Fiscal Year 2018 Bank Supervision Operating Plan
Office of the Comptroller of the Currency
Committee on Bank Supervision

The Office of the Comptroller of the Currency's (OCC) Committee on Bank Supervision (CBS) annually develops an operating plan that sets forth the agency's supervision priorities and objectives. The agency's fiscal year (FY) for 2018 begins October 1, 2017, and ends September 30, 2018. The FY 2018 operating plan outlines the OCC's supervision priorities by operating unit and aligns with "The OCC's Strategic Plan, Fiscal Years 2015–2019," agency strategic priorities, and the National Risk Committee (NRC) risk priorities and actions. The operating plan guides the development of supervisory strategies for individual national banks, federal savings associations, federal branches, and federal agencies (collectively, banks), and service providers. Managers and staff in CBS operating units—the Office of the Chief National Bank Examiner (CNBE), Compliance and Community Affairs (CCA), Large Bank Supervision (LBS), and Midsize and Community Bank Supervision (MCBS)—will use this plan to guide their supervisory priorities, planning, and resource allocations for FY 2018.

Priority Objectives for CBS Operating Units

The FY 2018 bank supervision operating plan identifies priorities across each of the CBS operating units. CBS managers use these objectives to develop individual operating-unit plans and risk-focused supervisory strategies specific to the institutions they oversee. While the objectives are similar for operating units, CBS managers differentiate by bank size, complexity, and risk profile when developing supervisory strategies. CBS plans include resources and support for risk-focused examinations of service providers that provide critical processing and services to banks. The OCC adjusts supervisory strategies, as appropriate, throughout the year in response to emerging risks and evolving supervisory priorities. For FY 2018, the development of supervisory strategies will focus on the following areas:

- Cybersecurity and operational resiliency
- Commercial and retail credit loan underwriting, concentration risk management, and the allowance for loan and lease losses
- Business model sustainability and viability and strategy changes
- Bank Secrecy Act/anti-money laundering (BSA/AML) compliance management
- Change management to address new regulatory requirements

To facilitate an agency-wide view of risk on selected topics, the CBS operating units will prioritize and coordinate resources and conduct various horizontal risk assessments during the fiscal year. The CBS units may direct horizontal assessments, as appropriate, during the supervisory cycle.

The OCC will provide periodic updates about supervisory priorities and horizontal risk assessments in the fall and spring editions of the *Semiannual Risk Perspective*. The following provides additional details on the strategy planning guidance for priorities within each CBS operating unit and for the NRC, which coordinates risk identification and analysis across CBS operating units.

National Risk Committee

The NRC serves as a central point of coordination for the agency's existing and emerging supervision and policy issues, including recommended actions to address such issues. NRC initiatives will focus on the following:

- **Supervisory analytics:** Gathering quantitative information across the OCC and the industry to support the identification and prioritization of risk facing the federal banking system.
- **Coordination:** Incorporating frontline and expert perspectives on key supervisory initiatives, rulemakings, and guidance through operating unit and risk committees that regularly report to the NRC.
- **Communication:** Providing timely assessments to the industry and examiners about banking risks through the *Semiannual Risk Perspective* and other issuances.
- **Horizontal risk analysis:** Recommending, facilitating, informing, and reporting on horizontal initiatives, ensuring review findings are disseminated and incorporated, as appropriate, for consideration in future bank supervision strategies and agency policies.
- **Standardized processes:** Using and refining established documentation standards for consistent assessment of supervision risk by NRC and the agency.
- **Effectiveness measures:** Measuring effectiveness of actions taken in response to issues highlighted by the NRC and recommending adjustments.
- **Resource alignment**: Assessing planned and actual resource and budgetary allocations to key risk issues and reporting findings to CBS.

Large Bank Supervision

The LBS Department will develop and execute individually approved FY 2018 supervisory strategies for each large bank, federal branch, and federal agency. Examiners will scope activities to maximize integration and prioritization of examination team resources across banks, and across risks and lines of business within banks. Examiners will incorporate assessments of audit and internal controls into the supervisory activities of each risk area.

Supervisory strategies will cover, at a minimum, statutory requirements. Activities covering high and emerging risks will reflect a balance of horizontal and bank-specific supervisory objectives. Each strategy will incorporate the following, based on strategy guidance from the Large Bank Risk Committee that is customized for each bank's risk profile and results of prior supervisory activities:

- **Matters requiring attention and enforcement actions:** Ensuring banks' remediate matters requiring attention and enforcement actions on a timely basis and in a manner that considers regulatory guidance and complies with laws, rules, and regulations.

- **Horizontal risk analysis:** Conducting horizontal risk assessments of shared national credits and Dodd–Frank Act[1] stress testing. Participating in CBS-, NRC-, or MCBS-directed horizontal initiatives. Seeking examination efficiencies and training opportunities by incorporating core supervision focal points into select horizontal initiatives.
- **Governance and operational risk:** Reviewing banks' oversight of new products and services processes, fraud prevention, data governance, information technology strategy and budget, information security, payment systems risk, mobile products and services, and incorporation of Dodd–Frank Act stress testing into risk appetite and strategic planning processes.
- **Credit:** Evaluating the effect of changes in underwriting practices on new or renewed loans such as easing in structure and terms and risk layering. Assessing lending to funds, the credit risk review function, commercial real estate risk management, portfolio stress testing, core mortgage servicing functions, default management, and retail credit-related third-party risk management.
- **Allowance for loan and lease losses:** Assessing appropriateness of the allowance for loan and lease losses considering changes in underwriting standards, increased risk layering, and preparedness for the current expected credit losses accounting rule.
- **Market risk:** Reviewing compliance and risk management practices related to new or changing regulations such as the Volcker Rule, swap margin rule, liquidity coverage ratio, and net stable funding ratio. Examiners will evaluate how banks assess the risks of new or modified on- or off-balance-sheet products, services, and growth strategies designed to enhance profitability in the face of a prolonged low interest rate environment and other economic and competitive pressures. Supervisory staff will assess bank conflicts of interest and central counterparty risk management.

As appropriate, examiners will consult and coordinate on supervisory strategies with other agencies, primarily the Board of Governors of the Federal Reserve System (Federal Reserve), Federal Deposit Insurance Corporation (FDIC), U.S. Securities and Exchange Commission (SEC), U.S. Commodity Futures Trading Commission (CFTC), and the Consumer Financial Protection Bureau (CFPB).

Midsize and Community Bank Supervision

The MCBS Department will develop and execute supervisory strategies for each bank. Supervisory strategies will focus on key risks, achieving supervisory objectives, and effectively using OCC resources. MCBS will focus on:

- **Credit underwriting:** Evaluating underwriting practices on new or renewed loans for easing in structure and terms, increased risk layering, and potential fair lending implications. Reviews will focus on new products, areas of highest growth, and portfolios that represent concentrations, such as commercial and industrial, commercial real estate, agriculture, and auto loans. Examiners will assess concentration risk management practices, especially in those portfolios. Examiners will assess loan servicing, problem loan workout, collateral valuation, and spillover impact from low oil prices in relevant geographies.

[1] The Dodd–Frank Wall Street Reform and Consumer Protection Act was signed into law on July 21, 2010.

- **Strategic risk:** Evaluating changes in business models, short- and long-term strategies, and products and services designed to enhance profitability given the interest rate environment and other economic and competitive pressures. Examiners will review banks' strategic plans to determine operating results in a range of rate environments.
- **Operational risk:** Assessing information security, data protection, and third-party risk management, including risks associated with third-party relationships.[2] Examiners will review banks' programs to determine to what extent they assess the evolving cyber threat environment and banks' cyber resilience. Examiners will continue to use the Federal Financial Institutions Examination Council's Cybersecurity Assessment Tool and follow up on any gaps identified at banks in FY 2017. Examiners will assess the systems development life cycle, user access rights, system resiliency, and user awareness programs. In addition, examiners will evaluate bank management's plans to respond to increasing operational risk resulting from introducing new or revised business products, processing platforms, delivery channels, or third-party relationships, including outsourcing providers. Change management plans should be evaluated relative to regulatory, consumer compliance, and accounting changes that became, or will become effective in 2017 and 2018. Examiners will assess enterprise data governance, including vendor and third-party management, which typically influences systems capacity, testing, security, sharing, monitoring, and retention.
- **Market risk:** Evaluating interest rate risk management, including the ability to identify and quantify interest rate risk in assets and liabilities under varying scenarios. Key focal points include assessing ranges of interest rate scenarios, including exposure to prolonged low rates, risk from a significant rapid increase in rates, and changes in the shape or slope of the yield curve. Examiners should assess the potential effect of rising interest rates, including both the ability of banks to meet liquidity needs at a reasonable cost when considering the market value of long-term assets and the increased competitive pressures on deposit stability as a result of banks preparing for implementation of liquidity rules. Examiners will also review new or modified on- or off-balance sheet (e.g., fiduciary, retail nondeposit investments) products, services, and growth strategies designed to enhance profitability in the face of a prolonged low interest rate environment and other economic and competitive pressures.
- **Allowance for loan and lease losses:** Assessing appropriateness of the allowance for loan and lease losses, especially the documentation and support for qualitative factors, considering the easing in underwriting standards and increased risk layering. In addition, examiners will evaluate banks' efforts to prepare for implementing the current expected credit losses accounting rule.
- **Horizontal risk analysis:** Participating in CBS-, NRC-, or LBS-directed horizontal initiatives, and looking for examination efficiencies and training opportunities by incorporating core supervision focal points into select horizontal initiatives.
- **Asset management:** Evaluating the need for examination coverage of banks' retail nondeposit investment product activities and sales practices, especially at banks that do not have trust powers and that have not been subject to a retail nondeposit investment product examination for several cycles. Examiners will review the impact of the U.S. Department of Labor's new fiduciary rule and the implementing guidance on retail nondeposit investment products and individual retirement accounts. The current rate environment can expose investment management decisions of banks with fiduciary powers to litigation and reputation

[2] Refer to OCC Bulletin 2013-29, "Third-Party Relationships: Risk Management Guidance" (October 30, 2013).

risks. Additionally, examiners should assess the banks' effectiveness in managing the operational, reputation and compliance risk associated with their fiduciary activities, including banks' ability to avoid impermissible conflicts of interest and to comply with applicable laws and regulations for fiduciary accounts.

As appropriate, examiners will consult and coordinate on supervisory strategies with other agencies, primarily the Federal Reserve, FDIC, SEC, CFTC, and the CFPB.

Chief National Bank Examiner

CNBE develops agency supervisory policy, monitors risk, and supports examination activities. CNBE initiatives for FY 2018 will focus on:

- **Risk assessment:** Improving the OCC's ability to anticipate and address emerging risks by working with the Financial Stability Oversight Council, Federal Reserve, FDIC, CFPB, Office of Financial Research, and NRC to identify systemic risk and related metrics.
- **Policy guidance:** Working with the NRC and its support committees to identify new, emerging, or existing risks and to provide timely policy guidance. CNBE will collaborate with CBS, Chief Counsel's Office, Economics Department, Licensing Division, the NRC, Office of Continuing Education, and Office of Enterprise Risk Management to prioritize the resources necessary to develop and implement new or updated guidance.
- **Supervisory analytics:** Enhancing analytics for internal clients to measure and monitor bank performance, including benchmarks, trends, performance dashboards, and improved tracking and reporting of matters requiring attention and enforcement actions. These include analytics related to the Cybersecurity Assessment Tool, Credit Underwriting Assessment, interest rate risk data, and other analytical tools. CNBE will assist with development, implementation, and ongoing monitoring of metrics for assessing banks' compliance with regulatory requirements other than consumer compliance and BSA/AML. CNBE will identify and address gaps in data needed to assess and supervise risk areas in banks and service providers.
- **Technical assistance:** Delivering technical assistance to supplement OCC supervisory activities, including providing timely responses to examiner inquiries, on-site examination support, resource materials, comparative data, and tools that benefit internal and external audiences.
- **Industry outreach:** Participating in outreach to the industry and other appropriate parties to present OCC perspectives on emerging issues, explain new policies and regulations, clarify supervisory expectations, and provide bankers opportunities to discuss their concerns with regulators.
- **Horizontal risk analysis:** Participating in CBS-, NRC-, LBS-, or MCBS-directed horizontal initiatives, and looking for examination efficiencies and training opportunities by incorporating core supervision focal points into select horizontal initiatives.

Service Providers

CNBE works with CCA, MCBS, and LBS in coordinating examinations of service providers. The examinations are typically conducted on an interagency basis with the Federal Reserve and FDIC. Examinations of the largest service providers will focus on:

- **Cybersecurity and resilience:** Assessing specific cybersecurity controls as part of information security, including key areas of cybersecurity risk management, such as the service providers' risk management, control structures, and level of cyber resilience. Examiners should assess banks' service providers' risk management structures for managing cybersecurity; assessing service providers' level of cyber resilience and completing the Federal Financial Institutions Examination Council's Technology Service Provider Cybersecurity Assessment Tool as part of the examination process. Where appropriate, examiners will incorporate reviews of increased use of cloud computing for critical services, advances in skimming technology, delays in the implementation of chip technology, implementation of new technologies without comprehensive due diligence, and threats from other systems (e.g., premise security management or environmental control systems) connected by the Internet to the banks' systems.
- **Enterprise risk management:** Assessing service providers' organizational structures and governance within service and product lines, evaluating the strength of audit and risk management functions, and assessing risk appetite and measurement processes.
- **Interconnectivity and third-party risk management:** Assessing third-party risk from both an interconnectivity and outsourcing risk management perspective. Examiners will incorporate assessments of service providers' management of external connections and interfaces with networks along with assessments of how the service providers manage outsourcing or subcontracting processes and overall third-party risk management. In addition, examiners will assess service providers' risk management and governance structures for the engagement of third parties critical to delivering services to banks; assess contract management processes, monitoring, and providing oversight of third-party operations; and assess controls for third-party connectivity and transport of information.
- **Change management processes:** Assessing standards and controls for implementing new systems and operational procedures for new products, product updates, or new processes; standards for testing system changes, promoting changes to production, and correcting corrupted or failed changes; processes for incorporating new regulatory requirements for client financial institutions; processes for integrating acquisitions by the service provider, if applicable; and the financial capacity to introduce new products and services and complete the change management processes.
- **Compliance risk management:** Assessing compliance risk management programs for service providers if they offer retail-based products and services. The assessment should focus on how service provider management identifies, updates, and tests systems to ensure systems are designed and supported in a manner that allows client financial institutions to implement and deliver the services consistent with applicable consumer protection laws and regulations. Examiners will determine whether service providers' products and services have consumer compliance requirements for client financial institutions; assess the structure, expertise, and organizational support for the compliance risk management program; assess processes for monitoring regulatory changes and implementing updates to software and

services; and review communication and support given to client financial institutions on implementation and configuration of system software.

- **Product- and service-specific risks:** Identifying products and services, outside of core operations, offered to banks including specialized products and services and determining whether service providers manage these products' associated risk management and controls. If products and services are provided, incorporate reviews of these specialized products and services into examination strategies for service providers. These reviews require inclusion of specialized examination skills such as BSA/AML monitoring, merchant card processing, trust products and services, mortgage services, and other specialized operational areas, as applicable.
- **Changing landscape:** Identifying new entrants, mergers and acquisitions, and new types of services to ensure appropriate supervisory coverage of banks' service providers.

Compliance and Community Affairs

The CCA Department serves as the agency's compliance supervision technical expert, monitors risk with regard to consumer compliance, Community Reinvestment Act, fair lending, and BSA/AML, and develops related compliance supervisory policy. CCA coordinates with CNBE to ensure consistency in supervisory policies. CCA also provides input for the compliance examination strategy development within LBS and MCBS, and issues annual compliance strategy guidance to those business units. Compliance strategies are risk-based, except when examinations are mandated by statute or agency policy, and may be adjusted in response to emerging risks and supervisory priorities, including the impact of new regulations or amendments to existing regulations.

In FY 2018, CCA will focus on:

- **BSA/AML:** Determining whether banks have designed and implemented effective BSA/AML and Office of Foreign Assets Controls programs and controls to address continued risks from traditional money laundering schemes, evolving vulnerabilities resulting from the rapid pace of technological change, and emerging payment solutions and terrorist financing. Examiners should evaluate risk assessment processes, and policies, procedures, and processes to effectively mitigate identified risks. Examiners should consider the appropriateness of controls for the nature and level of risk present in banks' products, services, customers, and geographies and include conducting sufficient customer due diligence and suspicious activity identification and monitoring. Examiners should be alert for any aspect of bank BSA/AML strategies that may inadvertently impair financial inclusion.
- **New regulations and changes to existing regulations:** Ensuring that banks are complying with new regulations as well as changes to existing ones with effective dates in FY 2016, FY 2017, and FY 2018, including:
  - **Financial Crimes Enforcement Network's final rule to enhance customer due diligence:**[3] Monitoring banks' progress in meeting the May 11, 2018, implementation deadline for the customer due diligence and beneficial ownership rules. Examiners should consider testing for compliance after the implementation date.

[3] Refer to Federal Register, "Customer Due Diligence Requirements for Financial Institutions," May 11, 2016.

  - **National Flood Insurance Reform Act of 1994:** Assessing banks' policies, procedures, and processes to determine compliance with the National Flood Insurance Program requirements, including obtaining and maintaining flood insurance.
  - **Military Lending Act:** Assessing the policies, procedures, and processes of banks that offer credit products subject to the Military Lending Act to determine compliance. The U.S. Department of Defense amended its Military Lending Act regulation to cover the same types of consumer credit covered under the Truth in Lending Act regulations, with several statutory exceptions, a substantial expansion from the previous regulation.
  - **Prepaid card rule:** Assessing banks' compliance with amended Regulation E requirements regarding protections to general purpose reloadable cards and other non-reloadable prepaid accounts, which may include peer-to-peer transfers, digital wallets that store funds, and virtual currency products. For banks with over $10 billion in total assets, this review will be limited to determining whether the banks' have appropriate compliance risk management for the new regulatory requirements.
- **Servicemembers Civil Relief Act:** Reviewing policies, procedures, and processes that banks have established and implemented for foreclosures, repossession transactions, and the review and disposition of servicemembers' requests for interest rate reductions or other protections under the law.
- **Fair lending:** Evaluating the quantity of fair lending risk and the quality of fair lending risk management. In assessing quantity of fair lending risk, examiners review banks' credit products and services. Examination activities and transaction testing, when appropriate, will focus on products and services identified as higher risk or with less robust risk management. Higher-risk products or practices may include substantial or increasing volume of riskier underwriting or pricing practices that could result in consumer harm.
- **Third-party relationships:** Reviewing areas where banks use third-party service providers to perform compliance functions or provide retail products or services on the banks' behalf, as reliance on third-party relationships can significantly increase banks' compliance risk profiles. Examiners should assess risks arising from gaps in planning, due diligence, oversight, and control on the banks' part and inferior performance or service on the part of the third-party service providers. These shortcomings may result in violations of laws and regulations and consumer harm.
- **Horizontal risk analysis:** Participating in CBS-, NRC-, LBS-, or MCBS-directed horizontal initiatives, and looking for examination efficiencies and training opportunities by incorporating core supervision focal points into select horizontal initiatives.