBS-Field Operations (IBS-FO) and IBS-Headquarters (IBS-HQ) as follows.

- To promote nationwide consistency in the application of examination policies and practices, the OCC consolidates supervision of all federal branches and agencies in IBS-FO, located in New York, N.Y. IBS-FO is referred to throughout this booklet as "supervisory office." A dedicated team of portfolio managers experienced in federal branch and agency supervision coordinates the development of supervisory strategies, conducts on-site examinations, and performs periodic monitoring.
- IBS-HQ, located in Washington, D.C., supports the supervision of federal branches and agencies by advising on international financial developments affecting federal branches and agencies, their parent FBOs, and their home countries, as well as by coordinating communication with foreign bank supervisors. Examiners should consult IBS-HQ as needed when issues arise. In addition, the Deputy Comptroller for IBS decides on nondelegated supervisory matters with respect to federal branches and agencies.

The majority of licensing activities related to federal branches and agencies are delegated to the OCC's Northeastern District Office Licensing Division. The authority to conditionally approve or deny an application for establishing or following the procedures for closing a federal branch or agency, however, is subject to the approval of the Washington, D.C., Headquarters Licensing Department. For information regarding specific licensing policies and procedures, refer to the "Federal Branches and Agencies" booklet of the *Comptroller's Licensing Manual*. (Updated June 28, 2018)

## Relevant Laws, Regulations, Policies, and Procedures

Under the IBA, a federal branch or agency generally has the same rights and responsibilities as a national bank operating at the same location and is subject to the same laws, regulations, policies, and procedures as apply to national banks. This general rule may not apply, however, when the IBA or other applicable law sets forth other specific standards or requirements for federal branches or agencies or exempts them from standards or requirements that apply to domestically chartered national banks.

The IBA's "national treatment" requirement is designed to foster competitive equality between foreign and domestic banks. Because there are structural and organizational differences between U.S. banks and foreign banks, the OCC cannot always apply to federal

branches and agencies the same standards, policies, and procedures that it applies to national banks. In some instances, statutes and regulations explicitly apply different rules to federal branches and agencies to ensure functionally equal treatment. For example, federal branches and agencies are required to maintain capital equivalency deposit accounts because federal branches and agencies are not separately capitalized. (Refer to the “Capital Equivalency Deposit Accounts” section of this booklet.)

When laws or OCC regulations and rulings do not provide specific rules, standards, or requirements for federal branches and agencies, the OCC generally applies relevant statutes and regulations governing national banks but may determine for policy or supervisory reasons that different requirements are necessary. Many statutory requirements only apply to institutions that engage in the activities addressed by the statute. For example, consumer protection laws normally would apply only to federal branches and agencies that conduct certain consumer banking activities. Likewise, fiduciary requirements apply only to federal branches that exercise fiduciary powers. Supervisory guidance applicable to national banks is also generally applicable to federal branches and agencies. (Updated June 28, 2018)

In other instances, a legal analysis of the statute may indicate that the statute was not intended to apply to federal branches and agencies. Moreover, certain statutes that apply to insured depository institutions frequently raise questions about their applicability to uninsured federal branches and agencies. In many cases, safe and sound banking practices endorsed by the OCC may require that the same standard apply to uninsured federal branches and agencies.

The OCC reviews questions as they arise about the applicability of laws and regulations to federal branches and agencies. If there is uncertainty whether a given law or regulation applies to a federal branch or agency, OCC examiners should review previous interpretations or consult with the Northeastern District Counsel’s Office, the Legislative and Regulatory Activities Division, or other appropriate Chief Counsel’s Office division at OCC Headquarters.

## Risk-Based Supervision Approach

(Section updated June 28, 2018)

The OCC employs a risk-based supervision approach for federal branches and agencies, as it does for banks. Refer to the “Bank Supervision Process” booklet of the *Comptroller’s Handbook* for more information.

The following are the OCC’s objectives for the supervision of federal branches and agencies:

- Determine the condition of the federal branch or agency and the risks associated with current and planned activities, taking into account, as appropriate, risks originating from the HO, related offices, and the home country’s economic, political, and financial environments.

- Evaluate the overall integrity and effectiveness of risk management systems, periodically validating the systems using transaction testing.
- Enforce banking laws and regulations.
- Communicate findings, matters requiring attention (MRA), and supervisory expectations to federal branch or agency management and, as appropriate, to HO management in a clear and timely manner, and obtain informal or formal commitments to correct supervisory concerns.
- Verify the effectiveness of management’s corrective actions or, if corrective actions have not been undertaken or accomplished, pursue resolution through appropriate supervision or enforcement actions. Supervisory actions may include the involvement of HO management and home country bank supervisors.
- Coordinate with the FRB and other U.S. supervisors, when appropriate, to enhance the effectiveness of consolidated supervision of U.S. operations of FBOs.
- Collaborate with home country banking supervisors through information sharing and coordination of examination work.

The operational and financial stability of federal branches and agencies depends on the support and financial strength of their HOs. Therefore, an effective assessment of a federal branch’s or agency’s condition must take into account the financial strength of the FBO and the home country’s economic, political, and financial environments. OCC supervisory practices for federal branch and agency supervision reflect this focus, as part of providing a risk-based examination approach tailored to the structural characteristics of federal branches and agencies. To complement the on-site supervision of federal branches and agencies, the OCC participates in the Interagency Foreign Banking Organization Program. Under this program, IBS–HQ analyzes and synthesizes information about current developments related to the HO and home country. More information about this program is described in the “FBO Supervision Program” section of this booklet.

Supervision by risk allocates greater resources to areas with higher risks. The OCC accomplishes this by

- identifying risk using common definitions. The categories of risk, as they are defined, are the foundation for supervisory activities.
- measuring risk using common methods of evaluation. Risk cannot always be quantified in dollars. For example, numerous or significant internal control deficiencies may indicate excessive operational risk.
- evaluating risk management to determine whether the federal branch’s or agency’s systems adequately identify, measure, monitor, and control risk.
- providing flexibility to modify planned supervisory activities based on changes to an entity’s risk profile.
- performing examinations based on the core assessment or expanded procedures, reaching conclusions on risk profile and condition, and following up on areas of concern.

To accomplish these tasks, examiners discuss preliminary conclusions regarding risks with federal branch or agency management. After these discussions, examiners should adjust conclusions when appropriate. Once the risks have been clearly identified and



communicated, the OCC can then focus supervisory efforts on the areas of significant risk affecting the federal branch or agency.

Examiners establish the risk profile of the federal branch or agency to document the condition at the U.S. operation, compliance with U.S. laws and regulations, and, where relevant, the protection of depositors and creditors. Examiners determine whether the FBO's financial condition and the home country's financial circumstances mitigate or accentuate concerns about this risk profile.

## Banking Risks

From a supervisory perspective, risk is the potential that events will have an adverse effect on a bank's current or projected financial condition<sup>5</sup> and resilience.<sup>6</sup> Federal branches and agencies, however, are not separately capitalized, and their earnings performance has only a partial impact on their FBOs' overall revenue streams. To some extent, the risks they take should be considered in the context of the support provided by their FBOs. Nonetheless, the evaluation of the federal branch's or agency's risk exposures should determine whether the robustness of the federal branch's or agency's risk management processes is commensurate with its risk profile. (Updated December 3, 2015, and June 28, 2018)

The OCC has defined eight categories of risk for supervision purposes: credit, interest rate, liquidity, price, operational, compliance, strategic, and reputation.<sup>7</sup> These categories are not mutually exclusive. Any product or service may expose the federal branch or agency to multiple risks. Risks also may be interdependent and may be positively or negatively correlated. In addition to assessing each of the eight risks, examiners should be aware of and assess this interdependence. (Updated June 28, 2018)

If examiners determine that a risk is unwarranted (i.e., not effectively managed or backed by adequate financial strength to support the activity), they must communicate to management the need to mitigate or eliminate the excessive risk. Appropriate actions may include reducing exposures and strengthening risk management practices. If undue risk exposure at the branch or agency is due to either weakened support from its HO or excessive home country risk (e.g., fiscal debt crises, banking sector crises, serious political instability), other supervisory actions may include increased capital equivalency deposit account requirements, asset and liquidity maintenance requirements, and net due-to and due-from HO and affiliate account restrictions.

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<sup>5</sup> 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.

<sup>6</sup> Resilience recognizes the bank's ability to withstand periods of stress.

<sup>7</sup> The risk definitions are found in the "Bank Supervision Process" booklet and in the "Risk Assessment System" section of the "Large Bank Supervision" booklet of the *Comptroller's Handbook*.

## Risk Management

(Section updated June 28, 2018)

Market conditions and the structures of FBOs and their federal branches and agencies vary; therefore, there is no single risk management system that works for all federal branches and agencies. Each institution should tailor its risk management system to its needs and circumstances. Risk management systems can vary in sophistication depending on the size of the federal branch or agency and the complexity of its operations. Capable management and an appropriate level of qualified staff are critical to effective risk management. Attention should be given to retaining and recruiting capable executives, line managers, risk management personnel, and back-office staff. HO management should establish policies and procedures for the timely and orderly succession of branch or agency management. Federal branch or agency management is responsible for the implementation, integrity, and maintenance of risk management systems.

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

- **Identify risk.** Federal branch or agency management should recognize and understand existing risks and risks that may arise from new business initiatives. Effective risk management starts during the product development phase and involves all pertinent areas of risk, including compliance. Risk identification should be a continuing process and should occur at both the transaction and portfolio level.
- **Measure risk.** Accurate and timely measurement of risks is essential to effective risk management systems. If the federal branch or agency does not have an adequate risk measurement system, federal branch or agency management has limited its ability to control risk levels or allow HO management to monitor risk levels. More sophisticated measurement tools are needed as the complexity of the risk increases. A federal branch or agency, including internal audit, should periodically test to make sure that the measurement tools it uses are accurate. Sound risk measurement assesses the risks of both individual transactions and portfolios.
- **Monitor risk.** Federal branch or agency management should have in place a process to for the timely review of risk positions and exceptions and permit HO management review. Monitoring reports should be timely, accurate, and relevant and should be distributed to appropriate individuals within the federal branch or agency and HO. Well-designed monitoring systems allow HO senior management to hold federal branch or agency management accountable for operating within established limits.
- **Control risk.** The FBO should establish and communicate institution-wide risk limits through policies, standards, and procedures that define responsibility and authority. These limits should serve as a means to control exposures to the various risks associated with the activities of federal branches or agencies. The limits should be tools management can adjust when conditions or risk appetite change. Federal branches and agencies should also have a process to authorize and document exceptions or changes to risk limits when warranted.

When examiners assess risk management systems at federal branches or agencies, they consider the policies, processes, personnel, and control systems put in place by local and HO management to operate the federal branches or agencies. If any one of these areas is deficient, so are the federal branch's or agency's management processes. For more detailed definitions of policies, processes, personnel, and control systems, refer to the "Corporate and Risk Governance" and "Large Bank Supervision" booklets of the *Comptroller's Handbook*.

## Measuring and Assessing Risk

Using the OCC's risk assessment system (RAS) for large banks as a guide, examiners obtain both a current and prospective view of a federal branch's or agency's risk profile. The core assessment standards guide examiners to conclusions regarding the eight categories of risk and assignment of the interagency ROCA rating. The ROCA rating is the interagency supervisory rating system for U.S. branches and agencies of FBOs composed of risk management, operational controls, compliance, and asset quality (Refer to the "ROCA Assessment" section of this booklet). The RAS and core assessment standards used for federal branches and agencies are modifications of those used for large bank supervision. Risk assessments drive supervisory strategies and activities and facilitate discussions with federal branch and agency management to ensure more efficient supervision.

The risk assessments of federal branches and agencies should also include significant factors concerning the economic, political, and financial environments in the FBO's home country. For instance, the size and scope of business of the federal branch or agency may mitigate the supervisory need to allocate resources to the assessment of one or more categories of risk, when strength of support from the HO is not in question. Therefore, knowledge of the FBO and its home country environment are key elements in the risk assessment of the federal branch or agency.

## Core Assessment

The core assessment establishes the minimum conclusions examiners must reach to evaluate risks and assign regulatory ratings during the supervisory cycle for federal branches and agencies. The core assessment standards are detailed in the "Core Assessment" section, which appears later in this booklet, and include "Examination Planning" and the "Minimum Objectives and Procedures." Also refer to the "Large Bank Supervision" booklet of the *Comptroller's Handbook*. The inherent flexibility of the core assessment standards allows for the application of the standards to federal branches and agencies to the extent practical. Using these standards, examiners may assess risks for all product lines.

If the federal branch or agency is affiliated with an OCC-supervised large bank, examiners should prepare one core assessment for all OCC-supervised banks within the company, consistent with the guidance in the "Large Bank Supervision" booklet of the *Comptroller's Handbook*. Regulatory ratings must still be assigned to the federal branch or agency. (Updated June 28, 2018)

When using the core assessment standards, examiners should consider relevant factors in deciding how to perform their assessments, how much independent testing is needed, and the level of documentation needed to support conclusions. Examiners should be alert to specific activities or risks that may require the examiner-in-charge (EIC) to broaden the scope of the examination. Examiners can expand the examination procedures to include the optional procedures outlined in other *Comptroller's Handbook* booklets when risks are increasing or activities are complex.

## Risk Assessment System

By completing the core assessment and, as necessary, more detailed procedures, examiners assess the risk exposure for the eight categories of risk using the RAS framework. The categories of risk definitions and methods used to assess the quantity of risk, quality of risk management, aggregate risk, direction of risk, and consolidated risk profile for federal branches and agencies are the same as described in the “Bank Supervision Process” and “Large Bank Supervision” booklets of the *Comptroller's Handbook*.

Using their assessments of the eight categories of risk under the RAS framework, examiners establish an overall risk profile of the federal branch or agency. If during the supervisory cycle changes in the risk profile are evident, the examiner updates the RAS and communicates any changes in risk profile to the branch or agency.

By including information on the FBO and its home country's political, economic, and banking sector environments in the evaluation of each federal branch or agency, examiners can better assess the risks facing the federal branch or agency. The relative importance of identified risks influences the development of the strategy and the assignment of supervisory resources.

When an FBO has multiple federal branches and agencies, the OCC evaluates the consolidated risk profile of the FBO's federally licensed operations. The consolidated risk profile is developed by combining the assessment of risks at each affiliated federal branch or agency. In some cases, the FBO operates separate businesses out of different federal branches or agencies. In this case, the relative importance of each risk—both for an individual branch or agency and for a group of branches and agencies—should influence the development of the supervisory strategy and the assignment of resources.

For federal branches or agencies, examiners complete a RAS summary quarterly, or more often if the branch's or agency's risk profile or condition warrants. If the federal branch or agency is affiliated with an OCC-supervised large bank, examiners should prepare one quarterly RAS summary for all OCC-supervised banks within the company, consistent with the guidance in the “Large Bank Supervision” booklet of the *Comptroller's Handbook*. One of these quarterly assessments accompanies the annual core assessment and includes supporting narrative on the aggregate risk, direction of risk, and, when applicable, quantity of risk and quality of risk management, for each relevant risk category. The three remaining quarterly assessments update the annual assessment and serve to highlight any changes in risk profile and planning for the upcoming supervisory cycle. The portfolio manager and the

supervisory office determine the appropriate form and extent of any supporting narratives that accompany these intervening updates. The examiners record the quarterly risk assessments in the OCC's supervisory information systems. (Updated June 28, 2018)

In addition to the combined annual core and risk assessments, the portfolio manager conducts periodic monitoring activities. (Refer to appendix A of this booklet for details.) At a minimum, this includes contacting the branch or agency management quarterly to assess any significant changes or deviation that could warrant an adjustment in supervisory strategy or risk assessment. If warranted, the portfolio manager, in coordination with the supervisory office, may schedule a targeted on-site examination to follow up on outstanding supervisory issues from the annual core and risk assessments.

Examiners should discuss their conclusions with appropriate management within the federal branch or agency. Branch or agency management may provide information that helps the examiner clarify or modify his or her conclusions. After the discussions, the OCC and company management should have a common understanding of the branch's or agency's risks; strengths and weaknesses of its risk management, management's commitment, and action plans to address any weaknesses; and future OCC supervisory plans.

## Supervisory Process

The OCC fulfills its mission with respect to federal branches and agencies principally through its ongoing supervisory program. Supervision is more than just on-site activities that result in an examination report. Supervision includes discovery of a branch's or agency's condition, ensuring correction of supervisory concerns, and monitoring a branch's or agency's activities. In federal branches and agencies, examination activities can occur throughout the supervisory cycle. Regardless of the size or complexity of a branch or agency, all OCC examination activities depend on careful planning, effective management throughout the supervisory cycle, and clear communication of results to branch and agency management, and, where appropriate, communication to the HO and home country bank supervisor.

While the planning, examining, and communication processes used for large banks are generally applicable, they should be applied in a way that reflects the operational and other differences in federal branches and agencies. OCC supervisory processes should take into account that each federal branch or agency is part of an FBO. In addition, the multiple bank supervisory jurisdictions over U.S. operations of FBOs require the OCC to coordinate, as applicable, its supervisory activities with the FRB, FDIC, and state bank supervisors. This coordination is governed by the FBO program discussed in the "FBO Supervision Program" section of this booklet. (Refer to also the "Coordination and Communication With Foreign Bank Supervisors" section of this booklet.)

The purpose of such planning is to develop detailed strategies for effectively and efficiently supervising each federal branch or agency, beginning with a careful and thoughtful assessment of a federal branch's or agency's current and anticipated risks and the quality of risk management. In this regard, examiners should understand HO management's strategic

purpose in establishing and operating the federal branch or agency. Examiners should gain understanding about the FBO and its home country's economic, political, financial, and competitive environments that may affect its operation. The financial and managerial support provided by the FBO to its federal branch or agency is also given important consideration.

Planning also requires effective and periodic communication with federal branch or agency management and senior HO management. Through discussions with federal branch or agency management, examiners can help confirm that supervisory resources are directed to the areas of highest risk.

Supervisory strategies direct examination activities. Supervisory strategies are developed by the portfolio manager, reviewed and approved by IBS management, and documented in the OCC's supervisory information systems. For FBOs operating multiple federal branches or agencies, consolidated strategies are appropriate. The frequency of federal branch and agency full-scope, on-site examinations is governed by 12 CFR 4.7, and the requirements are outlined in the "Bank Supervision Process" booklet of the *Comptroller's Handbook*. (Updated June 28, 2018)

The OCC has the discretion to conduct examinations more frequently if circumstances warrant. Such circumstances include changes in the level or direction of risk in a federal branch or agency or in combination with adverse changes in the home country or the HO.

Federal branch or agency management must receive a report of examination (ROE) once every supervisory cycle. The ROE communicates the overall condition of the federal branch or agency, summarizing examiners' activities during the most recent supervisory cycle and incorporating their findings. The ROE cites the root causes of any supervisory concerns or violations<sup>8</sup> examiners identified and assesses the effectiveness of any corrective action plans established for the federal branch or agency. The federal branch or agency may disclose the ROE to a person or organization officially connected with the HO, such as an officer, director, employee, attorney, auditor, or independent auditor. Under certain conditions, disclosure may additionally be made to a consultant employed by the HO or federal branch or agency. A federal branch or agency may not, however, disclose the ROE to its home country bank supervisor. The "Coordination and Communication with Foreign Bank Supervisors" section of this booklet describes how the OCC shares and coordinates information with home country supervisors.

Examiners use the large bank ROE, as adapted by IBS-FO, to communicate overall findings and conclusions for the examination of a federal branch or agency. Exceptions are permitted when other forms of written communications with the federal branch or agency disclose the composite and component ROCA ratings discussed below, and review the significant risks. When alternate communications are used, the correspondence should be sufficiently informative to convey the bank's condition and the examination's conclusions.

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<sup>8</sup> Refer to the "Bank Supervision Process" and "Large Bank Supervision" booklets of the *Comptroller's Handbook* for more information regarding violations of laws and regulations. (Footnote updated May 23, 2017)

Examiners should follow the “Large Bank Supervision” booklet of the *Comptroller’s Handbook* concerning entrance and exit meetings with management. Meetings with the board of directors are not applicable to federal branches or agencies, as they do not have boards of directors, but the OCC may request meetings with HO management as circumstances warrant.

## OCC’s Supervisory Information Systems

In the OCC’s supervisory information systems, examiners record the current condition, risk profile, supervisory strategy, and supervisory concerns for each federal branch or agency. The systems also document follow-up actions, management discussions, commitments to corrective action, progress in correcting identified problems, and significant events. The portfolio manager is responsible for ensuring that the supervisory information systems for federal branches and agencies are accurate and up-to-date. Using these systems, OCC senior management reviews the condition of individual federal branches and agencies or the group in aggregate.

## ROCA Assessment

(Section updated June 28, 2018)

ROCA is the interagency uniform supervisory rating system for federal branches and agencies of FBOs. The ROCA system’s four components are risk management, operational controls, compliance, and asset quality. The ROCA rating system is comparable with the CAMELS<sup>9</sup> rating system for national banks and federal savings associations. Unlike CAMELS, ROCA does not explicitly rate capital adequacy, earnings, and liquidity. In these areas, a federal branch or agency cannot be evaluated separately from the FBO. The ROCA composite rating indicates the overall condition of the federal branch or agency. Refer to the “Bank Supervision Process” booklet of the *Comptroller’s Handbook* for a detailed description of the ROCA rating system standards.

**Risk management:** Because risk is a component of any financial institution’s activities, the ROCA system places a high priority on risk management. Examiners determine the extent to which risk management systems are adequate (1) to control risk exposures that result from the branch’s or agency’s activities and (2) to promote effective oversight by branch and HO management over the branch’s or agency’s activities including the third-party risk

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<sup>9</sup> A bank’s composite rating under the Uniform Financial Institutions Rating System, or CAMELS, integrates ratings from six component areas: capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk. Evaluations of the component areas take into consideration the institution’s size and sophistication, the nature and complexity of its activities, and its risk profile.

management process and third-party relationships that involve critical activities.<sup>10</sup> This includes third-party relationships, such as information technology servicing and other outsourcing arrangements with foreign service providers or with service providers that use foreign subcontractors.<sup>11</sup> Examiners determine compliance with the applicable risk management and capital stress testing requirements of the Enhanced Prudential Standards rule (Regulation YY). Conclusions on Bank Secrecy Act/Anti-Money Laundering (BSA/AML) risk management processes are considered in the risk management rating, as are other risk management processes, such as credit administration.

**Operational controls:** Rating operational controls includes assessing the effectiveness of internal controls, including accounting and financial controls, internal and external audit activities, and information technology (IT). The federal branch's or agency's internal controls and audits should ensure that operations are conducted in accordance with existing procedures and systems and that all reports and analyses provided to the HO and branch senior management are timely and accurate. In addition, internal and external audit activities are evaluated in relation to the

- scope and frequency of audit activities.
- responsibilities and experience of internal and external auditors.
- design and implementation of the audit plan for the institution.
- responsiveness of management to audit findings and recommendations.
- independence of the audit function.

Examiners assessing IT should consider

- management of IT resources.
- integrity, confidentiality, and availability of automated information.
- condition, security, capacity, and recoverability of systems.
- complexity and volume of conversions, integrations, and system changes.
- volume and type of activities and operations that have been outsourced or moved offshore.

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<sup>10</sup> Refer to OCC Bulletin 2013-29, "Third-Party Relationships: Risk Management Guidance" (October 30, 2013), OCC Bulletin 2017-21, "Third-Party Risk Management: Frequently Asked Questions to Supplement OCC Bulletin 2013-29," and OCC Bulletin 2017-7, "Third-Party Relationships: Supplemental Examination procedures." The OCC's third-party risk management guidance indicates that the board of directors should review and approve policies and plans concerning the use of third-party providers for critical activities. The OCC recognizes the unique structures of federal branches and agencies, in particular that they do not have a U.S. board of directors. The OCC will take a practical, flexible approach in evaluating who is the appropriate committee to have these responsibilities and determine whether the appropriate committee has express authority to take on the responsibility assigned to the board of directors in this guidance text. (Footnote updated June 28, 2018)

<sup>11</sup> Refer to the "Supervision of Technology Service Providers (TSP)" booklet of the *FFIEC Information Technology (IT) Examination Handbook*, and OCC Bulletin 2002-16 "Bank Use of Foreign-Based Third-Party Service Providers: Risk Management Guidance" (May 15, 2002).



**Compliance:** The compliance rating reflects compliance with applicable laws and regulations as well as the adequacy of the compliance program, training, and compliance audit. The scope includes safety and soundness, BSA/AML and Office of Foreign Assets Control (OFAC) requirements, and consumer protection-related regulations for federal branches and agencies offering products governed by such regulations. Regulatory reporting and special supervisory requirements for capital equivalency deposits and international banking facilities should also be reviewed for compliance. Examiners should be aware of the bifurcated authorities between the Bureau of Consumer Financial Protection (BCFP) and the OCC for banks with more than \$10 billion in assets. Dodd–Frank transferred to the BCFP supervisory authority to examine insured federal branches with assets of more than \$10 billion for compliance with enumerated federal consumer financial laws. The OCC retained supervisory authority for examining uninsured federal branches and agencies and insured branches with assets of \$10 billion or less. The OCC also retained authority for examining insured federal branches with more than \$10 billion in total assets for compliance with certain other laws related to consumer financial protection, including the Fair Housing Act, SCRA, and section 5 of the Federal Trade Commission Act. The prudential regulators<sup>12</sup> and the BCFP 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 the Dodd–Frank.<sup>13</sup> (Updated June 28, 2018)

**Asset quality:** Under the ROCA rating system, the evaluation of asset quality helps examiners assess the effectiveness of credit risk management. Asset quality also indicates the value of the federal branch’s or agency’s asset base in the event of liquidation. When examiners are confident about the ability and willingness of the FBO’s management to support the federal branch or agency, the evaluation of asset quality may have less priority. The asset quality rating depends on the volume of problem assets. The adequacy of credit administration is factored into the risk management rating rather than the asset quality rating. Also, the asset quality of an offshore branch managed by federal branch or agency management does not affect the asset quality rating of the federal branch or agency. Concerns about the quality and management of offshore branch assets should be reflected in the risk management rating. (Also refer to the “Operations Booked at Other FBO Offices” section of this booklet.)

## Supervisory and Enforcement Actions

(Section updated October 31, 2017, and June 28, 2018)

The wide range of supervisory and enforcement actions addressing deficient practices and violations (collectively, deficiencies) in national banks and federal savings associations can

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<sup>12</sup> The prudential regulators include the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the OCC. (Updated to add footnote June 28, 2018)

<sup>13</sup> Refer to OCC news release 2012-85, “Agencies Sign Memorandum of Understanding on Supervisory Coordination.” (Updated to add footnote June 28, 2018)

usually be used to address concerns about the operations of federal branches and agencies. The OCC uses enforcement actions to require management to take timely actions to correct a bank's deficiencies. Enforcement actions are more severe than MRAs. Violations, concerns in MRAs, or unsafe or unsound practices may serve as the basis for an enforcement action.

The OCC may remove federal branch or agency management and assess civil money penalties. In certain circumstances, the OCC, on its own initiative or at the FRB's recommendation, may terminate a federal branch or agency license. The OCC may also take supervisory actions when questions arise about the FBOs' ability to support their federal branches or agencies or when the FBOs' home countries are in significant economic turmoil.

The OCC's supervisory and enforcement actions are taken after a case-by-case evaluation of facts and circumstances. The OCC can address deficient risk management practices or operational controls, and violations of U.S. laws and regulations at federal branches and agencies by using MRAs, citing violations, or issuing an enforcement action. The type of action depends on the seriousness of the problems as well as the cooperation of local and HO management. Generally, a composite ROCA rating of 3 or worse prompts consideration of an enforcement action.

Weak home country supervision and support, an increasing level of country risk, and weak internal controls within an FBO can diminish the FBO's ability to support its U.S. operations financially or managerially. When imposing a supervisory action because an FBO's support is insufficient, the OCC considers a variety of measures. These include

- maintenance of eligible assets.
- limits on net due-from head and related offices' balances.
- minimum (short-term) liquidity positions.
- capital equivalency deposits above minimum levels and made up of greater than normal amounts of liquid and higher-quality assets.
- limits on balance sheet growth and transactions with related parties.

The supervisory office imposes these actions until the HO's capacity and ability is restored.

The OCC may put certain agreements into place to require the federal branch or agency to maintain sufficient assets to cover third-party liabilities. An asset maintenance agreement (12 CFR 28.20) customarily requires the federal branch or agency to maintain a specified percentage of designated assets to third-party liabilities. A liquidity maintenance agreement usually requires a ratio of liquid assets to third-party liabilities and a specific coverage for future maturity periods. (In such agreements, the OCC defines which assets are eligible for inclusion in the computations.) For insured federal branches, the OCC may, in certain circumstances, apply the prompt corrective action (PCA) requirements (12 CFR 6) to address serious deficiencies. The OCC employs the FDIC's asset pledge and asset maintenance requirements (12 CFR 347) to determine insured federal branches' PCA compliance. PCA directives take effect when an insured federal branch's pledged asset ratio falls below 5 percent or its asset maintenance ratio falls below 106 percent. An insured federal branch's noncompliance with the minimum asset pledge and the asset maintenance requirements may

signal that local or HO management has a serious disregard for U.S. law or that the FBO is experiencing solvency or liquidity problems. The OCC may issue a PCA directive in such cases.

If an insured federal branch or agency does not meet the internal audit systems standards of 12 CFR 30, appendix A, options to consider are having branch or agency management develop a compliance plan to address weaknesses or making the branch or agency subject to other types of enforcement actions.<sup>14</sup> In making a decision, the supervisory office considers the significance of the weaknesses, overall audit rating, audit-related MRA, and management's capability.

Refer to the "Supervisory Actions" section of the "Bank Supervision Process" booklet of the *Comptroller's Handbook*; OCC Bulletin 2017-48, "Bank Enforcement Actions and Related Matters: Updated Guidance"; and PPM 5310-3, "Bank Enforcement Actions and Related Matters," for more information regarding supervisory and enforcement actions.

## Signatories on Supervisory Actions

(Updated June 28, 2018)

For informal and formal actions, the signatories should be federal branch or agency management. In certain circumstances, appropriate HO senior management should also be a signatory. The HO representative is not required to travel to the United States to sign the document. Federal branch or agency management may transmit the document to the HO for signature.

For more information regarding enforcement actions, refer to OCC Bulletin 2017-48, "Bank Enforcement Actions and Related Matters: Updated Guidance," and its attachment, PPM 5310-3, "Bank Enforcement Actions and Related Matters."

## Coordination and Communication With Foreign Bank Supervisors

Coordination with foreign bank supervisors is a necessary component of supervising federal branches and agencies and a sound supervisory practice encouraged by the Basel Committee on Banking Supervision. A federal branch's or agency's home country bank supervisor can be a valuable source of information on the FBO's condition and operation as well as on broader conditions affecting the operations of the foreign bank. Coordination through consistent communication also is helpful in reinforcing to the FBO the importance of sound risk management practices. Likewise, the OCC as host supervisor can provide the home country bank supervisor with useful information about the FBO's U.S. operations. Supervisors should periodically exchange information and provide assistance, as appropriate.

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<sup>14</sup> 12 CFR 30.1(a) limits the applicability of the safety and soundness standards to federal branches subject to 12 USC 1831p-1, which does not include uninsured federal branches or agencies. 12 CFR 30.1(b) expands the applicability of only appendix B (IT Security Standards) to uninsured entities, including uninsured federal branches and agencies.

The OCC maintains written nonbinding information-sharing arrangements with an increasing number of foreign supervisors. These arrangements can take the form of statements of cooperation or exchanges of letters. They cover such issues as the types of information that can be shared, confidentiality safeguards for shared information and parameters for how shared information is to be used, information sharing in the context of investigations and emergency situations, and notification procedures for examining cross-border institutions. OCC examiners should be aware of existing information-sharing arrangements,<sup>15</sup> OCC policies governing cooperation and information sharing with foreign supervisors, and delegation of authority for communications with foreign supervisors. Communications with foreign supervisors generally fall into these categories. (Updated June 28, 2018)

- **Communication regarding the FBO's condition.** The summary of condition letter to HO management summarizes the examination activities and findings for the U.S. operations during the supervisory cycle. This letter is also sent to the home country bank supervisor via a separate transmittal letter. This letter should assist the home country bank supervisor in its assessment of the FBO's risks and controls.
- **Notification of corporate activities and information on executive officers and directors.** For example, the OCC seeks the home country bank supervisor's non-objection to an FBO's entry or expansion in the United States and requests information about executive officer applicants from the foreign jurisdiction.
- **Notification of significant events.** Home and host supervisors should inform each other of material events that concern the FBO within a reasonable time and generally before the actions are made public. Emergency situations require consultation with the Senior Deputy Comptroller for Large Bank Supervision.
- **Notification of planned examination activity.** When home country bank supervisors plan inspections of FBOs in the United States, they should notify the OCC in advance. The OCC requires a supervisor that has no information-sharing arrangement to sign a confidentiality agreement. The OCC evaluates the proposed examination scope and determines the OCC's level of participation in the inspection. Also, the OCC typically meets with the supervisor to discuss the supervisor's examination findings.
- **Notification of OCC visits to the parent bank and home country bank supervisor.** The OCC notifies the home country bank supervisor in advance of visits with the parent bank, and the OCC meets with the home country bank supervisor during these visits.
- **Participation in supervisory colleges<sup>16</sup> and crisis management groups.** The home country bank supervisor may invite the OCC to participate in supervisory colleges and crisis management groups. Objectives for supervisory colleges and crisis management groups are outlined in guidance established by the Basel Committee on Banking Supervision and the Financial Stability Board, respectively. The OCC generally executes information-sharing undertakings with individual foreign bank supervisors in connection with such colleges.

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<sup>15</sup> Current information-sharing arrangements with foreign supervisors are maintained on the OCC's Intranet site for IBS and the IBS SharePoint site. Refer to these sites to determine if an information-sharing arrangement exists with a particular foreign supervisor.

<sup>16</sup> A supervisory college refers to multilateral working groups of relevant supervisors formed for the collective purpose of enhancing effective consolidated supervision of an international banking group on an ongoing basis.

Generally, IBS Directors may provide responses to routine information requests for federal branches and agencies, such as annual summary of condition letters and ordinary communications, ROEs, and supervisory letters that have been reviewed by IBS–HQ. The IBS Deputy Comptroller provides responses to nonroutine requests and more sensitive requests, such as for inspections by bank supervisors with which the OCC does not have formal information-sharing arrangements in place. Examiners should be familiar with the OCC’s policies and procedures for coordination, communication, and information sharing with foreign supervisors and existing delegations of authority. Examiners should consult IBS–HQ, the Northeastern District Counsel’s Office, or the Legislative and Regulatory Activities Division in Washington, D.C., as necessary, regarding questions or concerns about communications or information sharing with foreign supervisors. (Updated June 28, 2018)

## Examination Areas

Examiners apply OCC policies and guidance governing national banks to the structural characteristics of federal branches and agencies. This section gives examiners guidance on important areas of examination, including an understanding of the basic legal framework of federal branches and agencies, and information on regulatory requirements.

## Management and Supervision

Federal branches and agencies typically have locally based general managers who serve as the executives responsible for all decisions made at the federal branches or agencies. Generally, FBOs’ boards of directors are not involved in the day-to-day supervision and administration of their federal branches or agencies. Such responsibility is usually delegated to HO senior management. Although the general manager is responsible for administering the affairs of the federal branch or agency, the FBO normally has considerable influence over the federal branch’s or agency’s lines of business. Oversight by HO management takes many forms, including funding the capital equivalency deposits, defining permissible activities, controlling risk taking, providing management expertise, and developing policies.

In this booklet, “HO senior management” usually means officers who are directly responsible for supervising the federal branch or agency. Capable management and appropriate staffing are essential to effective risk management. Federal branch or agency management is responsible for the implementation, integrity, and maintenance of risk management systems and should (Updated June 28, 2018)

- implement policies that put into practice the FBO’s risk appetite and strategic goals.
- communicate the strategic direction and risk to appropriate federal branch or agency personnel, and hold personnel accountable for adhering to the strategic direction and risk appetite.
- keep HO senior management informed of federal branch or agency operations.
- comply with U.S. laws, regulations and implement sound risk management systems.
- oversee the development and maintenance of management information systems (MIS) with information that is timely, accurate, pertinent, and adequately reported to HO management.

- oversee implementation of effective independent review functions (e.g., compliance, internal audit, loan review).
- implement appropriate risk governance.
- comply with the applicable requirements of the Enhanced Prudential Standards rule for certain foreign banking organizations (Regulation YY).

The FBO usually provides management continuity to the federal branch or agency. There are no citizenship requirements for personnel employed by a federal branch or agency; therefore, the general manager may be from the FBO's HO or an individual hired locally.

Oversight and assistance provided by HO management should be evaluated during examinations. The adequacy of the federal branch or agency management's reporting to HO management should also be reviewed to determine whether the branch or agency is reporting accurate and sufficient information and that HO management is aware of the overall condition and risks at the federal branch or agency. (Updated June 28, 2018)

## Evaluating Corporate Governance

When assessing the effectiveness of corporate governance in a federal branch or agency, examiners assess the branch's or agency's policies, processes, personnel, and control systems. Examiners should also consider

- level and quality of oversight by the branch or agency general manager responsible for branch or agency decisions.
- ability of management to respond to emerging risks.
- appropriateness of MIS.
- adequacy of audits and internal controls.
- reliability of financial and regulatory reporting.
- compliance with laws and regulations.

## Internal Control and Audit

Examiners should evaluate and validate the two fundamental components of a federal branch's or agency's risk management system: internal control and audit. In the ROE, examiners should communicate to the federal branch or agency their overall assessment of the system of internal control and the audit program as strong, satisfactory, insufficient, or weak, along with any significant concerns or weaknesses. Based on this assessment, examiners determine the amount of reliance they can place on internal control and audit for other areas under examination. The OCC uses the review information and findings of effective internal control and audit to more effectively scope supervisory activities. (Updated December 3, 2015)

Insured federal branches with claims on nonrelated parties of \$500 million or more<sup>17</sup> are subject to the FDIC rule (12 CFR 363) implementing the requirements of the FDICIA. HO

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<sup>17</sup> These federal branches should report their claims on nonrelated parties on their FFIEC 002 reports.

management of such branches must annually assess and attest to the effectiveness of a branch's internal control structure, and external auditors must attest to branch management's assertions. Examiners should obtain an understanding of how auditors reach their conclusions for attestation of branch management's assertions. Additionally, the FDIC rule requires that independent accountants perform annual audits, conduct separate examinations, and report on the effectiveness of internal control over reporting. Because insured federal branches do not have separate boards of directors, the audit committee requirements of the rule would not apply. Nonetheless, HO and local management of such federal branches should make a good faith effort to see that similar duties are performed by persons whose experience is generally consistent with the rule's requirements.

## Internal Control

An effective system of internal control is an important part of a branch's or agency's risk management system. The core assessment includes factors for assessing a branch's or agency's control environment during each supervisory cycle. The factors are consistent with industry-accepted criteria for establishing and evaluating the effectiveness of internal controls. When examiners need to use expanded procedures, they should refer to the "Internal Control" or other appropriate booklets of the *Comptroller's Handbook*, the *FFIEC IT Examination Handbook*, or the *FFIEC BSA/AML Examination Manual*. These resources provide more information on the types of internal controls commonly used in specific banking functions.

## Audit

(Section updated June 28, 2018)

The audit function may consist of one or a combination of the following: an on-site internal auditor, an audit conducted annually by the HO, or an outsourced audit by a third-party auditing firm.

An annual report is required for FDIC-insured branches with claims on nonrelated parties greater than \$500 million, as reported on the call report that precedes or coincides with end of the preceding fiscal year.<sup>18</sup> Federal branches or agencies may also voluntarily file a 12 CFR 363 annual report. In all other instances, examiners should obtain any external audit of the FBO that includes the branch.

The EIC, in consultation with the supervisory office, tailors the scope of the audit assessment to the branch's or agency's size, activities, and risk profile. Examiners assigned to review the audit program, through coordination and integration with examiners reviewing other functional and specialty areas, determine how much reliance can be placed on it by validating the adequacy of the audit's scope and effectiveness during each supervisory cycle. Examiners are also required to review applicable internal audit work papers during the supervisory cycle.

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<sup>18</sup> Refer to 12 CFR 363.

For more information, refer to the “Bank Supervision Process,” “Large Bank Supervision” and “Internal and External Audits” booklets of the *Comptroller’s Handbook*.

## Information Technology

IT is an integral part of all banking activities. Without technology, banks and federal branches and agencies would be unable to provide the volume, variety, and complexity of products and services offered. Examiners need to assess the underlying issues common to automated systems in all areas of the federal branch or agency, including the following.

- **Technology management:** Planning for and oversight of technological resources and services and ensuring that they support the federal branch’s or agency’s strategic goals and objectives.
- **Data integrity:** Accuracy, reliability, and timeliness of automated information and associated MIS.
- **Confidentiality of information:** Protection of federal branch or agency and customer information from inadvertent disclosure.
- **Availability of information:** Effectiveness of business resumption and contingency planning and adherence to data retention requirements.

When evaluating the adequacy of IT controls and risk management practices, examiners should refer to the *FFIEC IT Examination Handbook*. (Updated June 28, 2018)

## Compliance

The activities of federal branches and agencies are generally subject to the same compliance requirements as the activities of national banks. Federal branches and agencies should have sound risk management systems and adequate systems and controls to comply with U.S. laws and regulations. The federal branch or agency should have a competent and independent compliance function whose staff is properly trained and informed about pertinent U.S. laws and regulations. The “C” component rating includes compliance with all applicable laws and regulations, including safety and soundness, BSA/AML, legal lending limit, investment limits, and regulatory reporting. Refer to the “Bank Supervision Process” and “Large Bank Supervision” booklets of the *Comptroller’s Handbook* for more information regarding violations of laws and regulations. The assessment of a federal branch or agency’s compliance risk also includes the federal branch or agency’s conformance with prescribed practices, internal bank policies and procedures, or ethical standards (Updated May 23, 2017 and June 28, 2018)

### BSA/AML and OFAC

The most significant compliance risk within FBOs’ federal branches and agencies typically relates to BSA/AML and OFAC. To address this risk, branches and agencies are required to establish and maintain procedures designed to ensure and monitor compliance with the BSA



and related regulations.<sup>19</sup> The OCC requires each federal branch and agency to develop a written BSA/AML compliance program commensurate with its risks and approved by the FBO's board of directors or an HO committee acting under the board's express authority.<sup>20</sup> At a minimum, the BSA/AML compliance program must provide for a system of internal controls, independent testing of BSA/AML compliance, a designated individual responsible for coordinating and monitoring day-to-day compliance, and training for appropriate personnel.

To implement a BSA/AML compliance program commensurate with its BSA/AML risk level, each federal branch or agency should first determine its risk profile. This profile should consider all pertinent information about the specific products, services, customers, entities, and geographic locations served by the branch or agency. After gaining an understanding of the branch's or agency's BSA/AML risk exposure, management should develop appropriate policies, procedures, and processes to monitor and control BSA/AML risk. This includes appropriately adjusting the Customer Identification Program (CIP) and Customer Due Diligence (CDD) expectations.<sup>21</sup> A federal branch's or agency's internal controls and suspicious activity monitoring system should be risk based and appropriate to manage the risk and compliance requirements associated with higher-risk products, services, customers, entities, or geographies, including funds transfers, foreign correspondent banking, private banking, and trade finance. (Updated June 28, 2018)

For BSA/AML compliance, at a minimum, examiners should complete the procedures detailed in the "Core Examination Overview and Procedures for Assessing the BSA/AML Compliance Program" section of the *FFIEC BSA/AML Examination Manual*. Additional procedures detailed in the manual should be performed depending on the BSA/AML risk profile of the branch or agency, the quality and quantity of independent testing, and other relevant factors.

While OFAC regulations are not part of the BSA, an evaluation of branch or agency compliance with OFAC requirements is frequently included as part of BSA/AML examinations. As part of the scoping and planning processes, examiners must review a federal branch's or agency's OFAC risk assessment and independent testing to determine the extent to which a review of the OFAC program should be conducted. An overview of OFAC and the associated requirements for federal branches and agencies, as well as examination procedures, are contained in the *FFIEC BSA/AML Examination Manual*.

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<sup>19</sup> Refer to 12 CFR 21.21.

<sup>20</sup> Express authority means that the HO must be aware of U.S. AML requirements and that there must be some indication of purposeful delegation. Refer to the *FFIEC BSA/AML Examination Manual* for more information.

<sup>21</sup> The CIP allows the branch or agency to form a reasonable belief that it knows the true identity of each customer. CDD should enable the branch or agency to predict with relative certainty the types and sizes of transactions a customer is likely to conduct.

## Consumer Compliance

Federal branches and agencies are subject to fair lending laws. Federal branches and agencies must comply with the Equal Credit Opportunity Act, which prohibits discrimination in all credit activities, including commercial credit. If federal branches and agencies conduct residential real estate transactions in the United States, they are also required to comply with the Fair Housing Act.

Federal branches and agencies comply with statutory and regulatory requirements for appropriate flood insurance coverage when making, increasing, extending, or renewing a loan secured by improved real estate or a mobile home located in a special flood hazard area in a community participating in the National Flood Insurance Program. (Updated June 28, 2018)

Federal branches and agencies do not always engage in the same activities as national banks and, therefore, are not necessarily subject to laws and regulations that apply to those institutions. Examples include the following:

- The Community Reinvestment Act (CRA) does not generally apply to federal agencies or uninsured federal branches.<sup>22</sup>
- Consumer lending, deposit, and reporting laws and regulations are only applicable when federal branches and agencies engage in those consumer activities.

Examiners should use their knowledge of the activities of individual federal branches and agencies to decide which consumer compliance procedures, if any, need to be applied. When performing compliance procedures, examiners should follow the procedures in the *Consumer Compliance* series of booklets of the *Comptroller's Handbook* and the *FFIEC BSA/AML Examination Manual*. Supervisory strategies should include compliance examination activities applicable to the business of the federal branch or agency.

Because the compliance component rating in ROCA reflects more than just compliance with consumer protection-related laws and regulations, examiners also need to assign the consumer compliance component rating under the uniform interagency consumer compliance rating system when the federal branch or agency engages in consumer activities in the normal course of business.<sup>23</sup> The branch's or agency's adherence to BSA/AML regulatory requirements is considered in developing the compliance component of ROCA, while conclusions on BSA/AML risk management processes are considered in the risk management rating.<sup>24</sup> The ROE should contain appropriate narrative on all compliance under

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<sup>22</sup> Refer to 12 CFR 25.11(c).

<sup>23</sup> Refer to the "Uniform Interagency Consumer Compliance Rating System" section of the "Bank Supervision Process" booklet and the "Compliance Management Systems" booklet of the *Comptroller's Handbook* for more information. (Footnote added June 28, 2018)

<sup>24</sup> OCC Bulletin 2012-30, "BSA/AML Compliance Examinations: Consideration of Findings in Uniform Rating and Risk Assessment Systems"

the compliance page, including consumer compliance as appropriate. (Updated June 28, 2018)

## Capital Equivalency Deposit Accounts

(Section updated June 28, 2018)

In accordance with 12 USC 3102(g) and 12 CFR 28.15, and subject to OCC discretion, federal branches and agencies are required to maintain capital equivalency deposit (CED) accounts to protect depositors, safeguard the public interest, and maintain a sound financial condition. The OCC views CEDs primarily as a limited source of good-quality assets that, during a liquidation, may be sold to pay off third-party claims. In individual cases, the OCC may also require, for prudential or supervisory reasons, that a federal branch or agency hold assets in its CEDs in an amount that is greater than the minimum requirement. Any limit or restriction based on capital stock and surplus refers to the U.S. dollar equivalent of the capital stock and surplus of the FBO. It is important to note that CEDs are not a basis for calculating limits based on capital. Use appendix B of this booklet, “Capital Equivalency Deposit Adequacy Worksheet,” as a tool to test for compliance with 12 CFR 28.15.

When opening a federal branch or agency, an FBO must establish and maintain a deposit account with an FRB member bank of at least 5 percent of the total liabilities of the federal branch or agency, including acceptances but excluding accrued expenses, amounts due, and other liabilities, to offices, branches, and subsidiaries of the foreign bank.<sup>25</sup> An international banking facility of a federal branch—the functional equivalent of another office of the foreign bank engaged in an international banking business from the United States—is treated like any other separate office of the parent foreign bank. Any liabilities owed by the international banking facility to third parties are excluded from the branch’s liabilities for purposes of the CED. In addition, any liabilities owed by the branch to its international banking facility are also excluded. If a foreign bank believes that other amounts may be excluded under the law, it may request in writing that the OCC take such action.

The foreign bank must deposit its CED into an account in a bank that is located in the state in which the federal branch or agency is located. A member bank headquartered in another state but operating a branch in the state in which the federal branch or agency is located qualifies as a CED depository bank. A foreign bank with federal branches or agencies in more than one state may consolidate some or all of its CEDs into one such account, but the total amount of the consolidated CED continues to be calculated on an office-by-office basis. The OCC must approve the depository bank if it is a national bank, and the FRB must approve if the depository bank is a state member bank. The FBO should require its depository bank to segregate its CED on the depository bank’s books and records.

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<sup>25</sup> While 12 USC 3102(g) requires the CED to be in an amount that is not less than the greater of (1) the capital required to organize a national bank at the same location, or (2) 5 percent of the federal branch or agency’s total liabilities, as a practical matter, only the latter criteria is relevant. There is no longer a statutory minimum capital requirement to organize a national bank in the National Bank Act. (Footnote added June 28, 2018.)

CEDs may consist of investment securities eligible for investment by national banks; U.S.-dollar-denominated deposits payable in the United States or any other Group of Ten<sup>26</sup> country; certificates of deposit payable in the United States and bankers' acceptances (if the issuer or the instrument is investment grade and neither the issuer nor the instrument is lower than investment grade); repurchase agreements; or other similar assets that the OCC may permit (12 CFR 28.15(a)). Commercial paper is eligible if it is an investment security as defined in 12 CFR 1.3(e). Such a security must be marketable as defined in 12 CFR 1.3(f) and be investment grade as defined in 12 CFR 1.3(d), or be the credit equivalent of an investment grade security (12 CFR 1.3(e)). Branches and agencies may not rely exclusively on external credit ratings when determining whether a security is investment grade or equivalent, but may continue to use such ratings as part of their determinations.<sup>27</sup>

A CED agreement governs the operation of the account, sets certain conditions, and stipulates that the instruments are held for the benefit of the OCC. There are two types of CED agreements:

- **A formal CED agreement** is entered into by the FBO, the depository bank, and the OCC, and the assets in the CED cannot be released or reduced without the OCC's prior written authorization. The FBO can, however, collect the interest on the funds or investment securities deposited and is permitted by the agreement to exchange funds or securities dollar-for-dollar.
- **A CED "letter-agreement"** is used when (1) an FBO's federal branch or agency satisfies the requirements of an eligible foreign bank as described in 12 CFR 28.12(f) and (2) none of the offices of the foreign bank in the United States raises supervisory concerns. Supervisory concerns include the activities of the federal branch or agency and macroeconomic conditions in the home country (e.g., country risk), international concerns regarding the home country's regime to combat money laundering, and the FBO's overall condition. Under a letter-agreement, a qualifying FBO is not required to pledge its CED assets to the OCC in a formal written agreement to which the depository bank is also a party. In addition, the foreign bank is able to reduce the net value of the assets in the CED account without obtaining the OCC's approval.<sup>28</sup>

Federal branches and agencies must maintain a capital equivalency ledger showing the amount of liabilities requiring capital equivalency coverage for each business day. Federal branches and agencies must follow call report (Form FFIEC 002) definitions and generally

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<sup>26</sup> The Group of Ten (G10) refers to the group of countries that have agreed to participate in the General Arrangements to Borrow. Member banks coordinate banking industry supervision through the Bank for International Settlements and monetary policy through the International Monetary Fund. Founding members are Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States. Switzerland has joined as a member.

<sup>27</sup> Refer to OCC Bulletin 2012-18, "Alternatives to the Use of External Credit Ratings in the Regulations of the OCC: Final Rules and Guidance" for more information. (Footnote added June 28, 2018)

<sup>28</sup> The FBO must still maintain CED assets in the account that are equal to the statutory minimum CED required for that federal branch or agency. In addition, the FBO must continue to hold the assets in a depository bank in a safekeeping account and free from any lien or other encumbrance while on deposit in the CED account. The OCC preserves its rights to the CED in the event the federal branch or agency goes into receivership.

accepted accounting principles (GAAP) when determining the level of liabilities subject to CED coverage.

On the last business day of each month, the average daily CED balance is computed. If this calculation shows that an increase in the deposit is required, the addition must be made no later than the second business day of the following month.

Federal branches and agencies should monitor their CED balances regularly. Changes in liabilities because of the ongoing business of the federal branch or agency may result in additional deposit requirements. If investment securities make up all or part of the CED, interest rate swings may lower the market value of securities held, necessitating additions to the deposit. The CED account is valued at principal or market value, whichever is lower. Changes in the financial condition of an obligor may also result in the downgrading of a security in the CED account to non-investment grade. Under such circumstances, the security would have to be replaced with an investment that qualifies under 12 USC 24(7) and 12 CFR 28.15. Securities that are part of the CED account may be subject to Accounting Standards Codification 320 (formerly Financial Accounting Standard 115), which addresses the accounting for investments in debt and equity securities.

Federal branch or agency management must maintain adequate documentation to allow examiners to review compliance with 12 CFR 28.15 during examinations. Refer to the “Federal Branches and Agencies” booklet of the OCC’s *Comptroller’s Licensing Manual*, which includes procedures for the establishment of CEDs. Requests for CED account reductions, changes in depository banks, or other matters affecting the CED account may require prior notice and should be discussed with IBS–FO.

## Regulatory Reports

Federal branches and agencies file quarterly call reports completed on Form FFIEC 002, “Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks.” The reports should be prepared in accordance with the instructions for FFIEC 002 reports and also in accordance with U.S. GAAP. The report requests data on the entire operation of the federal branch or agency, including its international banking facility (segregated business conducted with foreign residents under strict restrictions), if applicable. Income statement information, however, is not included. Branches and agencies in the same state can file a consolidated report.

The federal branch or agency managers responsible for managing or controlling the assets and liabilities of a branch outside the United States must also file the call report supplement (FFIEC 002S). Under 12 CFR 28.11, a federal branch or agency “manages or controls” an offshore branch if it has most of the responsibility for business decisions, including decisions with regard to lending, asset management, funding, or liability management or if it is responsible for keeping the records of assets or liabilities for the offshore office. An offshore branch managed or controlled by a U.S. federal branch or agency may not engage in a type of activity that a U.S. bank could not manage at its branches or subsidiaries outside the United States.

Some federal branches and agencies may be required to file a country exposure report (Form FFIEC 019). The report is prepared quarterly as of the last business day of each calendar quarter. The report provides information on the distribution, by country, of claims on non-U.S. residents by U.S. branches and agencies of FBOs. The federal branch or agency must report its gross claims on (1) residents of its home country (including non-U.S. offices of the reporting institution) and (2) residents of the five other countries for which its adjusted exposure (i.e., direct claims adjusted for guarantees and other indirect claims) is largest, if the adjusted exposure for the country is also at least \$20 million (U.S.).

The Treasury International Capital (TIC) reporting system collects data for the U.S. on cross-border portfolio investment flows and positions between U.S. residents (including U.S.-based branches of firms headquartered in other countries) and foreign residents (including offshore branches of U.S. firms). The TIC forms are part of the TIC data reporting system.<sup>29</sup> (Updated June 28, 2018)

## Record Keeping and Reporting

Each federal branch and agency must keep its accounts separate from those of the FBO and any other branch or agency. Accounts and records must be maintained in English to the extent necessary to permit OCC examiners to review the condition of the federal branch's or agency's and management's compliance with applicable laws and regulations (12 CFR 28.18(c)). (Updated June 28, 2018)

To determine compliance with legal and regulatory requirements of the BSA/AML and OFAC compliance program and other specific BSA/AML requirements, examiners should follow procedures detailed in the *FFIEC BSA/AML Examination Manual*. The manual includes a detailed discussion of regulatory, record keeping, and reporting requirements, including CIP, CDD, suspicious activity reporting, currency transaction reporting, currency transaction reporting exemptions, information sharing, purchase and sale of monetary instruments record keeping, funds transfers record keeping, foreign correspondent account record keeping and due diligence, private banking due diligence program (non-U.S. persons), special measures, foreign bank and financial accounts reporting, international transportation of currency or monetary instruments reporting, and OFAC.

When an FBO has more than one federal branch or agency in a state, HO management may designate one of these offices to maintain consolidated asset, liability, and CED accounts for all federal branches and agencies in the state. Information requested from federal branch or agency management for use during the supervisory process should usually include only items carried on the books of the federal branch or agency and its international banking facility.

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<sup>29</sup> Refer to 22 USC 286f, "Obtaining and Furnishing Information to the Fund," 22 USC 3103, "Presidential Authority and Duties," 31 CFR 128, "Reporting of International Capital and Foreign-Currency Transactions and Positions," and Executive Order 10033. (Footnote added June 28, 2018)

## Asset Quality

The evaluation of the asset quality component rating is an important element in assessing the overall risks in a federal branch or agency. Loans, investment securities, and money market assets are usually the primary earning assets at a federal branch or agency. Credit risk arises any time branch or agency funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. It is often difficult for federal branches and agencies to establish a niche in the domestic U.S. market. Asset growth can be obtained through participation with correspondent banks or through the HO or other offices of the FBO. Foreign companies that have a presence in the United States and are from the same home country as the federal branch or agency are usually a good source of business for federal branches and agencies. U.S. companies conducting business in the FBO's home country are another source.

Federal branches and agencies that participate in the syndicated loan market should conduct their own credit analyses on all loan relationships at the time of the loan's origination and on an ongoing basis. (Refer to OCC Banking Circular 181 (REV).) All loan documentation, file correspondence, and credit analyses should be in English. The absence of supporting information would be subject to criticism during examinations and corrective action should be required. The existence of HO guarantees, standby letters of credit, or repurchase arrangements does not relieve federal branch or agency management of documentation requirements. The financial capacity of the HO and the branch are intrinsically linked, thereby making the HO guarantee apparent. Therefore, from a supervisory perspective, the addition of such explicit guarantees, repurchase agreements, or other similar arrangements for specific assets does not add additional support to the already implied assurance of the HO. (Updated June 28, 2018)

Federal branches and agencies should develop a loan rating system that appropriately recognizes the risks in the branch or agency's credits. Refer to the "Rating Credit Risk" booklet of the *Comptroller's Handbook* for regulatory definitions of credit classifications. A number of organizations in the financial services industry use the following three terms when defining credit risk: probability of default, loss given default, and expected loss. While these terms are not used in the regulatory rating definitions, the concepts are inherent in the regulatory ratings. When repayment capacity exhibits well-defined weaknesses, analysis shifts to the strength of secondary sources of repayment and the potential, or expected, loss. Well-developed credit risk rating systems promote safety and soundness by facilitating informed decision making. (Updated June 28, 2018)

Loans and extensions of credit in federal branches and agencies are subject to lending-limit laws and regulations. (Refer to 12 USC 84 and 12 CFR 28.14.) The calculation of the legal lending limit is based on the U.S. dollar equivalent of the FBO's capital. To determine compliance, the FBO must aggregate exposures at all federal branches and agencies with any state branch and agency exposures. To enable the OCC to monitor compliance, the FBO must designate one federal branch or agency office to maintain the consolidated information.

Federal branches and agencies are allowed to hold the same investment securities and money market assets as national banks, pursuant to applicable laws and regulations. Therefore, federal branches and agencies should refer to supervisory guidance on the prudent operation of securities activities. This requires determining whether the securities have appropriate credit quality and marketability characteristics to be purchased and held. Federal branches and agencies are also expected to continue to maintain appropriate ongoing reviews of their investment portfolios to verify that they meet safety and soundness requirements appropriate for the institution's risk profile and for the size and complexity of the portfolios.<sup>30</sup> (Updated June 28, 2018)

Like the legal lending limit, investment limits are based on the FBO's capital accounts. Federal branch or agency management should seek the advice of its accounting firm on the booking of unrealized gains and losses in available-for-sale securities. Because federal branches and agencies do not have capital accounts, gains or losses are applied to the due-from and due-to HO accounts.

Although allocated transfer risk reserve (ATRR) requirements are not applicable to the cross-border exposures of federal branches and agencies, the Interagency Country Exposure Review Committee (ICERC) transfer risk ratings do apply. If the federal branch or agency has exposure to a country that is rated substandard or worse, examiners should provide management with the applicable ICERC country write-up.

## Measuring and Assessing Credit Risk

Examiners evaluating credit risk should closely examine the credit risk characteristic of a federal branch or agency, keeping in mind the unique attributes of how it operates. The relationship that a branch or agency has with the FBO should be assessed closely as part of the assessment of risk. Examiners should not assess the qualitative components of a branch's or agency's credit risk profile when assessing the asset quality component of the ROCA rating. These assessments (e.g., quality of credit risk management) would be reflected in the "R" component of ROCA. All qualitative components should be assessed and reflected in the RAS.

Examiners should be mindful that only the federal branch's or agency's U.S. assets and off-balance-sheet commitments should be classified using the regulatory risk-rating framework. Examiners are allowed to sample loans managed in offshore offices during credit examinations; however, examiners should not classify those assets and include them in the classified assets of the federal branch or agency for regulatory purposes. Examiners may consider the condition of such assets as part of the credit risk assessment as well as the risk management component of the ROCA rating.

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<sup>30</sup> Refer to OCC Bulletin 2012-18, "Alternatives to the Use of External Credit Ratings in the Regulations of the OCC: Final Rules and Guidance" (June 26, 2012).



Examiners evaluating credit risk should, at a minimum,

- evaluate the branch's or agency's awareness and understanding of credit risk.
- assess the quality of credit risk management.
- perform sufficient testing to verify the integrity of credit risk management systems.
- identify unwarranted levels of risk, deficiencies in credit risk management systems, and underlying causes of any deficiencies.

## Trade Finance Activity

Federal branches and agencies typically engage in trade finance activities. Risks posed by this activity include transfer and credit, operational, BSA/AML or OFAC (compliance), reputation, and strategic. When reviewing trade finance activities, examiners should seek guidance from the "Trade Finance" booklet of the *Comptroller's Handbook*, as well as the *FFIEC BSA/AML Examination Manual's* "Trade Finance Activities" section.

Federal branches and agencies often fund the financing of exports from the home country through their due-from HO accounts. In such arrangements, payments from the HO account are often scheduled to come from the receiving party (or importer). Often, the receiving party pays the HO, which in turn repays the federal branch or agency.

Federal branches and agencies involved in international trade finance may be exposed to risks of money laundering and terrorist financing because the international trade system is vulnerable to a wide range of risks that provide opportunities to launder the proceeds of crime or finance the activities of terrorists with low risk of detection. Federal branches and agencies should be alert to transactions that involve higher-risk goods (e.g., weapons and nuclear equipment) and should be aware that goods may be overvalued or undervalued in order to evade customs regulations or facilitate money laundering. Federal branches and agencies need to develop and implement sound BSA/AML policies, procedures, and processes commensurate with the risk in their institutions.

## Concentrations of Credit

Unlike in a bank, a concentration of credit in a federal branch or agency is not measured against capital. Instead, examiners judgmentally determine the extent to which certain types of assets materially raise the risk profile of the branch or agency. A branch or agency whose assets significantly elevate its credit risk profile, absent robust credit risk management systems and the financial support and capacity of the HO, can pose supervisory concern. In those cases, examiners determine whether there is an inadequate coverage of liquid and other high-quality assets in proportion to the branch or agency third-party liabilities. Consequently, concentration risk in assets cannot be fully assessed at the federal branch or agency level. A high concentration within the federal branch or agency may be insignificant within the FBO as a whole.

If there is a high concentration of assets in the federal branch or agency whose sources of repayment are from outside the United States, these amounts should be evaluated taking into

consideration transfer risk and other factors, including the economic and political situation within each country where there is a significant exposure. The examiner should determine the amount as a percentage of the branch's total assets that this exposure represents. The same considerations should be given to sovereign exposure. If there are concerns pertaining to economic and political issues, sovereign and corporate exposures in the same country or geographic area should be aggregated and determined as a percentage of total branch assets to quantify and evaluate how management is controlling and mitigating these exposures. For further guidance in evaluating concentration risk, refer to the "Concentrations of Credit" booklet of the *Comptroller's Handbook*.

## Allowance for Loan and Lease Losses

Federal branches and agencies are not covered by "Interagency Policy Statement on the Allowance for Loan and Lease Losses" (ALLL). (Refer to OCC Bulletin 2006-47, "Guidance and Frequently Asked Questions (FAQ) on the ALLL.") Nonetheless, federal branch and agency management should have adequate procedures for identifying losses in its loan portfolio. The asset quality of the branch or agency needs to be sufficient to support its third-party liabilities. Form FFIEC 002 requires that the branch or agency properly report individual loans and similar assets net of identified losses. When available information confirms that specific loans and leases, or portions thereof, are uncollectible, the U.S. branch or agency should promptly charge off, or establish specific reserves for, these uncollectible amounts. Management must maintain reasonable records to support its evaluations and entries.

The federal branch or agency should have a well-defined policy for following U.S. GAAP for adjusting the original book value of loans either through a charge-off or a specific reserve. Where no specific loss amount has been identified, the loan should continue to be reported at original book value; furthermore, any general reserves that the federal branch or agency chooses to establish<sup>31</sup> should be segregated as a portion of its due-to related depository institution accounts. (Refer to the instructions for preparation of FFEIC 002, "Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks," for reporting due-to and due-from related institutions). In evaluating the inherent risk of the loan portfolio, the examiner considers the existence and sufficiency of general reserves for loan losses established. (Updated June 28, 2018)

The OCC recognizes that the FBO's financial support is essential to the viability of a federal branch or agency. In reviewing asset quality, examiners consider the HO's financial capacity and ability to provide sufficient funds to ensure that its federal branch or agency honors its contractual obligations. If the asset quality of the branch or agency warrants concern and the financial condition of the FBO is weak or otherwise poses a higher-than-normal level of risk, the OCC considers the need for restrictions on the federal branch's or agency's net due-to and due-from related accounts. Alternatively, the OCC could require the branch or agency to

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<sup>31</sup> While the call report filed by U.S. branches and agencies of FBOs (FFIEC 002) contains a line item to accommodate reporting of any loan loss reserves maintained voluntarily by a U.S. branch, there is no requirement in the report to establish such reserves.

increase its CED and impose an asset maintenance requirement to more effectively foster the protection of third-party creditors.

## Operations Booked at Other FBO Offices

Management personnel of federal branches or agencies are frequently responsible for businesses or activities that are not recorded on the books of the U.S. branch, but are included on the books of the HO or a different branch or affiliate. (For purposes of this discussion, the term “U.S. branch” refers to the U.S.-based federal branch or agency, and “non-U.S. branch” refers to any branch or affiliate of the HO that is not located in the United States.) There are two distinct types of operations booked at other FBO offices that are managed by or conducted in U.S. branches. The first type is the management of a non-U.S. branch, usually in the Cayman Islands or elsewhere. The second type is customer-related sales and trading conducted in the U.S. branch but booked in a different FBO office. In addition to these two types of operations, FBOs often conduct other activities in the United States that are not related to branch management or customer-related sales and trading.

### Management of Non-U.S. Branches

Historically, FBOs created non-U.S. branches in the Cayman Islands or elsewhere to offer deposits and other liability products to their customers for a number of reasons, including customer preference and an inability to offer some products within the United States. Most of the barriers to offering those products have now been eliminated, but for a variety of reasons the businesses continue to be conducted through the non-U.S. branches. In order to create viable operations in the non-U.S. branches, their liabilities were used to finance loans and securities that might otherwise be booked in the U.S. branch.

The OCC does not have general supervisory authority over non-U.S. branches but has concluded that it has the authority to examine the books of a non-U.S. branch, at least to the extent that the U.S. branch manages the non-U.S. branch’s activities.<sup>32</sup> One important aspect of OCC supervision is to determine that the activities of the non-U.S. branch are permitted by U.S. law. Under 12 USC 3105(k), a U.S. branch cannot manage any type of activity for itself or conducted through a non-U.S. branch unless a U.S. bank is permitted to manage that type of activity at its offshore branch or subsidiary. Therefore, management should develop appropriate policies, procedures, and processes to address potential vulnerabilities at the non-U.S. branches it manages, including understanding the effectiveness of bank supervision in the host country (if non-U.S.); understanding each non-U.S. branch’s risk profile; and having access to sufficient information to periodically monitor the activities of each non-U.S. branch. The management or control of non-U.S. branch activities may be indicative of the quality of the management and policies of the U.S. branch. The activities of the non-U.S. branch may even have a direct effect on the condition and operations of the U.S. branch. The OCC’s authority to examine the books and records at a non-U.S. branch may depend on the host country’s laws. If a need arises in an examination of a U.S. branch for documents at the

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<sup>32</sup> Part 28, “International Banking Activities” (12 CFR 28.18(a)), authorizes the OCC to obtain from the parent foreign bank any information relating to the affairs of the parent and its affiliates.

non-U.S. branch, and the U.S. branch cannot produce the requested information, examiners should contact the OCC's Northeastern District Counsel's Office for further guidance.

When the definition of "managed and controlled" is met, examiners should evaluate the extent to which activities of the managed or controlled non-U.S. branch may affect the condition of the U.S. branch. Such evaluation would not address the condition of the non-U.S. branch itself. Instead, it would detect any qualitative impact of the non-U.S. branch's activities on the U.S. branch. The scope of the evaluation would be limited to any activities of the non-U.S. branch that the U.S. branch manages. Examiners should assess how effective that management has been. Risk management deficiencies should be factored into the "R" component rating of ROCA.

Because the assets of the non-U.S. branch may consist of loans and interbank deposits, examiners may opt to perform a limited review of those portfolios and make a general but limited assessment of the asset quality in the non-U.S. branch. The scope may include a review of a sample of the non-U.S. branch's asset portfolio for credit quality; an analysis of financial and other credit information, collateral, and documentation; and a general review of underwriting standards, policies, procedures, credit administration, internal audit, and credit review and evaluation processes.

If deposits or other liabilities are accepted at the U.S. branch on behalf of a non-U.S. branch, the federal branch or agency must comply with BSA/AML regulations and OFAC requirements. (Refer to the *FFIEC BSA/AML Examination Manual*, "Foreign Branches and Offices of U.S. Banks.") In addition, disclosures should be made to the depositors or other liability providers stating that these are not deposits or liabilities of the U.S. branch, as there might be reputation and compliance risk issues that could affect the U.S. branch in the event of liquidation of the FBO. (Updated June 28, 2018)

In the ROE, the examiner may choose to include general comments describing the quality of the U.S. branch's management of activities of the non-U.S. branch. The non-U.S. branch, however, is not the OCC's supervisory responsibility; therefore, it is important that the ROE does not

- list as special mention or classify any assets booked at the non-U.S. branch.
- list as special mention or classify for credit risk the due-from affiliate account, even if a significant volume of special mention or classified assets is booked at the non-U.S. branch. Due-from affiliate accounts at the U.S. branch may, however, be classified for transfer risk, based on the ICERC assessment of such risk.
- schedule or describe totals of special mention or classified assets booked at the non-U.S. branch.
- direct any charge-offs, ALLL, or ATRR provisions for assets booked at the non-U.S. branch.
- include any other specific information regarding the non-U.S. branch in the examination statistical data or in any other section of the ROE.

- cite activities that may be violations of law occurring at the non-U.S. branch, unless such violations involve activities at the U.S. branch that manages or controls the non-U.S. branch.

## **Sales and Trading**

A number of U.S. branches conduct customer-based sales and trading operations. For some branches, the trading is recorded directly on the books of the U.S. branch. Some branches record the trades on the books of the HO or a non-U.S. branch, usually a branch at a money center such as London or Singapore. Some branches record trades in certain products on their own books while other products are recorded elsewhere.

Regardless of where trades are booked, management of U.S. branches involved in customer sales and trading operations should conduct those activities in a safe and sound manner, with appropriate policies, procedures, controls, limits, and reporting structures. Certain management or operational aspects may be directed or performed at the HO or another location, but management of the U.S. branch should be appropriately involved in those processes and understand how the various parts of the operation fit together. In reviewing trading operations for transactions booked at the U.S. branch, examiners should evaluate the adequacy of policies, procedures, and control functions, with emphasis on compliance with limits, separation of duties, and security. (Refer to “Minimum Objectives and Procedures” under the “Core Assessment” section of this booklet for “Trading Activities.”) Similar to its role in the management of non-U.S. branches, the OCC does not have general supervisory authority over trading and sales activities that are not booked at the U.S. branch. Also similar to the general review of non-U.S. branches, however, examiners should perform a general review of those activities to gain a general understanding of the risk associated with those activities and the adequacy of management. (Updated June 28, 2018)

## **Other FBO Activities Not Recorded on the Books of the U.S. Branch**

FBOs often conduct operations in the United States unrelated to the U.S. branch. These activities can include money management or registered broker-dealer companies. In some cases those operations share resources, such as legal or human resources departments, with the U.S. branch, but are otherwise totally separate from the U.S. branch. Broker-dealers sometimes interact closely with the U.S. branch. For example, the broker-dealer may maintain some of its customer inventory on the U.S. branch’s books. The types of interactions between the U.S. branch and other FBO operations can vary widely, and it would not be practical to try to enumerate all possible combinations of activities for the purposes of this booklet. Examiners should be aware of these activities and evaluate the management of each while keeping in mind that the OCC has general supervisory authority only for the activity as it relates directly to the U.S. branch.

## Asset/Liability Management

The balance sheet of federal branches and agencies differs from that found at most national banks. Typically, the maturity of assets and liabilities is relatively short-term. Assets are often trade financings for medium-size and large corporations, as well as money market investments. Funding is usually obtained from the wholesale funding markets and the HO. Retail lending and deposit taking are typically minimal.

The composition and maturity structure of federal branch and agency balance sheets have changed in response to competitive pressures and the globalization of financial markets. Before the financial market crisis of 2008-2009, some federal branches and agencies expanded from traditional business lines into such activities as real estate, mortgage-backed securities, high-yield securities, and structured notes. Since that time, many of these institutions have revised their strategies to focus on core businesses generally related to global activities of their home country customers. Examiners should be aware of trends in global banking and adjust their examination strategies accordingly.

Like other globally active banks, many federal branches and agencies are expanding their off-balance-sheet activities. These activities have traditionally included unfunded loan commitments, letters of credit, and spot and forward foreign exchange. Off-balance-sheet activities now commonly include active trading of derivative instruments, such as swaps and option contracts.

Depending on the quality of borrowers (typically investment grade) and the cost of interest-bearing liabilities (usually higher due to the wholesale nature of funding), the spread generated by earning assets may be lower than that typically found in national banks. The FBO should develop projections for balance sheet growth in annual budgets of federal branches and agencies. HO and federal branch and agency management should then monitor progress with periodic attribution analyses that examine rate and volume variances from previous projections and adjust business activity, projections, or both, as appropriate.

Management should establish appropriate written policies, short- and long-term strategic planning, and accurate reporting systems. Although written policies and procedures may be based on those of the HO, they should be tailored to the federal branch's or agency's goals and objectives, and they should be approved by HO management.

### Interest Rate Risk

Although the federal branch or agency constitutes only a portion of the FBO, examiners should evaluate balance sheet management. To evaluate the balance sheet management processes of a federal branch or agency, the examiner must develop an understanding of the customer mix, asset and liability composition, off-balance-sheet contingencies, offshore activities, the economic and competitive environment, and the asset/liability management structure of the FBO.

When evaluating balance sheet management, examiners should consider the FBO's management structure. Depending on the HO's philosophy, management may be centralized or decentralized. In a centralized management system, some risks (for example, interest rate risk and price risk) arising from bank nontrading and trading portfolios are aggregated on a global basis and managed by the FBO. It is common to find some FBOs controlling interest rate risks through a centralized internal funds transfer pricing system managed at the HO, usually in the treasury unit. Under a decentralized system, federal branches or agencies are typically allocated risk sub-limits (for example, gap or earnings-at-risk limits) and held responsible for managing within such sub-limits. To control interest rate risk at the federal branch or agency, many FBOs also set "secondary" limits, including more traditional volume limits for maturities, coupons, markets, and instruments. The federal branch or agency should have operational controls that identify, quantify, and control such risks. Systems should be sufficiently sophisticated to monitor and control all aspects of risks within the branch or agency.

Federal branches or agencies may use derivatives to manage their interest rate risk, price risk, and other risks arising from business activities. Supervisory guidance on the use of derivatives can be found in the "Risk Management of Financial Derivatives" booklet of the *Comptroller's Handbook*.

Examiners should refer to the "Interest Rate Risk" and "Asset Securitization" booklets of the *Comptroller's Handbook* for more information on evaluating balance sheet management.

## Liquidity

When evaluating liquidity, examiners should bear in mind that the federal branch or agency is part of the FBO. Examiners should gain an understanding of the FBO's current financial condition and any potential liquidity concerns with the FBO that could affect the federal branch or agency. Examiners should be aware that the federal branch's or agency's liquidity risk is influenced by the market perception of the FBO. If the FBO becomes troubled, it may be appropriate to impose supervisory liquidity requirements on the federal branch or agency, even if the HO's continued viability is not immediately threatened. Such requirements might include restrictions in net due-from (NDF) positions and maintenance of liquid assets.

A major factor to consider in evaluating liquidity is the FBO's strategy regarding the federal branch or agency as a user or supplier of funds for its global funding needs. The federal branch or agency may serve as a net user or net provider of funds for the FBO, and other affiliate branches and the net position may change depending on market conditions or other circumstances. An analysis of the net position strategy is particularly important if the FBO raises liquidity concerns, as described in the next section of this booklet, "Due-To and Due-From Head Office Account." Particular attention should be focused on federal branch funding of offshore affiliate branches under the control of federal branch management.

The overall level, nature, and significance of the federal branch's or agency's funding relationship with its FBO are influenced by several factors, including the FBO's financial condition, economic and market conditions in the home country, comparative funding costs

in the home country versus the United States, the market perception of the FBO, and the branch's or agency's role, if any, in the overall funding strategy of the FBO. A primary source of funding for federal branches and agencies remains the wholesale market. Federal branches and agencies also may rely on the FBO's HO and other offices for funding as a primary or secondary liquidity source. Funding from the HO and affiliates can be a source of stable low-cost funds. Because federal branches and agencies may depend on the FBO for liquidity, the FBO's borrowing capacity affects the federal branch's or agency's liquidity level.

Insured federal branches have an additional source of funding in the form of retail customer deposits. These grandfathered federal branches are empowered to accept deposits of less than the FDIC-insured limit. Uninsured federal branches cannot accept deposits of less than the FDIC-insured limit, unless the deposit is exempt or is less than the aggregate maximum threshold under 12 CFR 28.16 and the branch does not solicit deposits from the general public. Therefore, an uninsured federal branch's funding sources are the domestic interbank, Eurodollar, and federal funds markets; wholesale deposits; and the HO and affiliates. (Federal agencies are prohibited from accepting deposits.)

Funding volatility should be analyzed using appropriate examination procedures. If any liquidity concerns are identified, the examiner should conduct a more in-depth evaluation of the federal branch's or agency's liquidity. This evaluation should consider the federal branch's or agency's funds management profile, with close attention to funding source stability, contingent liabilities, funding gaps, and funds management policy guidance from the HO. In addition, the examiner analysis needs to consider current and stressed economic and market conditions and the adequacy of branch or agency unencumbered liquidity coverage and contingency funding planning.

During the 2008–2009 global financial crisis, some federal branches and agencies accessed liquidity from the FRB. Examiners should determine whether the collateral requirements for this or similar sources of borrowing are properly addressed and coordinated with other collateral needs of the federal branch or agency and the HO. In particular, policies should require sufficient collateral for all needs and that allowance is made for appropriate discounts in stressed scenarios. Furthermore, liquidity policies should take into account funding implications of any government programs or guarantees the branch or agency uses. The potential unavailability of government programs over the intermediate and long term should be considered in the development of liquidity risk management and risk tolerances. (Updated June 28, 2018)

Federal branches and agencies need to comply with the applicable liquidity requirements of the Enhanced Prudential Standards for Foreign Banking Organizations rule.

Federal branch and agency management should be guided and supported by appropriate written policies, short- and long-term planning, and accurate reporting systems. Written policies and procedures should be approved by both the HO and branch senior management and reflect the federal branch's or agency's role in the FBO's global strategy.



Interagency guidance on liquidity was issued March 22, 2010 (OCC Bulletin 2010-13, “Liquidity: Final Policy Statement: Interagency Policy Statement on Funding and Liquidity Risk Management”). This guidance reiterates basic principles of liquidity management and reemphasizes the importance of cash flow projections, diversification of funding sources, stress testing, liquid asset portfolios, and contingency funding plans. The general principles presented in this policy statement also apply to U.S. branches and agencies of foreign banks. These entities should implement sound liquidity risk management with full recognition that the application of these principles depends significantly on the specific business models, governance structures, funding approaches, and liquidity risk profiles of the operations. The OCC expects to have ready access to the information necessary to maintain an understanding and assessment of liquidity risk management processes and systems. (Updated June 28, 2018)

## Due-To and Due-From Head Office Account

A due-to HO account balance represents borrowings by the federal branch or agency from its HO or other related offices. This balance may fund the CED, ongoing and expanding operations, and the ALLL, if any, and the assets funded by the net due-to HO account are available to cover third-party obligations as necessary.

A due-from HO account balance represents loans or placements, including clearing balances, extended by the federal branch or agency to its HO or to other related offices. When the repayment for an asset comes from a foreign country, the transaction poses transfer risk. Transfer risk is the risk that an asset cannot be serviced in the currency of payment because of a lack of, or restraints on the availability of, foreign exchange in the obligor’s country. In the case of HO accounts, an FBO reversing a due-from position could find it difficult to obtain dollars.

For management and examination purposes, due-to and due-from accounts are generally netted and reported as either a net due-to (NDT) or NDF amount.

If a federal branch or agency has an NDF HO position, the branch or agency may have to rely on the HO or related office to be able to pay off its third-party liabilities in the event of an involuntary liquidation, whereas if a federal branch or agency has an NDT position, it is more likely that there are sufficient assets in the federal branch to repay third-party liabilities in distressed situations without relying on the FBO for additional funding.

Credit risk in this context may be thought of as the FBO’s inability to reverse the NDF position because of solvency or liquidity problems. Therefore, the amount of credit risk posed by an NDF position is directly proportionate to the strength of support provided by the FBO. The size of the NDF position is only an indicator and not one of the primary determinants of the amount of credit and liquidity risk.

Although a high-percentage NDF position to the federal branch’s or agency’s total assets may suggest a high quantity of risk, the risk may be relatively low. NDF positions in financially strong FBOs operating in stable markets may pose less risk than similar positions

in weak FBOs in unstable economies. Nonetheless, the appropriateness of a federal branch's or agency's NDF position should be determined case by case using at least the following considerations: (1) the strength of support provided by the FBO, (2) the FBO's strategies for funding the federal branch or agency and the strategies' consistency with U.S. business plans, (3) a review of policies governing financial transactions with the HO and other related offices, and (4) the federal branch's or agency's liquidity position.

Federal branches and agencies that intend to operate in an NDF position on either a regular or opportunistic basis, however, need to develop policies for managing the risks associated with the NDF position. An NDF policy should address the following:

- Unique risks associated with raising funds in the United States for use in affiliates, including the HO.
- Recognition that for the branch to operate in an NDF position it must be supported by the sound financial strength and capacity of its HO. Even a financially sound HO can face difficulties in supporting its U.S. branch if the home country is undergoing severe financial stress.
- Specification of NDF limits and appropriate metrics to monitor the NDF position.
- Identification of scenarios and monitoring variables to measure and determine an undue exposure to the branch or agency as a result of an NDF position.

The branch or agency and the HO need to identify resources available to reduce or, if necessary, eliminate its NDF position in case the capacity to support the branch or agency raises supervisory concerns. The branch's or agency's CED is excluded from available assets for the purpose of supervisory office restrictions on NDF. The NDF policy should be coordinated with the contingency funding plan (CFP) of the branch or agency, and available asset pools created for liquidity purposes at the HO.

Regardless of the NDT/NDF position, federal branches and agencies, in conjunction with their HOs, should ascertain through stress testing that they would have sufficient unencumbered liquid resources available to provide support to their operations in a stressed macroeconomic and market environment.

## Trading Activities

Trading activities<sup>33</sup> can be a significant source of revenue for federal branches and agencies. A federal branch or agency can trade for customers as well as its own account. To offer competitive products to their customers and generate additional revenue, federal branches

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<sup>33</sup> Proprietary trading activities must be conducted in conformance with the Volcker rule and its implementing regulations. The Economic Growth, Regulatory Relief, and Consumer Protection Act (Pub. L. 115-174), which was signed into law on May 24, 2018, created an exemption from the Volcker rule for banks that have or are controlled by a company that has total consolidated assets of more than \$10 billion and that have total trading assets and trading liabilities that are more than 5 percent of total consolidated assets. As of the time of publication of this booklet, the agencies were in the process of amending 12 CFR 44 to implement the act. For the most up-to-date information, examiners should refer to 12 USC 1851 and 12 CFR 44, and consult the supervisory office with any questions. (Footnote updated December 3, 2015, and June 28, 2018)

and agencies have increased both the volume of their trading activities and the complexity of the financial instruments traded. While historically active in spot and forward foreign exchange trading, federal branches and agencies are also sometimes active in trading fixed-income securities and derivative instruments, such as interest rate swaps, credit default swaps, options, and structured securities. (Updated June 28, 2018)

In past years, there have been some widely reported trading losses at overseas branches of globally active financial institutions and corporations. Common contributing factors to these losses are inadequate senior management oversight, excessive risk taking, insufficient understanding of the instruments traded, poor internal controls, and lack of an independent revaluation process. Federal branches and agencies are often several time zones from their FBO, so strong reporting, risk management, and internal control systems are particularly important for proper oversight of the branches' and agencies' activities. (Updated June 28, 2018)

Trading activities involve price, credit, liquidity, operational, compliance, reputation, and strategic risks. Because the risk management guidelines in the "Risk Management of Financial Derivatives" and "Emerging Market Country Products and Trading Activities" booklets of the *Comptroller's Handbook* apply to the trading of various types of financial instruments, examiners should consult the booklets when reviewing a federal branch's or agency's trading activities.

Much of the risk produced by the federal branch's or agency's trading activities may be managed at the FBO, and federal branch or agency management may have limited control over the FBO's risk management systems. In general, however, a federal branch's or agency's systems for controlling trading risk should be as sophisticated as those of a national bank conducting similar activities. In particular, examiners should determine whether management has established policy and limits governing trading activities, internal control systems, independent risk management mechanisms to monitor risk levels and test adherence to policy and risk limits, and an accurate and timely reporting process. Strong controls should include processes that revalue trading instruments independently of the risk taker. (Updated June 28, 2018)

Examiners should obtain commitments and the timelines for corrective action from federal branch or agency management to rectify deficiencies in a federal branch's or agency's risk management systems. These issues should be thoroughly documented in the work papers and the ROE and should receive appropriate follow-up. (Updated June 28, 2018)

## Earnings

An FBO may establish federal branches or agencies to serve as a service center for HO customers, rather than a profit center, and therefore such offices are not necessarily expected to be profitable or to contribute significantly to the FBO's earnings. Federal branch or agency earnings are evaluated in relation to the FBO's mission and objectives in establishing a U.S. presence and the role of the federal branch or agency within the FBO.

When its revenue contributions are significant in relation to those of the consolidated FBO, or the branch or agency is expected to operate as a profit center, its earnings should be evaluated against budgeted projections and the strategic plan of the branch or agency, as well as for the integrity of the reported results. A comparison of period-to-period performance may be conducted to determine trends. Consideration should be given to the following: the quality and composition of earnings, the strength of the net interest margin, and the vulnerability of earnings to market and interest rate changes. The reliance on unusual or nonrecurring gains or losses, the contribution of extraordinary items, the effect of securities or other trading activities, and plans for enhancing earnings or correcting earnings deficiencies are also considerations. If appropriate, earnings analysis may be included in a paragraph in the letter to the general manager that is part of the ROE.

## Correspondent Banking Activities

Federal branches and agencies can provide correspondent banking products and services to financial services firms, enabling FBOs to conduct business and provide services to their customers without the expense of a physical presence. In providing correspondent accounts, federal branches and agencies allow other foreign financial institutions (including their HOs) to gain access to the U.S. financial system. The federal branches and agencies may perform necessary banking services more economically and efficiently, allowing their foreign financial services customers to take advantage of products and services that may not be available to them. Foreign correspondent account products and services offered may include

- cash management services, including nonretail deposit accounts.
- international funds transfers.
- check clearing.
- payable through accounts.
- pouch activities (including remote deposit capture).
- foreign exchange services.
- overnight investment accounts (sweep accounts).
- loans and letters of credit.
- bulk shipments of currency.

In dealing with correspondent banks, a branch is effectively acting as the agent executing and processing payments or other transactions for the correspondent bank's customers. The customers of the correspondent bank may be individuals, legal entities, or even other foreign financial institutions (nested accounts<sup>34</sup>). The beneficiaries in a transaction may be customers of the correspondent bank or customers of other financial institutions.

Federal branch or agency relationships with foreign correspondent accounts are subject to sections 312 and 313 of the USA PATRIOT Act and the implementing regulation at 31 CFR 1010.100, 1010.610, and 1010.630. Generally, the act prohibits branches and agencies from

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<sup>34</sup> Nested accounts occur when a foreign financial institution gains access to the U.S. financial system by operating through a U.S. correspondent account belonging to another foreign financial institution. Refer to the "Correspondent Accounts (Foreign)" section of the *FFIEC BSA/AML Examination Manual*.

engaging in accounts directly or indirectly involving a foreign shell bank. Branches and agencies must maintain records of owners of each foreign bank with which they have a relationship, as well as records of U.S. agents of foreign banks authorized to accept service for legal processes. If branches and agencies are unable to obtain or verify the required regulatory information, the act and regulations generally require them to close the foreign correspondent accounts. Branches and agencies must establish risk-based general due diligence programs, which assess risks posed by customers of foreign correspondent banks. The act and regulations also call for special, enhanced due diligence (EDD) to enable branches and agencies to detect and report any known or suspected money laundering activities associated with foreign correspondent accounts. The overriding goal of these requirements is to protect the integrity of, and access to, the U.S. financial system.

Correspondent banking products and services involve credit, liquidity, operational, compliance, reputation, strategic, foreign exchange, and payment systems risks. BSA/AML risk is often heightened because of the large dollar amounts of transactions, use of multiple transactions, and the potential lack of familiarity with the correspondent's customer (e.g., shell companies that may be used in the transactions), which allow criminals and terrorists to more readily conceal the source of illicit funds. Branches and agencies that provide foreign correspondent financial institution services should have policies, procedures, and processes to manage the BSA/AML risks inherent in these relationships and should closely monitor transactions related to these accounts in order to detect and report suspicious activities. In addition, some foreign financial institutions allow their customers to conduct transactions through the accounts that the financial institutions maintain with U.S. branches (payable through accounts and nested accounts). In these instances, management of U.S. branches should understand the due diligence and monitoring procedures applied by the foreign institutions to their customers utilizing the accounts. Some federal branches and agencies have been subject to enforcement actions and large civil money penalties due to noncompliance with BSA/AML regulations related to foreign correspondent account relationships. Risk management guidelines in the *FFIEC BSA/AML Examination Manual* apply to BSA/AML risks inherent in correspondent banking relationships and services, including funds transfers, cash letter processing, nested accounts, bulk currency shipments, payable through accounts, and OFAC compliance. (Updated June 28, 2018)

Because some foreign financial institutions are not subject to the same or similar regulatory guidelines as U.S. banks and federal branches and agencies, these foreign institutions may pose a higher money laundering risk as correspondents. The FBOs of federal branches and agencies should be aware of the U.S. requirements for BSA/AML and ensure that their federal branches and agencies have risk management systems that can closely monitor transactions related to these accounts to detect and report suspicious activities. Moreover, the federal branches and agencies should have a general understanding of the AML and counterterrorist financing controls at the foreign correspondent financial institution, including CDD practices, record-keeping documentation, and nested correspondent relationships.

## Private Banking

Private banking activities generally refer to services provided to high-net-worth customers (e.g., estate planning, financial advice, lending, investment management, and bill paying). Typically, private banking arrangements are structured to have central points of contact (e.g., a private banker or relationship manager) who facilitates the customers' use of federal branch or agency services and products. Wealth management involves providing banking and other asset management services to high-net-worth individuals generally through relationship managers.

Federal branches may offer private banking and wealth management services through their trust departments, asset management divisions, and private banking departments.<sup>35</sup> To offer services such as asset management relationships (such as trust, investment advice, and investment management accounts), custodial services, offshore facilities, funds transfer, foreign exchange trading, lending, and deposit account relationships, federal branches must apply for, and receive OCC permission to exercise, fiduciary powers.<sup>36</sup> Because of the cross-functional nature of the services offered and the diversity of products, the private banker should be experienced and well trained to comply with all the regulatory requirements in each area. In particular, OCC regulations on fiduciary activities of national banks (12 CFR 9) and BSA/AML and OFAC laws and regulations place significant compliance responsibilities on financial institutions offering private banking services. (Updated June 28, 2018)

Private banking and wealth management may pose high levels of risk to the federal branch or agency because they increase susceptibility to internal control exceptions, money laundering, and fraud.

Private banking accounts may be subject to section 312 of the USA PATRIOT Act and its implementing regulations under 31 CFR 1010.620.<sup>37</sup> For private banking accounts that meet section 312 criteria, management must implement certain AML controls, including establishing appropriate enhance due diligence (EDD) policies and controls and enhancing scrutiny to detect and, as appropriate, report transactions that may involve proceeds of foreign corruption. EDD and enhanced scrutiny requirements are detailed in the *FFIEC*

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<sup>35</sup> Private banking clients often receive “hold mail service,” which enables them to have bank statements and other documents held at the federal branch rather than mailed to their home or business. This service may be used by customers who need security or who live in countries where mail service is unreliable. Because the customer does not review statements regularly, the risk is high that input errors and fraudulent or unauthorized transactions are not detected quickly. An independent unit of the federal branch should periodically review hold-all-mail accounts, as well as dormant and inactive accounts.

<sup>36</sup> Refer to 12 CFR 5.70.

<sup>37</sup> For purposes of 31 CFR 1010.620 with regard to the minimum deposit requirement, a “private banking account” is an account (or combination of accounts) that requires a minimum deposit of not less than \$1 million. A bank may offer a wide range of services that are generically termed private banking, and even if certain (or any combination, or all) of the bank’s private banking services do not require a minimum deposit of not less than \$1 million, these relationships should be subject to a greater level of due diligence under the bank’s risk-based BSA/AML compliance program but are not subject to 31 CFR 1010.620.

*BSA/AML Examination Manual*, under the “Private Banking Due Diligence Program (Non-U.S. Persons)” section.

When private banking accounts do not meet section 312 criteria, they still pose risk. Appropriate CDD and, in some cases, EDD and monitoring should be implemented as part of a comprehensive risk-based BSA/AML compliance program.

In reviewing a federal branch’s or agency’s private banking and wealth management activities, it is important to determine the adequacy of policies and procedures, internal controls, and auditing. Areas of concern in private banking operations can involve a lack of segregation of duties, complex and obscure structure of private banking account relationships, and excessive decision-making authority that a private banking customer may delegate to the private banker. The account agreement for a private bank customer should fully document how the account works. The agreement should specify to what extent decision making has been delegated to the private banker and what documentation is required from the customer to enable the private banker to execute transactions. The agreement should also document who has access to the account and the policies and procedures for granting this access. Accounts should not be established with anonymous parties.

Deposit services permissible for federal branches also pose risk within private banking and wealth management. A federal branch that provides private banking deposit services must have adequate documentation to demonstrate that it is complying with the BSA/AML financial record-keeping and reporting rules, including CIP, CDD, suspicious activity monitoring and reporting, currency transaction reporting, currency transaction reporting exemptions, information sharing, purchase and sale of monetary instruments, funds transfers record keeping, foreign correspondent account record keeping and due diligence, private banking due diligence, special measures, foreign bank and financial accounts reporting, international transportation of currency or monetary instruments reporting, and OFAC. Private bankers must also comply with financial record-keeping regulations and product suitability rules associated with securities activities. Depending on the arrangement with the customer, fiduciary regulations may also apply.

When reviewing private banking and wealth management, examiners should refer to the “Personal Fiduciary Services” and “Investment Management Services” booklets of the *Comptroller’s Handbook*. Examiners should also review MIS used to identify and aggregate customer account information and produce the reports necessary to monitor account activity. A review of the adequacy of the compliance and internal audit functions also is important. Private banking services may be vulnerable to additional BSA/AML risk. Examiners should also review the *FFIEC BSA/AML Examination Manual*, including the sections that discuss and present requirements associated with OFAC. (Updated June 28, 2018)

## Core Assessment

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Examiners conduct activities in institutions supervised by the OCC sufficient to meet the requirements of a full-scope, on-site examination during each supervisory cycle. A full-scope, on-site examination for a federal branch or agency must include examination activities during the supervisory cycle that (Updated June 28, 2018)

- include on-site supervisory activities.
- satisfy the core assessment minimum objectives and procedures in this booklet and the “Core Examination Overview and Procedures for Assessing the BSA/AML Compliance Program” section of the *FFIEC BSA/AML Examination Manual*.
- result in conclusions about the branch’s or agency’s risk profile, by completing the “Core Assessment,” “Risk Assessment System,” and “Internal Control and Audit” sections of the “Large Bank Supervision” booklet of the *Comptroller’s Handbook*.
- are sufficient in scope to assign or confirm ROCA composite and component ratings and applicable specialty area ratings.
- for FDIC-insured federal branches, assess the federal branch’s compliance with the national flood insurance program.<sup>38</sup>
- conclude with the issuance of an ROE.

### Examination Planning

These procedures are intended to assist examiners in determining the scope of the federal branch or agency examination. This determination should consider work performed by internal and external auditors and credit review and by other supervisory agencies that may have responsibility for affiliated entities or other U.S. branches or agencies. In addition, input from home country supervisors through bilateral or supervisory college collaboration should be considered during the planning phase of a supervisory activity. To successfully plan a supervisory activity, advance planning is critical. Examination planning typically should occur 45 to 60 calendar days before the start of a supervisory activity.

Examiners need to perform only those objectives and steps that are relevant to the scope of the examination as determined by the following objectives. The timing of supervisory activities is flexible within the FDICIA examination cycle requirements. The portfolio manager or EIC should consider OCC resources, discussions with branch or agency management, and supervisory objectives when scheduling various activities. This section is used to broadly plan the supervisory activities conducted throughout the cycle.

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<sup>38</sup> Refer to the “National Flood Insurance Program” section of the “Bank Supervision Process” booklet and 12 USC 1820(i).



**Objective 1:** To review the branch's or agency's condition and the supervisory activity's preliminary scope and objectives as set in the supervisory strategy.

Consider the following:

- Supervisory strategy.
- The OCC's information systems, including the call report.
- Previous ROEs and work papers.
- Internal and external audit reports and work papers.
- Branch or agency management's responses to previous ROEs and audit reports.
- Policies, procedures, and reports management uses to supervise the branch or agency, including internal risk assessments.
- HO annual and interim reports.
- FBO program products related to the HO and the country of origin.
- Current public rating reports on the HO.
- Customer complaints and litigation.
- Reports or other supervisory communications with domestic and foreign supervisors of the FBO.

**Objective 2:** To develop a plan to conduct supervisory activities.

Discuss the following with branch or agency management:

- Preference for obtaining request letter information in digital form.
- Activity's timing.
- Activity's general scope and objectives.
- General information about examiners' schedules, staffing levels, and projected time during which examiners are on-site.
- Availability of key branch or agency personnel during the activity.
- Actual or planned changes in the branch's or agency's financial condition, policies, processes, personnel, control systems, products, volumes, markets, and geographies since the previous examination. This includes activities in which the branch or agency acts as intermediary or agent for the HO or any affiliate.
- Results of audit and internal control reviews, compliance reviews, follow-up required by management, and audit staffing.
- Material changes to internal or external audit's schedule or scope.
- Internally performed risk assessments since the last supervisory review.
- Significant trends or changes in the local economy or business conditions.
- Purchase, acquisition, or merger considerations.
- Issues or changes in technology, including operational systems, third-party technology and service providers, critical software, Internet banking, or plans for new products and activities that involve new technology. (Updated June 28, 2018)
- Changes in third-party relationships that involve critical activities.
- Issues or changes regarding BSA/AML or OFAC systems.
- Effects of, or changes to, new supervisory guidance or regulations.

- Other issues that may affect the risk profile.
- Management's concerns about the branch or agency or the OCC's supervision, including any areas that branch or agency management would like the OCC to consider in the examination scope.

**Objective 3:** To review and assess appropriateness of the current supervisory strategy for the branch or agency.

Determine whether changes to the supervisory strategy are needed. For example, determine whether areas previously considered low risk have changed significantly since the last assessment and now warrant a higher allocation of examination resources. If a significant change to the approved strategy is necessary, contact the IBS Analyst for further guidance. With approval from the IBS Director, modify the strategy (significant strategy exceptions ultimately require Deputy Comptroller approval).

**Objective 4:** To prepare for the supervisory activity.

1. Coordinate the activity with other regulatory agencies, as necessary.
2. Prepare a preliminary scope memorandum, designate assignments, and provide a copy to the IBS Analyst and Director for review.
3. Within at least 30 days from the activity start date, send the branch or agency a request letter that provides
  - supervisory activity start date.
  - activity's scope and objectives.
  - advance information the branch or agency must provide to the examination team and due dates for submission of requested items.
  - information the branch or agency must have available for examiners upon the examiners' arrival.
  - name, address, and telephone number of the OCC contact.
  - instructions for delivering digital files.
4. Incorporate any suggested changes to the scope memorandum and distribute to the examination team. The scope memorandum should be distributed no later than two weeks before the start date of the activity.

**Objective 5:** To conduct on-site planning meetings.

1. At the beginning of the supervisory activity, meet with the general manager and appropriate members of senior management to
  - explain the scope of the activity, role of each examiner, and how the team conducts the activity.
  - confirm availability of branch or agency personnel.

- identify communications contacts.
  - answer questions.
2. At the beginning of the activity, meet with examination staff to confirm
- scope and objectives.
  - workdays.
  - assignments and due dates.
  - administrative duties.
  - guidelines for contact and communication among the examining team, branch or agency management, other regulators, and the OCC supervisory office. (Updated June 28, 2018)

## Minimum Objectives and Procedures

Examiners perform these examination procedures to satisfy the minimum objectives and reach conclusions regarding the associated risks, ROCA component and composite ratings, and applicable specialty area ratings during the course of a supervisory cycle (every 12 or 18 months). Using a risk-based approach and considering the risk profile of the branch or agency, including the financial and managerial strength of HO support and impact of home country factors, examiners may use expanded procedures for reviewing specific products, activities, or areas as warranted. These expanded procedures are provided in other booklets of the *Comptroller's Handbook*, the *FFIEC BSA/AML Examination Manual*, and the *FFIEC IT Examination Handbook*. Those publications are referenced throughout this booklet. Refer to the "Bank Supervision Process" booklet of the *Comptroller's Handbook* for a detailed description of the ROCA rating system standards.

For more information on FBO supervision, refer to the "FBO Supervision Program" section of this booklet and to the Interagency Program for Supervising the U.S. Operations of Foreign Banking Organizations, available on the FRB Web site.

### Risk Management

**Objective:** To determine the risk management component rating.

1. Review the extent to which federal branch or agency management is able to identify, measure, monitor, and control applicable risks through policies, guidelines, and limits. This includes the ability to manage the risks inherent in its lending, trading, intermediary or agent functions for the HO or affiliates, and other activities. Consider the results of all areas reviewed, including the "Quality of Risk Management" sections from the RAS. Assess whether management
  - appropriately considers the interdependence of multiple risks and effect on the risk profile.
  - implements risk identification as a continuing process occurring at the transaction and portfolio level.
  - periodically tests the accuracy of the measurement tools it uses.
  - has adequate processes in place for the timely review of risk positions and exceptions and permit HO management review. (Updated June 28, 2018)
  - provides adequate oversight of the third-party risk management process and third-party relationships that involve critical activities.
2. Determine that the federal branch or agency has a risk governance framework in place that is commensurate with the level of risk taken in or outside the United States impacting U.S. operations.
3. Determine compliance with the applicable risk management and capital stress testing requirements of the Enhanced Prudential Standards rule (Regulation YY). (Updated June 28, 2018)

4. Assess management's experience and overall staffing levels and support and quality of management oversight provided by the HO.
5. Determine whether MIS and other forms of communication are consistent with the level of business activity at the federal branch or agency and sufficient to accurately monitor risk exposure and compliance with established limits, and any planned changes in business strategy, products, services, and functions. Assess whether financial and regulatory reporting is timely, accurate, and sufficient to enable the HO to monitor the performance and risks of the branch or agency.
6. Evaluate the effectiveness of branch or agency management in implementing the HO senior management strategy for the U.S. office. Consider management's ability to
  - recognize new or heightened risks that may arise from the changing domestic and home country environment or because of proposed changes in business strategy, products, services, and functions.
  - identify and address risks not readily quantified by the risk management system.
  - develop policies that define the branch's or agency's risk tolerance and ensure that the policies are compatible with the organization's strategic goals.
  - communicate the strategic direction and risk tolerances throughout the U.S. office and hold personnel accountable for operating within the strategic direction and risk appetite. (Updated June 28, 2018)
7. Determine the effectiveness of corporate governance by assessing general manager's level and quality of oversight.
8. Determine whether FBO branch management developed appropriate policies, procedures, and processes to address potential vulnerabilities at the related offices, including its understanding of the effectiveness of bank supervision in the host country (if non-U.S.), understanding each office's risk profile, and having access to sufficient information to periodically monitor each office's activities.
9. Consider the management of offshore books and activities where the branch is acting as an agent in determining the quality of risk management and ROCA "R" rating.
10. Assess the adequacy of risk management practices regarding BSA/AML and OFAC. Consider
  - branch's or agency's risk appetite and processes to identify risks within the organization. Evaluate the risk profile and the internal risk assessment, including BSA/AML and OFAC risk posed by its customers, products, services, geographies, and activities.
  - management's risk management framework of policies, procedures, processes, and internal controls, including tolerance parameters, to manage, monitor, and control the BSA/AML and OFAC risk. Key areas should include CDD, as applicable, EDD, and the suspicious activity monitoring and reporting processes.

- BSA/AML and OFAC management’s stature and influence within the organization to support line of business implementation of regulatory requirements and affect necessary changes.
  - background, training, experience, competence, and sufficiency of personnel with BSA/AML and OFAC compliance responsibilities and their ability to meet regulatory expectations.
  - BSA/AML risk of activities conducted or booked in other FBO offices managed by the federal branch or agency.
  - results of the BSA/AML and OFAC examination. (Refer to the “Compliance” section later in this booklet.) Serious deficiencies in a branch’s or agency’s BSA/AML compliance create a presumption that the branch’s or agency’s risk management component rating will be adversely affected because its risk management practices are less than satisfactory. (Refer to OCC Bulletin 2012-30, “BSA/AML Compliance Examinations: Consideration of Findings in Uniform Rating and Risk Assessment Systems.”)
11. Review complaint data or reports from the OCC’s Customer Assistance Group and the bank. The complaint data review should include an assessment of the volume, themes, and trends of complaints. Reviewing customer complaint data can provide examiners with indicators of potential risk management weaknesses or other deficiencies, such as violations of laws or regulations. Such deficiencies can affect any risk area. Examiners responsible for the complaint data review should communicate relevant information from the complaint data review to examiners of other functional areas and the EIC, as appropriate. (Updated June 28, 2018)
12. Develop overall findings and conclusions regarding risk management, including BSA/AML and credit risk management, as a part of the ROCA “R” rating. If concerns still exist, use expanded procedures from the “Corporate and Risk Governance” booklet of the *Comptroller’s Handbook* as necessary to develop conclusions. Incorporate conclusions and supporting comments in the ROE and other written communications to the branch or agency. (Updated June 28, 2018)

## Operational Controls

**Objective:** To determine the operational controls component rating.

1. Review the adequacy of internal controls and the level of adherence to existing procedures and systems through the following procedures. Refer to the “Internal Control and Audit” section of the “Large Bank Supervision” booklet of the *Comptroller’s Handbook* for additional information.
2. Evaluate the adequacy of the scope and frequency of the branch’s or agency’s internal and external audits, relative to its size and risk profile. Determine whether an independent external audit has been done for all FDIC-insured branches with claims on nonrelated parties greater than \$500 million. Determine whether the internal audit function is independent of line management. Obtain an understanding of how auditors reach their

conclusions for attestation of branch or agency management's assertions. Refer to the "Core Assessment" section of the "Large Bank Supervision" booklet of the *Comptroller's Handbook*. Review applicable internal audit work papers as appropriate.

3. Assess the number and severity of internal control and audit exceptions and their overall impact.
4. Review whether internal control and audit exceptions are effectively tracked and resolved in a timely manner.
5. Determine whether the system of controls is regularly reviewed to keep pace with changes in the federal branch's or agency's business plan, and in laws and regulations.
6. Evaluate the adequacy of IT controls and risk management practices as part of the ROCA "O" rating. (A separate IT component rating would be inconsistent with the FBO Program.) In reviewing IT, the examiner should consult the EIC, the examiners assigned to review management and audit, and other examining personnel, as appropriate. For more information and expanded procedures, examiners should refer to the *FFIEC IT Examination Handbook*. Federal branches and agencies are not, however, rated under the interagency Information Technology rating system. The core review should cover the following steps: (Updated June 28, 2018)
  - Assess the adequacy and management of IT resources.
  - Evaluate the integrity, confidentiality, and availability of automated information.
  - Review reports on IT security (including fraud and processing losses) that are provided to management.
  - Review the adequacy of changes in third-party IT service providers, systems, applications, distribution channels, or personnel.
  - Evaluate the overall performance of third-party IT service providers.
  - Review changes in the contingency-planning process.
  - Evaluate changes in the processes or reports management uses to monitor IT activity.
  - Determine the impact of the changes noted above on the branch's or agency's written information security program.
  - Evaluate the volume and type of activities and operations that have been outsourced or moved offshore.
  - Evaluate the condition, security, capacity, and recoverability of IT systems.
7. Develop overall findings and conclusions regarding audit, internal controls, MIS, record keeping and reporting, and IT as a part of the "O" rating in ROCA. Incorporate conclusions and supporting comments in the ROE and other written communications to the branch or agency. Use expanded procedures as necessary to develop conclusions. When examiners need to use expanded procedures, they should refer to the "Internal Control" or "Internal and External Audits" booklets of the *Comptroller's Handbook*, or to the *FFIEC IT Examination Handbook*.

## Compliance

**Objective:** To determine the compliance component rating, and if applicable, the consumer compliance rating.

1. Determine the level of adherence to applicable state and federal laws and regulations and any supervisory follow-up actions by performing the steps below.
  - Perform the “Core Examination Overview and Procedures for Assessing the BSA/AML Compliance Program” section of the *FFIEC BSA/AML Examination Manual*. Determine the adequacy of the branch’s or agency’s written BSA/AML and OFAC compliance program. Evaluate the adequacy of the system of internal controls, independent testing of BSA/AML and OFAC compliance, the designated individual responsible for coordinating and monitoring day-to-day compliance, and training for appropriate personnel. Evaluate the effectiveness of the suspicious activity monitoring system, including the requirements associated with higher-risk products, services, customers, entities, or geographies, including funds transfers, foreign correspondent banking, private banking, and trade finance. If deposits are accepted at the federal branch on behalf of another FBO office, determine how federal branch management complies with BSA/AML regulations and OFAC requirements, even if the deposits are immediately transferred to a non-U.S. office of the FBO. (Updated June 28, 2018)
  - Determine whether the branch or agency engages in consumer banking activity in the normal course of business. If so, refer to the procedures in the “Consumer Compliance” series of booklets of the *Comptroller’s Handbook*.
2. Evaluate the effectiveness of written compliance procedures and training of line personnel charged with maintaining compliance with regulatory requirements. Determine the independence and the adequacy of the compliance staff, including experience and background.
3. Assess the accuracy and timely filing of call report Form FFIEC 002, “Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks”; call report supplement (Form FFIEC 002S) for federal branches and agencies managing or controlling the assets and liabilities outside the United States; and country exposure report Form FFIEC 019 for federal branches and agencies with total direct claims on foreign residents in excess of \$30 million. Determine whether insured branches with claims on nonrelated parties of \$500 million or more report their claims on nonrelated parties on Form FFIEC 002.
4. Assess management’s ability to identify and correct compliance issues.
5. Review whether the internal audit function checks for compliance with applicable state and federal laws and regulations.



6. Determine compliance with Fair Lending laws, the Equal Credit Opportunity Act, and, if the branch or agency conducts residential real estate transactions in the United States, the Fair Housing Act.
7. Determine compliance with the Flood Disaster Protection Act for loans secured by improved real estate or a mobile home located in a special flood hazard area in a community participating in the National Flood Insurance Program.
8. If the branch or agency is insured, conduct a CRA examination as required by OCC policy. Refer to OCC Bulletin 2018-17, “Community Reinvestment Act: Supervisory Policy and Processes for Community Reinvestment Act Performance Evaluations.” (Updated June 28, 2018)
9. Determine compliance with requirements that each federal branch and agency must keep its accounts separate from those of the FBO and any other branch or agency and that accounts and records must be maintained in English to permit OCC examiners to review compliance with applicable laws and regulations (12 CFR 28.18(c)). (Updated June 28, 2018)
10. Uninsured branches are not permitted to accept deposits in amounts that fall below the minimum federal deposit insurance requirement. Assess the branch’s compliance with the requirements of 12 CFR 28.16. Confirm that the branch monitors depositors not exempted by the regulation in that the aggregate amount of those deposits does not exceed, on an average daily basis, 1 percent of the average of the branch’s deposits for the last 30 days of the most recent calendar quarter. Determine that branch displays visible signage and provides appropriate disclosures that the deposits are not insured by the FDIC.
11. If the federal branch manages businesses or activities that are not liabilities on the books of the federal branch, such as accepting and booking deposits, determine that clear disclosures were made to the depositors or third-party liabilities holders stating that these are not deposits or third-party liabilities of the federal branch. Lack of or inadequate disclosures can pose reputation and compliance risk in the event of liquidation of the federal branch.
12. Review the branch’s or agency’s CED account to determine whether the requirements of the IBA and 12 CFR 28.15 are being met. Obtain and review
  - copies of the CED agreement.
  - periodic (usually monthly) statements of account supplied by the depository bank, securities transaction invoices for securities pledged to the CED.
  - monthly CED calculation.
  - average balance sheet (liabilities).
  - general ledger – listing of pledged assets to the CED.
  - call report.
  - last internal audit report.

13. Complete the review of the CED since the last supervisory activity. Monthly computations may be spot-checked using the appropriate documentation.
- Determine whether the federal branch or agency maintains an original signed copy of the CED agreement and that funds or securities are held at the custodian bank named in the agreement.
  - Review the branch's or agency's monthly computation of average net liabilities. Net liabilities should exclude accrued expenses and amounts due to offices, branches, agencies, subsidiaries, or the HO of the foreign bank. Daily net liabilities should be totaled and divided by the number of days in a given month to obtain the average daily balance of net liabilities. Compare the average daily balance of net liabilities for a given month with the CED being maintained. At a minimum, the CED being maintained should be 5 percent of average net liabilities or the amount of capital that would be required of a national bank being organized at the same location, whichever is greater. The minimum CED amount required is \$1 million. The total amount of deposited dollars or investment securities should be calculated on the basis of the principal amount or market value, whichever is lower.
  - Based on the appropriate computations, determine whether any required addition to the CED was made within the first two business days of the following month.
  - If the branch or agency is subject to higher minimum CED requirements because of an enforcement action or a supervisory directive, review the branch's or agency's compliance with those requirements.
  - Review the securities held by the custodian since the last supervisory activity to confirm that only securities meeting the eligibility requirements and investment grade standards in 12 CFR 1 are being used for CED purposes.
  - Review periodic statements and the CED ledger to determine whether any decreases to the CED account or change in the depository bank received prior written authorization from the OCC.
  - Refer to appendix B of this booklet, "Capital Equivalency Deposit Adequacy Worksheet," as a tool to test for compliance with 12 CFR 28.15.
14. Develop overall findings and conclusions regarding compliance as part of the rating in ROCA "C." The "C" component rating includes compliance with all applicable laws and regulations, including safety and soundness. BSA/AML, legal lending limit, investment limits, and regulatory reporting. The rating also includes applicable consumer protection-related laws and regulations and other regulatory requirements. Incorporate conclusions and supporting comments in the ROE and other written communications to the branch or agency. Document and prepare write-ups for violations of laws and regulations, as applicable.<sup>39</sup> If concerns still exist, use expanded procedures from applicable booklets in the *Comptroller's Handbook* and the *FFIEC BSA/AML Examination Manual* as necessary to develop conclusions. (Updated June 28, 2018)

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<sup>39</sup> Refer to the "Bank Supervision Process" and "Large Bank Supervision" booklets of the *Comptroller's Handbook* for more information regarding communication and documentation of violations of laws and regulations. (Footnote updated May 23, 2017)

## Asset Quality

**Objective:** To determine the asset quality component rating.

1. Evaluate the following in determining the “A” rating of ROCA:
  - Levels and trend of delinquencies, nonperforming and classified assets, losses, weighted average risk ratings, securities not of, or no longer of investment grade, and specific reserves.
  - Volume of lending and fee-based credit commitments, including off-balance-sheet, syndications purchased/originated, and club deal participations.
  - Trends in the growth and volume of new products, syndications purchased, club deal participations, and securitization activity.
  - Concentrations of credit. If there is a high concentration in the federal branch or agency of assets whose sources of repayment are from outside the United States, evaluate the associated level of country risk and transfer risk. Determine the amount of these exposures as a percentage of the branch’s or agency’s total assets and the resulting impact to asset quality. If there are concerns pertaining to economic and political issues, sovereign and corporate exposures in the same country or geographic area should be aggregated and determined as a percentage of total branch assets to quantify and evaluate how management is controlling and mitigating these exposures. For further guidance in evaluating concentration risk, refer to the “Concentrations of Credit” booklet of the *Comptroller’s Handbook*.
  - In reviewing asset quality, consider the HO’s financial capacity and ability to provide sufficient funds to ensure that its federal branch or agency honors its contractual obligations.
  - If the asset quality of the branch or agency warrants concern and the financial condition of the FBO is weak or otherwise poses a higher-than-normal level of risk, consider the need for restrictions on the federal branch’s or agency’s NDT and NDF related accounts. Alternatively, consider requiring the branch or agency to increase its CED and imposing an asset maintenance requirement to more effectively protect third-party creditors.
2. Evaluate credit risk management and include results in the ROCA “R” rating and, for compliance issues, in the ROCA “C” rating, as appropriate.
  - Assess the effectiveness of credit risk management systems by performing the procedures in this section and conduct sufficient testing, including reviewing a sample of loans.
  - Assess the effectiveness of the loan rating system. Refer to the “Regulatory Definitions” section of the “Rating Credit Risk” booklet of the *Comptroller’s Handbook* for more information. (Updated June 28, 2018)
  - Evaluate the adequacy of policies and procedures, strategic direction, external factors, underwriting standards and changes, collection processes, and MIS.
  - Determine the adequacy of policies and procedures for identifying and recognizing losses in the loan portfolio and establishing specific reserves.

- Determine the accuracy of reporting on Form FFIEC 002, “Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks,” which requires that the branch or agency properly report individual loans and similar assets net of identified losses.
  - Determine that any general reserves that the federal branch or agency chooses to establish are segregated as a portion of its due-to related depository institution accounts.
  - Determine that timely and appropriate loan and asset charge-offs are not precluded on the basis of an HO-issued guarantee or similar instrument. (Updated June 28, 2018)
- Assess the adequacy and independence of credit risk management and loan review.
  - Evaluate exposure to trade finance activities and adequacy of controls. When reviewing trade finance activities, examiners should seek guidance from the “Trade Finance” booklet of the *Comptroller’s Handbook*, as well as the “Trade Finance Activities” section of the *FFIEC BSA/AML Examination Manual*.
  - Sample loans of non-U.S. branches that are managed or controlled by the federal branch or agency for credit risk management practices if that portfolio is dissimilar to the branch or agency or if the branch or agency has a significant due-from HO account position with the non-U.S. federal branch.
  - Assess the level of country risk and review ICERC evaluations of exposures of concern.
  - Evaluate compliance with the legal lending limit. The calculation of the legal lending limit is based on the U.S. dollar equivalent of the FBO’s capital. To determine compliance, the FBO must aggregate exposures at all federal branches and agencies with any state branch and agency exposures. To enable the OCC to monitor compliance, the FBO must designate one federal branch or agency office to maintain the consolidated information.
  - Determine whether the federal branch or agency has implemented appropriate risk management for lending and securities activities. (Updated June 28, 2018)
  - Determine whether the branch or agency to has written policies and procedures for loans purchased in the syndication market, conducts an independent credit analysis on such transactions before origination, and maintains comprehensive and timely financial and nonfinancial information bearing on the quality of such loans. Refer to Banking Circular 181 (REV), “Purchases of Loans in Whole or in Part-Participations,” for more information. (Updated June 28, 2018)
3. Consult with examiners reviewing the investment portfolio and capital markets for credit quantity and quality of credit exposure.
  4. Develop overall findings and conclusions regarding asset quality. Incorporate conclusions and supporting comments in the ROE and other written communications to the branch or agency. If no significant concerns exist, assign the rating in ROCA “A” based on the quantity of branch or agency credit risk, factor into the “R” component rating the quality of credit risk management, and include in the “C” component any compliance issues. Determine whether loan write-ups are needed for any loan rating differences between management and the OCC. If concerns exist, use expanded procedures in applicable

booklets in the *Comptroller's Handbook* as necessary to develop conclusions. Consider the following booklets:

- “Large Bank Supervision” (Refer to the “Credit Risk” entries in the “Core Assessment” and “Risk Assessment System” sections)
- “Asset-Based Lending”
- “Asset Securitization”
- “Commercial Loans”
- “Commercial Real Estate Lending”
- “Country Risk Management”
- “Investment Securities”
- “Rating Credit Risk”
- “Trade Finance”

## Operations Booked at Other FBO Offices

**Objective:** To determine the extent and risk of operations booked at other FBO offices, including where the branch or agency is acting as an agent for the HO. (For purposes of this section, the term “U.S. branch” refers to the U.S.-based federal branch or agency, and “non-U.S. branch” refers to any branch or affiliate of the HO not located in the United States.)

### Minimum Procedures for Examination of U.S. Branch Management of a Non-U.S. Branch

1. Determine the adequacy of policies, procedures, and processes to address potential vulnerabilities at the non-U.S. branches that the U.S. branch manages. This determination includes understanding the effectiveness of bank supervision in the host country (if non-U.S.), understanding each non-U.S. branch risk profile, and having access to sufficient information to periodically monitor the activities of each non-U.S. branch.
2. Determine whether the U.S. branch has filed reporting Form FFIEC 002S, “Report of Assets and Liabilities of a Non-U.S. Branch That Is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank.” (Updated June 28, 2018)
3. Review the U.S. branch’s risk assessment and determine whether it identifies the operations booked at other FBO offices and quantifies the risk, mitigating controls, and residual risk. (Updated June 28, 2018)
  - If an activity was initiated, expanded, or modified since the last examination, determine whether the U.S. branch applied an effective risk management process as outlined in OCC Bulletin 2017-43, “Risk Management of New, Modified, or Expanded Bank Products and Services: Risk Management Principles.” (Updated June 28, 2018)

4. Determine whether adequate policies are in place to govern these activities.
  - If so, are exposure limits addressed?
  - Are policies global or specific to jurisdiction? If the latter, determine whether offshore policies provide more latitude or flexibility.
  - Has the BSA/AML risk been adequately addressed?
  - If loans or securities are booked at the non-U.S. branch, verify that these activities are governed by policies, procedures, and control processes similar to those applicable to the U.S. branch. Discuss with the EIC and the IBS Director to determine whether transaction testing is warranted.
5. Determine whether the activities are reviewed by control functions (compliance, risk, and audit).
6. Determine the business rationale for any non-U.S. branch (e.g., tax benefits, access to financial markets, etc.) managed by the U.S. branch.
  - Identify whether any of the products, services, or activities conducted or booked in the non-U.S. branch are different from those conducted and booked in the U.S. branch.
  - Determine whether the risk profile is elevated for activities that are different from those conducted at the U.S. branch.
    - If so, discuss with the EIC and the IBS Director to determine whether transaction testing is warranted.
  - If deposits from third parties are accepted at the non-U.S. branch, determine how the U.S. branch makes the depositor aware that its deposits are not with the U.S. branch. (Updated June 28, 2018)
  - If significant activity is occurring at the non-U.S. branch, determine potential adverse impact on the U.S. branch's financial condition or reputation risk. If the level of risk is elevated, discuss with the EIC and the IBS Director to determine whether transaction testing or expanded procedures are warranted and whether the risk of the non-U.S. branch is excessive in regard to the U.S. branch risk profile.
7. Develop preliminary conclusions regarding the U.S. branch management of a non-U.S. branch. If expanded procedures are necessary, refer to the specific booklets of the *Comptroller's Handbook* for relevant procedures. Also consider impact of the non-U.S. branch on the U.S. branch's compliance, reputation, and strategic risk profile as appropriate.
8. Discuss findings with the EIC for inclusion in the ROE, as warranted.

### Minimum Procedures for Sales and Trading Activities Booked at Non-U.S. Branches

1. Refer to the trading activities procedures in this booklet, keeping in mind that the examination purpose for transactions booked at other FBO offices is only to gain a general understanding of the risk associated with those activities and the adequacy of management.
2. Review the U.S. branch's risk assessment to determine whether it identifies these activities and quantifies the risk, mitigating controls and residual risk. (Updated June 28, 2018)
  - If the activity was initiated, expanded, or modified since the last examination, determine whether the U.S. branch applied an effective risk management process as outlined in OCC Bulletin 2017-43, "Risk Management of New, Modified, or Expanded Bank Products and Services: Risk Management Principles." (Updated June 28, 2018)
3. Determine whether adequate policies are in place to govern these activities.
  - If so, are exposure limits addressed?
  - Are policies global or specific to jurisdiction? If the latter, determine whether offshore policies provide more latitude or flexibility.
  - Has the BSA/AML risk been adequately addressed?
4. Determine whether the activities are reviewed by control functions (compliance, risk, and audit).
5. Develop preliminary conclusions regarding sales and trading activities booked at other FBO offices. If expanded procedures are necessary, refer to the specific booklets of the *Comptroller's Handbook* for relevant procedures. Also consider impact on compliance, reputation, and strategic risks as appropriate.
6. Discuss findings with the EIC for inclusion in the ROE, as warranted.

### Interest Rate Risk Management

**Objective:** To evaluate the adequacy of interest rate risk management systems.

1. Evaluate the composition of the branch or agency balance sheet and off-balance-sheet commitments.
  - Determine the general level of interest rate risk in the balance sheet.
    - Consider maturity and repricing of assets, liabilities, and off-balance-sheet items.
    - Consider degree of optionality in on- and off-balance-sheet items.
  - In some instances, the branch or agency balance sheet consists of low-risk, short-maturity instruments without a significant volume of embedded options. In such

- cases, risk management is simplified for the branch or agency and the HO, and examiners should determine from a risk-based perspective which procedures in this section are applicable.
2. Review and determine whether the branch or agency has adequate policies, procedures, metrics, and other control mechanisms to properly manage the level of interest rate risk. Consider the following:
    - Governance, including HO approval, delegation of authority, establishment of management committees, personnel authorizations, approval of counterparties, and other governance issues. Although written policies and procedures may be based on those of the HO, they should be tailored to the federal branch's or agency's goals and objectives.
    - Level of coordination and centralization of activity with the HO.
    - Short- and long-term strategic planning.
    - Strategies and asset/liability management functions.
    - Appropriateness of limits.
    - MIS requirements, including tools used for determining compliance with limits, including, as applicable, measures such as gap analysis, net interest income, economic value of the balance sheet, present value of a basis point, and value-at-risk.
    - Appropriateness of methodologies for estimating market values.
    - Appropriateness of models and adequacy of model validation. Refer to OCC Bulletin 2011-12, "Sound Practices for Model Risk Management: Supervisory Guidance on Model Risk Management" for more information. (Updated June 28, 2018)
    - Appropriateness of methodologies to determine the investment grade credit quality of investment securities.
  3. Assess management's compliance with HO-approved policies. Consider the following:
    - Degree to which management refers to policies in the conduct of daily activities.
    - Whether the level of contact with the HO is consistent with policy directives.
    - Compliance with limits and exception reporting and approval.
    - Adequacy and accuracy of reporting systems and policy metrics, including the appropriateness of metrics or MIS developed solely for use by the branch or agency.
    - Adherence to policy for estimating market values.
    - Adequacy of model validation procedures. Refer to OCC Bulletin 2011-12 for more information regarding model risk management. (Updated June 28, 2018)
  4. Assess the adequacy of staffing and infrastructure. Consider the following:
    - Competence of staff.
    - Adequacy of staffing level.
    - Separation of duties.
    - Adequacy of IT, for both content and reliability.
    - Security.



5. Develop overall findings and conclusions regarding interest rate risk management. Incorporate conclusions and supporting comments in the ROE and other written communications to the branch or agency. If concerns still exist, use expanded procedures from the “Interest Rate Risk” and “Asset Securitization” booklets in the *Comptroller’s Handbook* as necessary to develop conclusions.

## Liquidity

**Objective:** To evaluate the adequacy of systems to manage liquidity risk.

1. Evaluate the composition of the branch’s or agency’s balance sheet and off-balance-sheet commitments.
  - Determine the composition and volatility of assets.
  - Determine the sources of liabilities and the volatility in amounts supplied from each.
  - Determine whether the collateral requirements for borrowing from the FRB or similar source of borrowing are properly addressed and coordinated with other collateral needs of the federal branch or agency and the HO. (Updated June 28, 2018)
2. Evaluate the role of the branch or agency in the global funding strategy of the HO.
  - Determine the components and volatility of due-to, due-from, NDT, and NDF positions.
  - Determine whether the branch or agency has adequate policies, procedures, metrics, and other control mechanisms to properly manage the level of volatility in intracompany funds flows.
  - Evaluate the FBO’s current financial condition and any potential liquidity concerns with the FBO that could affect the federal branch or agency. The federal branch’s or agency’s liquidity risk is influenced by the market perception of the FBO. If the FBO becomes troubled, it may be appropriate to impose supervisory liquidity requirements on the federal branch or agency, even if the HO’s continued viability is not immediately threatened.
3. Assess the adequacy of funding sources and investment alternatives relative to the volatility in normal, nonstressed end-of-day net positions.
4. Review policies and procedures for liquidity risk management.
  - Assess governance, including board approval, delegation of authority, establishment of management committees, personnel authorizations, approval of counterparties, and other governance issues.
  - Assess limits including concentration limits and counterparty limits.
  - Evaluate integration of branch or agency and HO liquidity policies.
  - Assess the adequacy of the liquidity dashboard or other metrics, as appropriate.
  - Determine whether policies require that there is sufficient collateral for all needs and that allowance is made for appropriate discounts in stressed scenarios, and take into

- account funding implications, including unavailability of any government programs or guarantees the branch or agency uses.
5. Evaluate branch or agency management's compliance with policies.
    - Determine compliance with limits and exception reporting and approval.
    - Assess adequacy of HO MIS used for managing branch or agency liquidity and MIS solely for use by the branch or agency.
  6. Determine compliance with the applicable liquidity requirements of the Enhanced Prudential Standards for Foreign Banking Organizations rule.
  7. Assess the adequacy of the CFP.
    - Evaluate identification of levels of crisis and corresponding roles and responsibilities of personnel involved.
    - Evaluate cash flow analysis in CFP scenarios.
    - Assess available liquidity resources.
    - Evaluate integration of branch and HO CFPs.
    - Determine the coordination of the NDF policy with the branch's or agency's CFP and available asset pools created for liquidity purposes at the HO.
  8. Develop overall findings and conclusions regarding liquidity. Incorporate conclusions and supporting comments in the ROE and other written communications to the branch or agency. If concerns still exist, use expanded procedures from the "Liquidity" booklet of the *Comptroller's Handbook*, as necessary, to develop conclusions. Consider the federal branch's or agency's funds management profile, paying close attention to funding source stability, contingent liabilities, funding gaps, and funds management policy guidance from the HO. In addition, consider current and stressed economic and market conditions and the adequacy of branch or agency unencumbered liquidity coverage and contingency funding planning.

## Due-To and Due-From HO Account

**Objective:** To review adequacy of controls concerning the branch's or agency's due-to and due-from HO account.

1. Evaluate the funding relationship between the branch or agency and the HO. For federal branches or agencies that intend to operate in a NDF position on either a regular or opportunistic basis, obtain and review policies for managing the risks associated with the NDF position. Determine whether the NDF policy does the following:
  - Addresses the unique risks associated with raising funds in the United States for use in affiliates, including the HO.
  - Recognizes that for the branch or agency to operate in an NDF position it must be supported by the sound financial strength and capacity of its HO. Even a financially

- sound HO can face difficulties in supporting its U.S. branch if the home country is undergoing severe financial stress.
- Specifies NDF limits and appropriate metrics to monitor the NDF position.
  - Identifies scenarios and monitoring variables to measure and determine an undue exposure to the branch or agency as a result of an NDF position.
  - Addresses actions to reduce any undue NDF position.
2. Evaluate the appropriateness of the federal branch's or agency's NDF position, using at least the following considerations:
    - Strength of the FBO's support.
    - FBO's strategies for funding the federal branch or agency and the strategies' consistency with U.S. business plans.
    - Review of policies governing financial transactions with the HO and other related offices.
    - Federal branch's or agency's liquidity position.
  3. Develop overall findings and conclusions regarding the branch's or agency's due-to and due-from HO account. Incorporate conclusions and supporting comments in the ROE and other written communications to the branch or agency.

## Trading Activities

**Objective:** To assess the adequacy of systems to manage the risks of associated trading activities.

1. Review policies and procedures for trading activities.
  - Assess governance, including board approval, delegation of authority, establishment of management committees, personnel authorizations, approval of counterparties, and other governance issues.
  - Assess management's and staff's understanding of the risks involved in approved trading strategies.
  - Assess limit structure, considering:
    - Liquidity of traded instruments.
    - Appropriateness of limit measures and amounts, including, as applicable, notional amounts, present value of a basis point, value-at-risk, stress tests, and loss limits.
  - Assess requirements for establishing independent market values of traded instruments.
2. Evaluate branch or agency management's compliance with policies and procedures.
  - Determine compliance with limits and exception reporting and approval.
  - Evaluate intraday and end-of-day position-monitoring procedures.
  - Evaluate HO and branch MIS.
  - Evaluate model validation. Refer to OCC Bulletin 2011-12 for more information regarding model risk management. (Updated June 28, 2018)

3. Evaluate sufficiency of IT capabilities. Consider the following:
  - Ability of IT systems to capture risks with minimal time lag.
  - Separation of duties, including processes for trade blotter updates, trade confirmation, trade settlement, and accounting.
  - Trade verification.
  - Reconciliation procedures.
  - Access to wire transfer or SWIFT (Society for Worldwide Interbank Financial Telecommunication) messaging terminals.
  - Facility security.
4. Develop overall findings and conclusions regarding trading activities. Incorporate conclusions and supporting comments in the ROE and other written communications to the branch or agency. For expanded procedures, refer to the “Risk Management of Financial Derivatives” and “Emerging Market Country Products and Trading Activities” booklets of the *Comptroller’s Handbook*.

## Earnings

**Objective:** To evaluate the adequacy of the branch’s or agency’s earnings performance. Consider the following in determining whether a formal earnings assessment is necessary:

- Level of branch or agency earnings in relationship to total HO earnings.
- Dependence of HO on branch or agency earnings performance.

If branch earnings are significant relative to HO revenues, perform the following procedures.

1. Determine the level of earnings in relation to the risk profile of the branch or agency.
2. Evaluate the consistency and quality of earnings performance, composition of earnings, and vulnerability to interest rate risk and market risk.
3. Determine the reasonableness of earnings projections and objectives. Consider the accuracy of the budgeting process by comparing budgeted versus actual results and the reasons for significant variances.
4. Determine whether the branch or agency was established to be a profit center or to provide presence and service to the HO.
5. Comment on the HO’s willingness and capacity to support the branch or agency. Determine whether earnings are retained at the branch or agency or repatriated to the HO.
6. Develop overall findings and conclusions regarding earnings. Discuss with the EIC and incorporate conclusions and supporting comments in the ROE and other written communications to the branch or agency, as appropriate.

## Correspondent Banking Activities

Examiners may choose between two correspondent banking topics in the *FFIEC BSA/AML Examination Manual*, or as warranted, perform examination procedures that apply to both of the following.

### Foreign Correspondent Account Record Keeping and Due Diligence

**Objective:** To assess the branch's or agency's compliance with statutory and regulatory requirements for correspondent accounts for foreign shell banks, foreign correspondent account recordkeeping, and due diligence programs to detect and report money laundering and suspicious activity. Refer to the expanded sections of the *FFIEC BSA/AML Examination Manual* for discussions and examination procedures regarding specific money laundering risks associated with foreign correspondent accounts.

1. Perform core examination procedures in the *FFIEC BSA/AML Examination Manual* for "Foreign Correspondent Account Recordkeeping and Due Diligence."

### Correspondent Accounts (Foreign)

**Objective:** To assess the adequacy of the branch's or agency's systems to manage the risks associated with foreign correspondent banking and management's ability to implement effective due diligence, monitoring, and reporting systems. This section expands the earlier core review of statutory and regulatory requirements of foreign correspondent account relationships in order to provide a broader assessment of the AML risks associated with this activity.

1. Perform expanded examination procedures in the *FFIEC BSA/AML Examination Manual* for "Correspondent Accounts (Foreign)."

## Private Banking

### Minimum Procedures for BSA/AML Target

Examiners may choose between two private banking topics in the *FFIEC BSA/AML Examination Manual* ("Private Banking Due Diligence Program (Non-U.S. Persons)" and "Private Banking"), or as warranted, perform examination procedures that apply to both:

Private Banking Due Diligence Program (Non-U.S. Persons)

**Objective:** To assess the branch's or agency's compliance with the statutory and regulatory requirements to implement policies, procedures, and controls to detect and report money laundering and suspicious activity through private banking accounts established, administered, or maintained for non-U.S. persons. Refer to the expanded sections of the *FFIEC BSA/AML Examination Manual* or discussions and examination procedures regarding specific money laundering risks associated with private banking.

1. Perform core examination procedures in the *FFIEC BSA/AML Examination Manual* for "Private Banking Due Diligence Program (Non-U.S. Persons)."

Private Banking

**Objective:** To assess the adequacy of the branch's or agency's systems to manage the risks associated with private banking activities, and management's ability to implement effective due diligence, monitoring, and reporting systems. This section expands the core review of the statutory and regulatory requirements of private banking to provide a broader assessment of the AML risks associated with this activity.

1. Perform expanded examination procedures in the *FFIEC BSA/AML Examination Manual* for "Private Banking."

**Minimum Procedures for Asset Management Target**

**Objective:** To assess the adequacy of the branch's or agency's systems to manage the risks associated with private banking asset management activities.

1. Evaluate the adequacy of policies, procedures, and processes related to asset management activities in the branch's or agency's private banking department.
2. Assess whether controls are adequate and address
  - requirements for proper segregation of duties, understanding of the structure of private banking account relationships, and prohibit excessive decision-making authority that a private banking customer may delegate to the private banker.
  - that the account agreement for a private bank customer fully documents how the account works, specifies to what extent decision making has been delegated to the private banker, and specifies what documentation is required from the customer to enable the private banker to execute transactions. The agreement should also document who has access to the account and the policies and procedures for granting this access.
  - that accounts should not be established with anonymous parties.
3. Determine whether the internal audit scope provides adequate coverage of the branch's or agency's private banking activities.

4. Develop overall findings and conclusions regarding private banking. Incorporate conclusions and supporting comments in the ROE and other written communications to the branch or agency. If concerns still exist, use expanded procedures from the “Personal Fiduciary Services” and “Investment Management Services” booklets of the *Comptroller’s Handbook*.

## Examination Conclusions and Closing

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Conclusion: Branch or agency is rated  
(1, 2, 3, 4, or 5).  
Branch's or agency's overall risk profile is  
(low, moderate, or high).

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To conclude the supervisory cycle, examiners must meet all objectives under this section, regardless of the branch's or agency's risk designation.

**Objective 1:** To determine and update the branch's or agency's composite and component ROCA ratings and TCC ratings as applicable. Refer to the "Bank Supervision Process" booklet of the *Comptroller's Handbook* for a detailed description of the rating systems standards. (Updated June 28, 2018)

1. Consider findings from the following areas.
  - **Risk management:** The extent to which risk management systems are adequate (1) to control risk exposures that result from the branch's or agency's activities, and (2) for effective oversight by branch and HO management. This includes management of BSA/AML risk, implementation of appropriate risk governance standards, and oversight of the third-party relationships risk management process and third-party relationships that involve critical activities. This includes third-party relationships, such as information technology servicing and other outsourcing arrangements with foreign service providers or with service providers that use foreign subcontractors. (Updated June 28, 2018)
  - **Operational controls:** The effectiveness of internal controls, including accounting and financial controls, internal and external audit activities, and IT.
  - **Compliance:** Reflects compliance with all laws and regulations and the compliance program, training, and compliance audit. The scope includes safety and soundness, BSA/AML, OFAC requirements, and consumer protection-related laws and regulations for federal branches and agencies offering products governed by such laws and regulations, and the CRA for insured branches. In addition, the CED, regulatory reports, and record keeping and reporting are reviewed in this area. (Updated June 28, 2018)
  - **Asset quality:** The rating depends on the volume of problem assets. Adequacy of credit administration is factored into the risk management rating as opposed to the asset quality rating. Also, the asset quality of an offshore branch managed by federal branch or agency management does not affect the asset quality rating of the branch or agency.
  - **Other areas reviewed:** Operations booked at other FBO offices, asset/liability management, liquidity, due-to and due-from HO accounts, trading activities, earnings, correspondent banking, and private banking.



2. **Asset management (trust) rating:** For branches with fiduciary powers, assign an interagency trust rating from the review of fiduciary activities, including private banking as applicable.
3. **Consumer compliance rating:** Because the compliance rating in ROCA reflects more than just compliance with consumer regulations, examiners also need to assign the interagency uniform consumer compliance rating when the federal branch or agency engages in consumer activities in the normal course of business. The branch’s adherence to BSA/AML regulatory requirements is considered in developing the compliance component of ROCA. The ROE should contain appropriate narrative on all compliance under the compliance page, including consumer compliance as appropriate.
4. **CRA rating:** A CRA rating is assigned after the review of this area in insured branches. The OCC must conduct CRA evaluations for insured branches. The CRA evaluation cycle varies depending on factors such as asset size, and most recent CRA rating. OCC policy allows for a “scheduling window,” which is calculated from the current start date, to begin the CRA evaluation. Refer to the “Bank Supervision Process” booklet of the *Comptroller’s Handbook* and OCC Bulletin 2018-17, “Community Reinvestment Act: Supervisory Policy and Processes for Community Reinvestment Act Performance Evaluations.” (Updated June 28, 2018)

**Objective 2:** To determine the branch’s or agency’s risk profile using the RAS.

Draw and record conclusions about quantity of risk, quality of risk management, aggregate risk, and the direction of risk for each of the applicable risk categories by completing the “Core Assessment” (except for “Regulatory Ratings”) and “Risk Assessment System” sections of the “Large Bank Supervision” booklet of the *Comptroller’s Handbook*.

Summary of Risks (Updated December 3, 2015)				
Risk category	Quantity of risk	Quality of risk management	Aggregate level of risk	Direction of risk
	(Low, moderate, high)	(Weak, insufficient, satisfactory, strong)	(Low, moderate, high)	(Increasing, stable, decreasing)
Credit				
Interest rate				
Liquidity				
Price				
Operational				
Compliance				
Strategic				
Reputation				

**Objective 3:** To finalize the examination.

1. Discuss examination conclusions and review required draft comments with the Director for IBS–FO.
2. Hold an on-site exit meeting with management to summarize examination findings:
  - Inform management of areas of strengths as well as weaknesses.
  - Discuss draft MRA and violations of law.
  - Solicit management’s commitment to correct material weaknesses.
  - Discuss the branch’s or agency’s risk profile, including conclusions from the RAS.
  - Offer examples of acceptable solutions.

Note that these conclusions and findings are subject to final review and approval of the supervisory office.

3. The EIC, or designee, should finalize required ROE comments. The comments should include significant risk-related concerns.

At a minimum, the ROE examination conclusions and comments should include

- summary of scope and major examination objectives, including
    - recap of significant supervisory activities during the examination cycle and how those activities were used to evaluate the branch’s or agency’s overall condition.
    - discussions of significant expansion of the standard core assessment.
  - statements of the branch’s or agency’s overall condition and conclusions on ratings.
  - discussion of the overall risk profile and the prominent risks, including
    - risks that are specifically mentioned (e.g., risk assessment changes, heightened risks).
    - areas of weak risk management, and any risk that is either high (in quantity or aggregate), or moderate with an increasing direction of risk. (It is not required to include a paragraph or discussion of risks that are not significant in assigning the overall risk profile or component/composite ratings.)
    - discussions of excessive risks or significant deficiencies in risk management and their root causes.
  - summary of actions and commitments to correct supervisory concerns and planned supervisory follow-up.
  - notice to management if civil money penalty referrals are being made.
4. Complete the ROE and perform a final technical check to make sure that it is accurate and acceptable. The check should determine whether (Updated June 28, 2018)
    - ROE meets established guidelines.
    - comments support all regulatory ratings, as applicable.
    - numerical totals are accurate.

- numerical data in the report and other supervisory comments are consistent with the branch's or agency's records.
  - violations of laws or regulations are cited accurately and communicated appropriately. (Updated May 23, 2017 and June 28, 2018)
  - MRA comments address the required elements.
5. Submit the report to the IBS analyst. The supervisory office has to follow certain review and reporting requirements in line with Large Bank Supervision and agency policies before ROEs are finalized and issued to the financial institution.
  6. Complete any applicable FBO program requirements, including communications for the HO and home country supervisor.
  7. Verify that all appropriate information has been entered in supervisory information systems.
  8. Update, organize, and reference work papers in accordance with OCC policy.
  9. Appropriately dispose of or secure paper and electronic media that contain sensitive bank or customer information. (Updated June 28, 2018)
  10. Prepare the supervisory strategy for the next supervisory cycle. Follow specific guidance in the "Supervisory Process" section of this booklet and in the "Bank Supervision Process" booklet of the *Comptroller's Handbook*.
  11. Complete and distribute assignment evaluations.

# Appendixes

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## Appendix A: Periodic Monitoring

Periodic monitoring activities are a key component of supervision by risk. Each branch's or agency's supervisory strategy outlines, in detail, the specific monitoring activities that are performed and the timing of those activities. The timing of the activities is driven by the supervisory objectives rather than predetermined calendar dates. Although the timing of these activities should be risk-based, there is a presumption that some type of quarterly contact with branch or agency management occurs. The objectives of periodic monitoring include

- identifying significant (actual or potential) changes in the branch's or agency's risk profile.
- ensuring the validity of the supervisory strategy.
- achieving efficiencies during on-site activities.

The specific objectives of periodic monitoring for a particular branch or agency are determined by the portfolio manager in consultation with the supervisory office, and are based on knowledge of the branch's or agency's condition and risks. If circumstances warrant, periodic monitoring may include a comprehensive analysis of various composite and component ROCA factors or a visit to the branch or agency. The supervisory office and the portfolio manager are jointly responsible for determining the depth and breadth of activities needed to achieve supervisory objectives. (Updated June 28, 2018)

Examiners may perform the following procedures during periodic monitoring. These procedures are provided as a guide for examiners. The portfolio manager should perform whichever procedures are appropriate, consistent with the branch's or agency's condition and risk profile.

1. Contact branch or agency management and follow up on outstanding MRAs, supervisory issues, and the status of corrective actions.
2. Determine any significant trends evident in the branch's or agency's condition.
3. Discuss with management financial trends and any significant changes in the branch's or agency's operations, business strategy, personnel, or third-party relationships that involve critical activities.
4. Confirm or update composite and component ROCA ratings, TCC ratings, risk assessments, and supervisory strategy. (Updated June 28, 2018)
5. Prepare a written memorandum documenting results of the periodic monitoring.
6. If necessary, communicate findings from monitoring activities to branch or agency management and prepare appropriate formal communications to the branch or agency.

Communicate findings regarding follow-up for violations of laws and regulations. Update and document supervisory information systems. (Updated May 23, 2017)

## Appendix B: Capital Equivalency Deposit Adequacy Worksheet

Capital Equivalency Deposit Worksheet		
<p>Note: This worksheet tests compliance with 12 CFR 28.15. Answers to all of the following questions should be "yes"; a "no" answer indicates a violation of 12 CFR 28.15. Please refer to the regulation if any questions arise in its completion.</p>		
<b>Basic requirements</b>		
	Yes	No
1. Is the CED held in a member bank located in the same state as the federal branch?		
2. Is the CED in the form of a dollar deposit? (If yes, skip the next two questions.)		
3. Is the CED in the form of securities that can be held by any national bank for its own account?		
4. Are the securities <ul style="list-style-type: none"> <li>A. segregated on the books of the depository bank?</li> <li>B. pledged to the Comptroller of the Currency?</li> </ul>		
5. Does the branch maintain a CED ledger/account that records the amount of liabilities?		
6. Is a 30-day average of the applicable liabilities calculated at the end of each month?		
7. If necessary, is the CED increased to maintain the ratio of 5% of applicable liabilities within the first two business days of the following month?		

Date:	Test calculation	Prior month branch ledger 30-day average
Total dollar amount of the CED (if securities, use the lower of principal or market value)	(a)	(a)
Total liabilities of the branch	(b)	(b)
<b>LESS:</b>		
(1) accrued expenses	(1)	(1)
(2) amount due and other liabilities to branches, offices, agencies and subsidiaries of the foreign bank	(2)	(2)
Applicable liabilities	(c)	(c)
<b>Calculate:</b>		
Test: Line ( a ) divided by line ( c ) (must be 5% or more)	=	%
Branch ledger: Line ( a ) divided by line ( c ) (must be 5% or more)		%
Verify that these numbers match the numbers in the branch's ledger for this date, then use the prior month's 30-day average figure to test CED adequacy.		
Maker:		Checker:
Officer:		

## Appendix C: Sample Request Letter

This appendix serves as a guide and should be modified as needed depending on the scope of the supervisory activity and the risk profile of the branch or agency. The EIC should indicate which items need to be provided before the start of the supervisory activity and which will be reviewed during the on-site portion of the supervisory activity. If activities are being conducted throughout the supervisory cycle, examiners should only request the information they need to complete the current activity. The EIC is responsible for getting the general information and maintaining it in supervisory information systems to avoid duplicate requests to the branch or agency.

*Examiners should tailor the following request letter as needed, based on the branch's or agency's activities.*

In order for us to prepare effectively for this supervisory activity, please provide the information listed in the attachment to this request letter in electronic format and send to the designated EIC via OCC secure mail, which can be accessed by going to [www.banknet.gov](http://www.banknet.gov). If this is not possible, fax the data to a designated number at our office. For larger pieces of hard-copy information and for security purposes, provide the information by postal mail using a tracking service. Please indicate whether hard-copy information needs to be returned.

### Management and Supervision

1. Most recent head office (HO) information packet. Any information included in the packet that is requested below need not be duplicated.
2. Any other internal reports used by management to monitor the lending, funds management, compliance and data-processing operations of the branch or agency.
3. Most recent external audit report of the branch or agency, including the engagement letter and management's response regarding any recommended corrective action.
4. Internal audit reports, recommendations, and management responses occurring since the previous examination. Also provide the current (yyyy) and next year's (yyyy) internal audit schedule, indicating audits that have been completed or are in process.
5. The HO or branch's or agency's latest annual shareholders report and quarterly reports, including the most recent credit ratings (Standard & Poor's, Moody's, Fitch).
6. Current branch or agency organization chart and listing of committees, including their memberships and purposes. Also, a list of salaries and other compensation for senior officers.
7. Copies of any significant changes in the branch's or agency's loan, investment, funding, internal control, third-party providers, and data-processing and compliance policies since the last examination.

8. Current inventory of all third-party relationships, clearly identifying relationships that involve critical activities.

### **Asset Quality**

9. Loan account trial/listing.
10. Investment portfolio listing.
11. List of new loans and commitments granted since the previous examination.
12. List of past-due and nonaccrual loans.
13. List of problem/watch loans.
14. List of overdrafts.
15. List of other real estate, repossessed assets, classified investments, and cash items.
16. Management's most recent analysis and methodology of any loan loss reserve account established at the branch.

### **Financial Performance**

17. Balance sheet and operating statement as of the review date and one year previous.
18. The branch's or agency's budget and year-to-date variance reports for the previous year and year-to-date. Also provide significant assumptions used in preparation of the budget.
19. Most recent reports used to monitor and manage liquidity and interest rate risk. Include liquidity and rate sensitivity analyses, lines of credit available to the branch or agency and/or HO, a listing of contingent liabilities, and a large-deposit customer listing (more than 10 percent of branch deposits). Include a discussion of assets (i.e., investments that have materially declined in value or rating resulting in the need for additional cash infusion from the HO).
20. Describe foreign exchange activities.

### **Other Areas of Interest**

21. Latest call report.
22. Summary of existing or threatened litigation.
23. Most recent computation of the required capital equivalency deposit and balance in the account.



24. For an example of a BSA/AML request letter, refer to the *FFIEC Bank Secrecy Act/Anti-Money Laundering Examination Manual*.

### **Information Technology Services**

25. IT organization chart.

26. Copy of the IT manager's and his or her backup's résumés, if changed since the prior examination, and any IT-related training received since our last examination.

27. Strategic plans regarding technology at the branch or agency.

28. Listing of technology-related committees and minutes.

29. Branch's or agency's business continuity/disaster recovery plan.

30. Documentation related to the most recent disaster recovery plan testing.

31. List of contents of the offsite tape backup vault.

32. Information and data security policy.

33. End user personal computing policy.

34. IT insurance coverage.

35. Internal and external IT-related audit reports and responses.

36. Listing of local area networks and their locations.

37. Listing of third-party IT service providers. (Updated June 28, 2018)

38. Service contracts for data processing.

39. Branch's or agency's financial reviews of critical third parties. (Updated June 28, 2018)

40. Any IT consulting reports and responses.

41. Description of Internet activities.

42. Brief summary of how the branch's or agency's IT activities comply with section 501(b) of the Gramm–Leach–Bliley Act.

43. Describe any information security tools used, such as encryption, firewalls, intrusion detection, virus detection, and vulnerability assessments.

44. Describe any authentication tools used, such as identification and password, biometrics, digital signature, and security tokens.

### **Questionnaire for the General Manager**

1. Discuss HO's strategic and operating plans for the branch or agency. Additionally, describe any plans regarding licensing activities, e.g., additional offices, changes in designation (from branch to branch, etc.), fiduciary powers, Internet banking, changes in third-party relationships that involve critical activities, or any other activities under consideration or in process.
2. Detail completed or anticipated changes in senior management, including changes in duties and responsibilities.
3. Describe HO support for the branch or agency, e.g., management, loan and deposit referrals, funding, liquidity, support services, audit, or loan review.
4. What economic and market factors have significantly affected the branch or agency since the prior examination? What factors are expected to affect it in the future? (Consider international, national and local economy, interest rates, competition, regulation, etc. Discuss how these factors affect the branch or agency, and describe measures or strategies the branch or agency is employing to counteract the adverse impact of the factors.)
5. Describe the branch's or agency's anticipated liquidity needs over the next 12 months and how management expects to fund them.
6. Detail types and frequency of reports to the head office. If a regular report package is submitted, provide a copy or a list of the contents.
7. Describe major fixed-asset expenditures (including changes or additions in data-processing services and technology) that management has made since the most recent examination or are contemplating in the next 12 months.
8. Describe any significant data-processing problems experienced (e.g., computer downtime, user problems, compromised systems) since the most recent examination.

## Appendix D: Glossary

OCC examiners supervising the U.S. operations of FBOs use the following terms.

**Agreement corporation:** A corporation formed for the purpose of engaging in international banking that has entered into an agreement with the FRB under which it will not exercise any power that is impermissible for an Edge Act corporation. It may be licensed by the FRB or a state.

**Asset maintenance:** The maintenance of a required percentage of eligible assets in a federal branch or agency. The asset maintenance required is calculated by dividing eligible assets by the federal branch's or agency's third-party liabilities. Third-party liabilities are obligations of the federal branch or agency to parties not connected with the FBO. Generally, these obligations do not include claims of the FBO's branches, subsidiaries, companies, or shareholders. Asset maintenance requirements are intended to preclude a federal branch or agency from being a net provider of funds to other parts of the FBO. The OCC may impose asset maintenance requirements on a federal branch or agency for prudential, supervisory, or enforcement reasons as circumstances warrant.

**Capital equivalency deposit (CED):** An asset pledge maintained by U.S. branches and agencies of foreign banks as a form of capital cushion to cover costs of any liquidation and deposit liabilities and maintained in a depository bank in a state where the federal branch or agency maintains an office. CEDs include high-quality assets, such as investment securities eligible for investment by national banks; dollar-denominated deposits payable in the United States; certificates of deposit payable in the United States or in a Group of Ten country; bankers' acceptances; repurchase agreements; and other assets permitted by the OCC.

**Commercial lending company:** A non-deposit-taking, state-licensed company that makes commercial loans and maintains credit balances.

**Correspondent bank:** A financial institution that provides services on behalf of another financial institution. A correspondent bank can conduct business transactions, accept deposits and gather documents on behalf of the other financial institution. Correspondent banks are more likely to be used to conduct business in foreign countries and act as a domestic bank's agent abroad.

**Country Exposure Report Form FFIEC 019:** This report collects information, by country, from U.S. branches and agencies of foreign banks on direct, indirect, and total adjusted claims on foreign residents. The report also collects information about the respondents' direct claims on related non-U.S. offices domiciled in countries other than the home country of the parent bank that are ultimately guaranteed in the home country. A breakdown of adjusted claims on unrelated foreign residents provides exposure information. The FRB, the FDIC, and the OCC use the data to monitor significant foreign country exposures of U.S. branches and agencies of foreign banks. Data are also used to evaluate the financial condition of these branches and agencies. The report is required of branches and agencies of foreign banks

domiciled in the United States with total direct claims on foreign residents in excess of \$30 million.

**Country risk:** Country risk is the risk that economic, social, and political conditions and events in a foreign country will affect the earnings, capital, or enterprise value of an institution.

**Edge Act corporation:** A corporation licensed by the FRB to engage in activities incidental to international business. “Edges” may accept deposits from foreign states, foreign persons, and certain other sources.

**Foreign banking organization (FBO):** A foreign bank that conducts commercial banking operations in the United States.

**FBO Supervision Program:** Operated jointly by the FRB, FDIC, OCC, and state bank supervisors, the program strengthens oversight of the U.S activities of FBOs and coordination among U.S. bank supervisors. Through the program, the U.S. bank supervisors share information with each other as well as FBOs’ home country bank supervisors. Foreign-owned national banks are also covered under the program.

**Federal agency:** An office of an FBO, licensed by the OCC, that can engage in a commercial banking business in the United States but cannot accept domestic retail or nonretail deposits or exercise fiduciary powers. A federal agency primarily makes commercial loans and finances international transactions.

**Federal branch:** An office of an FBO, licensed by the OCC, that can engage in a commercial banking business in the United States, including the acceptance of domestic nonretail deposits, and, subject to separate OCC approval, fiduciary powers.

**Group of Ten:** Group of Ten or G10 refers to the group of countries that have agreed to participate in the General Arrangements to Borrow. Member banks coordinate banking industry supervision through the Bank for International Settlements and monetary policy through the International Monetary Fund. Founding members are Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States. Switzerland has joined as a member.

**Interagency Country Exposure Review Committee (ICERC):** Responsible for providing an assessment of the degree of transfer risk inherent in the cross-border and cross-currency exposures of U.S. banks. Although banks are advised of the results of the ICERC’s evaluations, the ICERC’s transfer risk ratings are primarily a supervisory tool and should not replace a bank’s own country risk analysis process.

**International Banking Act of 1978 (IBA):** The legislation that placed U.S. branches and agencies of foreign banks under supervision of U.S. banking regulators. The IBA mandated that foreign bank branches and agencies located in the United States adhere to the same regulations as U.S. banks.

**International banking facility:** A set of asset and liability accounts segregated on the books and records of a depository institution, a U.S. branch or agency of a foreign bank, or an Edge Act corporation or agreement corporation, that includes only international banking facility time deposits and extensions of credit. International banking facilities allow U.S. depository institutions, U.S. offices of Edge Act and agreement corporations, and federal branches and agencies to conduct banking business with foreign residents in a regulatory environment broadly similar to that of an offshore branch (Refer to the **offshore branch** definition in this section).

**Limited federal branch:** An office of an FBO, licensed by the OCC, that can exercise the powers permitted for a federal branch but can only accept such deposits as would be permissible for an Edge Act corporation (it cannot accept deposits from U.S. citizens or corporations). In addition, a limited federal branch can exercise fiduciary powers and conduct activities authorized for federal agencies.

**Loan production office (LPO):** A staffed facility, other than a branch, that is open to the public and that provides lending-related services, such as loan information and applications. Federal branches may operate such offices.

**Money laundering:** Illicit processing of funds through financial institutions to hide the origin of funds or the identity of the transmitter or recipient thereof.

**National treatment:** The International Banking Act's requirement that federal branches and agencies generally are subject to the same rights and responsibilities as domestic national banks expresses the "national treatment" principle, which seeks to ensure competitive equality between foreign and domestic banks.

**Office of Foreign Assets Control (OFAC):** An office within the U.S. Department of the Treasury that administers and enforces economic and trade sanctions against targeted foreign countries, terrorism-sponsoring organizations, international narcotics traffickers, and other persons, based on U.S. foreign policy and national security goals.

**Offshore branch:** A non-U.S. branch established in an offshore center and managed by the U.S. branch of an FBO. It may also be referred to as a "shell branch" because it often does not have a physical presence and is only nominally domiciled in the offshore center. FBOs are able to use offshore centers to conduct a banking business free of any U.S. reserve requirements or FDIC premiums.

**ROCA:** An interagency supervisory-rating system for U.S. branches and agencies of FBOs, composed of risk management, operational controls, compliance, and asset quality.

**Sovereign risk:** The risk of a sovereign (or government) defaulting on or restructuring its debt obligations.

**Supervisory colleges:** Multilateral working groups of relevant supervisors formed for the collective purpose of enhancing effective consolidated supervision of an international banking group on an ongoing basis.

**Third-party liabilities:** Any liabilities of the branch or agency with persons or entities that are not related parties or affiliates of the FBO or other offices of the parent bank.

**Transfer risk:** The possibility that an asset cannot be serviced in the currency of payment because of a lack of, or restraints on the availability of, needed foreign exchange in the country of the obligor.

## Appendix E: Abbreviations

(Section updated June 28, 2018)

OCC examiners supervising the U.S. operations of FBOs use the following abbreviations.

ALLL	allowance for loan and lease losses
AML	anti-money laundering
ATRR	allocated transfer risk reserve
BSA	Bank Secrecy Act
BCFP	Bureau of Consumer Financial Protection
CAMELS	capital adequacy, asset quality, management, earnings, liquidity, sensitivity to market risk
CDD	customer due diligence
CED	capital equivalency deposit
CFP	contingency funding plan
CIP	customer identification program
CRA	Community Reinvestment Act
Dodd–Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act
EDD	enhanced due diligence
EIC	examiner-in-charge
FBO	foreign banking organization
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act
FFIEC	Federal Financial Institutions Examination Council
FRB	Board of Governors of the Federal Reserve System
GAAP	generally accepted accounting principles
IBA	International Banking Act
IBS–FO	International Banking Supervision–Field Operations
IBS–HQ	International Banking Supervision–Headquarters
ICERC	Interagency Country Exposure Review Committee
HO	head office
IT	information technology
LPO	loan production office
MIS	management information systems
MRA	matters requiring attention
NDF	net due-from
NDT	net due-to
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
PCA	prompt corrective action
PPM	Policies and Procedures Manual
RAS	risk assessment system
ROCA	risk management, operational controls, compliance, asset quality
ROE	report of examination
SEC	U.S. Securities and Exchange Commission

SWIFT	Society for Worldwide Interbank Financial Telecommunication
TCC	trust, consumer compliance, CRA
U.S.	United States



# References

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(Section updated June 28, 2018)

## Laws

12 USC 24, “Corporate Powers of Associations”  
 12 USC 84, “Lending Limits”  
 12 USC 600 et seq., “Edge Act”  
 12 USC 1811 et seq., “Federal Deposit Insurance Corporation” (FDICIA)  
 12 USC 1820(i), “Flood Insurance Compliance by Insured Depository Institutions”  
 12 USC 1851, “Prohibitions on Proprietary Trading and Certain Relationships with Hedge Funds and Private Equity Funds” (Volcker rule)  
 12 USC 3101 et seq., “International Banking Act”  
 12 USC 5301 et seq., “Wall Street Reform and Consumer Protection” (Dodd–Frank)  
 22 USC 286f, “Obtaining and Furnishing Information to the Fund”  
 22 USC 3103, “Presidential Authority and Duties”  
 31 USC 5311 et seq., “Bank Secrecy Act”  
 50 USC 1701 et seq., “International Emergency Economic Powers”  
 USA PATRIOT Act (Public Law No. 107-56) (codified in various sections of the U.S. Code)  
 Public Law No. 114-174, “Economic Growth, Regulatory Relief, and Consumer Protection Act”

## Regulations

12 CFR 1, “Investment Securities”  
 12 CFR 4, “Organization and Functions, Availability and Release of Information, Contracting Outreach Program, Post-Employment Restrictions for Senior Examiners”  
 12 CFR 5, “Licensing”  
 12 CFR 6, “Prompt Corrective Action”  
 12 CFR 9, “Fiduciary Activities”  
 12 CFR 21, “Minimum Security Devices and Procedures, Reports of Suspicious Activities, and Bank Secrecy Act Compliance Program”  
 12 CFR 28, “International Banking Activities”  
 12 CFR 30, “Safety and Soundness Standards”  
 12 CFR 44, “Proprietary Trading and Certain Interests in and Relationships with Covered Funds” (implementing the Volcker rule)  
 12 CFR 252, “Enhanced Prudential Standards” (FRB Regulation YY)  
 12 CFR 347, “International Banking” (FDIC)  
 12 CFR 363, “Annual Independent Audits and Reporting Requirements”  
 31 CFR 501, “Reporting, Procedures, and Penalties Regulations” (OFAC regulations)  
 31 CFR 1010, “General Provisions” (financial record keeping and reporting of currency and foreign transactions)

## **Comptroller's Handbook**

### **Asset Management**

- “Investment Management Services”
- “Personal Fiduciary Services”

### **Consumer Compliance** series of booklets

### **Examination Process**

- “Bank Supervision Process”
- “Foreword”
- “Large Bank Supervision”

### **Safety and Soundness**

#### **Asset Quality**

- “Asset-Based Lending”
- “Commercial Loans”
- “Commercial Real Estate Lending”
- “Concentrations of Credit”
- “Country Risk Management”
- “Investment Securities”
- “Rating Credit Risk”
- “Trade Finance”

#### **Management**

- “Corporate and Risk Governance”
- “Internal and External Audits”
- “Internal Control”

#### **Liquidity**

- “Asset Securitization”
- “Liquidity”

#### **Sensitivity to Market Risk**

- “Emerging Market Country Products and Trading Activities”
- “Interest Rate Risk”
- “Risk Management of Financial Derivatives”

## **Comptroller's Licensing Manual**

- “Federal Branches and Agencies”

## OCC Issuances

- Banking Circular 181 (REV), “Purchases of Loans in Whole or in Part-Participations” (August 2, 1984)
- Examining Circular 230, “International Banking Facilities” (May 10, 1985)
- OCC Bulletin 2001-8, “Guidelines Establishing Standards for Safeguarding Customer Information: Final Guidelines” (February 15, 2001)
- OCC Bulletin 2002-16 “Bank Use of Foreign-Based Third-Party Service Providers: Risk Management Guidance” (May 15, 2002)
- OCC Bulletin 2006-47, “Allowance for Loan and Lease Losses (ALLL): Guidance and Frequently Asked Questions (FAQ) on the ALLL” (December 13, 2006)
- OCC Bulletin 2010-13, “Liquidity: Final Interagency Policy Statement on Funding and Liquidity Risk Management” (March 22, 2010)
- OCC Bulletin 2011-12, “Sound Practices for Model Risk Management: Supervisory Guidance on Model Risk Management” (April 4, 2011)
- OCC Bulletin 2012-18, “Alternatives to the Use of External Credit Ratings in the Regulations of the OCC: Final Rules and Guidance” (June 26, 2012)
- OCC Bulletin 2012-30, “BSA/AML Compliance Examinations: Consideration of Findings in Uniform Rating and Risk Assessment Systems” (September 28, 2012)
- OCC Bulletin 2013-29, “Third-Party Relationships: Risk Management Guidance” (October 30, 2013)
- OCC Bulletin 2017-7, “Third-Party Relationships: Supplemental Examination Procedures” (January 24, 2017)
- OCC Bulletin 2017-21, “Third-Party Relationships: Frequently Asked Questions to Supplement OCC Bulletin 2013-29” (June 7, 2017)
- OCC Bulletin 2017-43, “New, New, Modified, or Expanded Bank Products and Services: Risk Management Principles” (October 20, 2017)
- OCC Bulletin 2017-48, “Bank Enforcement Actions and Related Matters: Updated Guidance” and its attachment, PPM 5310-3, “Bank Enforcement Actions and Related Matters” (October 31, 2017)
- OCC Bulletin 2018-17, “Community Reinvestment Act: Supervisory Policy and Processes for Community Reinvestment Act Performance Evaluations” (June 15, 2018)
- OCC news release 2012-85, “Agencies Sign Memorandum of Understanding on Supervisory Coordination”

## Other

- FFIEC Bank Secrecy Act/Anti-Money Laundering Examination Manual*
- Executive Order 10033, “Regulations Governing the Providing of Statistical Information to Intergovernmental Organizations”
- FFIEC Information Technology Examination Handbook*
- FFIEC 002, “Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks”
- FFIEC 002S, “Report of Assets and Liabilities of a Non-U.S. Branch That is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank”
- FFIEC 019, “Country Exposure Report for U.S. Branches and Agencies of Foreign Banks”

FRB Supervision and Regulation Letter 17-13, “Elimination of the Strength of Support Assessment for all Foreign Banking Organizations subject to the Interagency Program for Supervising the U.S. Operations of Foreign Banking Organizations”

## 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 *Comptroller’s Handbook* booklets.

Version 1.0: Published September 26, 2014			
Version number	Date	Reason	Affected pages
1.1	December 3, 2015	Risk assessment system (OCC Bulletin 2015-48)	1, 6, 19, 70
1.2	May 23, 2017	Violations of laws and regulations policy (OCC Bulletin 2017-18)	11, 21, 55, 72-74
1.3	October 31, 2017	Enforcement action policy (OCC Bulletin 2017-48 and PPM 5310-3)	14-16
1.4	June 28, 2018	Revised “Bank Supervision Process” booklet of the <i>Comptroller’s Handbook</i>	1, 3-6, 8-18, 20, 23, 24, 45, 48, 51, 53, 55, 69, 70, 73
		Clarifications regarding supervisory guidance or legal language	2-4, 6, 7, 12-15, 17-19, 21, 22, 25-29, 31, 33, 34, 37, 38, 40-44, 49, 50, 53-60, 62, 69, 71, 72
		“Federal Branches and Agencies” booklet of the <i>Comptroller’s Licensing Manual</i>	3, 24-26
		Removed content to address the elimination of the FRB’s strength of support assessment (SOSA). (Refer to FRB Supervision and Regulation Letter 17-13, “Elimination of the Strength of Support Assessment for all Foreign Banking Organizations subject to the Interagency Program for Supervising the U.S. Operations of Foreign Banking Organizations”)	Not applicable – section removed
		“Corporate and Risk Governance” booklet of the <i>Comptroller’s Handbook</i>	7, 8, 51
		Third-party risk management guidance and examination procedures (OCC Bulletins 2017-7 and 2017-21)	12, 46, 52, 78
		Changed “Consumer Financial Protection Bureau” to “Bureau of Consumer Financial Protection”	14
		Enforcement action policy (OCC Bulletin 2017-48 and PPM 5310-3)	16
		Removed reference to “Community Bank Supervision” booklet of the <i>Comptroller’s Handbook</i> , which is not used to supervise federal branches and agencies	21, 52
		“Compliance Management Systems” booklet of the <i>Comptroller’s Handbook</i>	23, 69
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		The Economic Growth, Regulatory Relief, and Consumer Protection Act	39
		OCC Bulletin 2017-43, "Risk Management of New, Modified, or Expanded Bank Products and Services: Risk Management Principles" (Removed references to rescinded OCC Bulletin 2004-20.)	58, 60
		OCC Bulletin 2011-12, "Sound Practices for Model Risk Management: Supervisory Guidance on Model Risk Management"	61, 64
		OCC Bulletin 2018-17, "Community Reinvestment Act: Supervisory Policy and Processes for Community Reinvestment Act Performance Evaluations"	54, 70
		Updated appendix E, "Abbreviations," for consistency with the content of the booklet	84-85
		Updated "References" section for consistency with the content of the booklet	86-89