Remarks by

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Thank you, Vance, and good afternoon, everyone.

I've had this event circled on my calendar for quite a while. That's because I have been very much looking forward to sharing my thoughts about the important role the federal branches and agencies represented here today play in the financial system and in the larger universe of OCC-supervised financial institutions.

Most of all, I've been looking forward to the opportunity to hear from you. I want to get your thoughts about the issues that concern you and answer your questions about regulation and supervision. Finally, I welcome the chance to share insights about current and emerging risks in the banking system and in the institutions you represent.

In fact, we need to hear from you in forums like this one and through the formal supervisory process to help us supervise smarter. Because the more you know about how the OCC supervises foreign branches and agencies, the better you'll understand and meet our supervisory expectations.

So let me begin by explaining the OCC's approach to supervision and how it pertains to the operations you manage. We do things a bit differently than some regulatory agencies.

For one thing, our supervision is explicitly risk-based. Risk for financial institutions, as we know, comes from varied sources, including size, structure, target market, and business strategy. The OCC supervises some 1,600 banks, thrifts, and federal branches and agencies, each of them with unique business attributes and each of them, therefore, different in their own way. Even in the smaller subset of federally licensed branches and agencies, we see wide variations in scale and purpose, ranging from wholesale operations that specialize in trade and corporate financing all the way to institutions that provide a full range of retail, corporate, and capital markets products and services.

So it makes sense that we customize our supervisory strategies to each agency and branch. We focus on the four factors that make up the summary rating prepared at the end of each examination cycle: risk management processes, operational controls, compliance programs, and asset quality. We call that framework ROCA, which is analogous to the better-known CAMELS rating system U.S. supervisors employ for banks and thrifts. Its goal—our goal—is to ensure that you understand the risks you face and have control systems and processes in place equal to those risks.

I say with immense pride that the OCC examiners who are responsible for implementing our policies and strategies are among the best in the world at what they do. They are committed to ensuring the safety and soundness of the institutions we regulate, compliance with laws and regulations, fair access to financial services, and fair treatment of customers. Because the OCC's sole mission is bank supervision, our people get the training, the resources, the hands-on experience, and the management support they need to get the job done and do it very well. To the mission of supervising federal branches and agencies we dedicate some of our most able examiners—men and women who are not only specialists in supervising operations like yours, but who also typically bring specialized expertise in specific product lines and risk areas.

The way we supervise federal branches and agencies reflects one of the OCC's enduring values: that decisions affecting particular institutions should be made locally whenever possible, informed by the broader perspective the OCC can provide as a national supervisor. We have always said that the OCC lent value to its banks and thrifts because it combined "a local presence and a national perspective." But that statement is clearly due for an update. With our close relationships with regulators, central bankers, and senior policy makers around the world; with our membership on the Basel Committee on Banking Supervision and other international bodies; and with our growing role in the further development of "supervisory colleges" and crisis management groups, it's fair to say that the OCC's perspective today is local, national, and global.

OCC supervision of federal branches and agencies features close coordination between our supervisory personnel on the scene and senior officials in our Washington headquarters. Under the able leadership of Deputy Comptroller Vance Price and Director Marci Heppner, who you have met today, the OCC's International Banking Supervision program operates both from offices here in New York, which conducts day-to-day supervision, and Washington, which provides advice on international financial developments affecting federal branches and agencies, their parent organizations, and their home countries. The headquarters unit also generally coordinates communication with foreign bank supervisors.

International communication and collaboration have become increasingly essential to the accomplishment of the OCC's mission. We turn to foreign supervisors for insight into economic and business conditions in their countries, for the condition of the parent banks of U.S. operations, and even for ideas on how to improve the quality of our own supervision. Just last year, for example, I accepted a report from a group of international supervisors who came together at my request to look at aspects of our large and midsize bank supervision. We are now in the process of adopting many of their recommendations.

And of course, we have extensive interactions with parent country supervisors regarding our supervision of the U.S. operations of their banks. We have information-sharing protocols with an increasing number of foreign supervisors. These arrangements can take the form of memoranda of understanding, 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, 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. And, at the end of the supervisory cycle for federal branches and agencies, the OCC prepares a synopsis of our supervisory findings in a letter to the home country supervisor.

There is a third facet of communication that I'd like to emphasize. It's important for the OCC to communicate clearly with the branches and agencies we supervise. But it's also important that we communicate with your home country supervisor. Operating a financial business in the United States means dealing with the extraordinary complexity of the U.S. regulatory framework. I won't attempt to explain our system of competing charters, overlapping authorities, and regulatory requirements that may vary from one agency to the next. What is important to know is that the OCC and the other U.S. agencies work effectively together within this framework to keep regulatory burden to a minimum. I can assure you that the OCC is totally committed to that goal.

To that end, the OCC works closely with the Federal Reserve, especially when our responsibilities intersect. We share responsibility for preparing annual strength of support assessments, judging the ability of the parent company of the foreign branch to provide financial and managerial support to its U.S. operations. These assessments naturally receive considerable weight in the development of our risk profiles, our supervisory strategies, and our ROCA determinations.

Another area in which the OCC collaborates closely with the Federal Reserve and with the FDIC is in the implementation of Section 165 (d) of the Dodd-Frank Act. This section, as you know, requires companies to submit resolution plans on an annual basis describing the company's strategy for rapid and orderly resolution in the event of material distress or failure of the company. The home offices of most of our federal branches and agencies are "covered" for purposes of this provision, and the OCC brings its knowledge of your business to the interagency evaluation of the plans your companies submit.

The OCC is also the resolution authority for uninsured branches. In many cases, the federal branch structure can reduce the complexity of the resolution process. It is our policy to maintain ongoing dialogue with parent supervisors so both sides have a clear picture of what to expect should the need for a resolution action arise.

Recovery planning—the organization's road map of actions available to be taken in the event of extreme stress—is also a focus of the OCC's risk-based supervision. We are currently working on providing banks with clearer direction so that, as part of the supervisory process, examination teams and subject matter experts can evaluate a firm's recovery planning. In that process, we take into account our understanding of branch or agency operations, the experience of other globally active firms, and the interrelationships with parent company planning and strategic direction.

By the time you leave today's meeting, you will have heard from a variety of OCC specialists about many of the sources of risk that affect federal branches and agencies. I'd like to say a few words about one risk that is particularly consequential for all of us—not just as bankers and bank regulators.

Since the Bank Secrecy Act became law 45 years ago, multiple agencies of the U.S. government, including the OCC, have worked together with our non-U.S. colleagues to help ensure that our institutions have effective anti-money laundering programs. These efforts took on added urgency after 9/11, as we discovered the extent to which international terrorist networks relied on the illicit movement of cash. But one thing has been true since 1970: the world's financial institutions play a central role in deterring money laundering and other forms of illicit finance.

For federal branches and agencies, I believe there is no challenge greater than compliance with the Bank Secrecy Act. It is a challenge that is inherent in many of the products and services you offer, including funds transfers, foreign correspondence banking, and private banking. I think you would agree that, given the growing global risks we face in this area, it is incumbent on all of us to do our part to ensure that federal branches and agencies have BSA compliance programs that are not only reasonably designed, but also effective in managing these risks.

That's why it is important for the OCC to communicate its expectations in the BSA area. We require federal branches and agencies to assess the BSA/AML risk they face, with particular attention to their higher risk products, services, and customers. We expect you to have a written and approved compliance program commensurate with this risk, which provides for a system of internal controls and suspicious activity monitoring, independent testing of BSA/AML compliance, a designated individual responsible for coordinating and monitoring day-to-day compliance, and training for appropriate personnel. Additionally, in developing a supervisory strategy for each branch or agency, we consider the programs in place to ensure compliance with the economic and trade sanctions administered by the Office of Foreign Assets Control, or OFAC.

Discussion is no substitute for action, regarding BSA/AML or any of today's topics. But the way I see it, talking to each other regularly and candidly, as we are doing today, is not merely an incidental adjunct to effective bank supervision. It is central to it. So we want to hear from you whenever possible—about what you see that works and what needs to be done better. I appreciate your joining us today and look forward to continuing our dialogue in the future.