



## **Fiscal Year 2015 Mid-Cycle Operating Plan Status Report**

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 broad supervision priorities and objectives. The agency's fiscal year (FY) commenced on October 1, 2014, and concludes September 30, 2015. The operating plan provides the foundation for developing individual bank supervisory strategies and policy initiatives. CBS managers use this plan to guide their supervisory priorities, planning, and resource allocations for FY 2015. This document provides a mid-cycle status report on some of the key accomplishments to date and priorities for the remainder of the year.

### **Key Actions Completed Through First Half of FY 2015**

The Large Bank Supervision (LBS) and Midsize and Community Bank Supervision (MCBS) departments are executing approved supervisory strategies designed to ensure individual national banks and federal savings associations (collectively, banks) operate in a safe and sound manner.<sup>1</sup> OCC staff, as appropriate, collaborated with the Consumer Financial Protection Bureau, Federal Deposit Insurance Corporation (FDIC), and Board of Governors of the Federal Reserve System (Federal Reserve) in developing and executing coordinated supervisory strategies. While supervisory strategies require extensive advance planning, these strategies remain flexible as priorities change in response to emerging risks.

OCC supervisory staff issued various supervisory communications and 577 reports of examination from October 1, 2014, to March 31, 2015, to communicate their examination findings. When examiners identified weaknesses or undue risk, they directed bank management to implement appropriate remedial actions.

The OCC lines of business provided examiners and bankers with tools, policy guidance, and best practices to address existing and emerging risks. Specific supervisory initiatives included:

- Reviewing and summarizing community and midsize banks' practices for measuring interest rate risk (IRR) to assist bankers' in benchmarking their individual bank's

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<sup>1</sup> The "[Bank Supervision Process](#)," "[Community Bank Supervision](#)," and "[Large Bank Supervision](#)" booklets of the *Comptroller's Handbook* establish the supervisory framework for bank supervision.

practices.<sup>2</sup>

- Participating in interagency initiatives to improve cybersecurity awareness and to develop a cybersecurity assessment tool for bankers and examiners.<sup>3</sup>
- Issuing, with the FDIC and Federal Reserve, frequently asked questions on leveraged lending guidance to address questions from the industry relating to the implementation of the guidance.<sup>4</sup>
- Emphasizing the changing risk environment for indirect auto lending to OCC-supervised institutions and began taking additional supervisory actions and acquiring additional analytical tools to monitor and assess this risk.
- Providing additional clarity to examiners and bankers about the OCC's policies and procedures for matters requiring attention.<sup>5</sup>
- Monitoring the direct and correlated risk to OCC-supervised banks from the rapid decline in crude oil prices.
- Issuing the OCC annual *Survey of Credit Underwriting Practices* report, which highlights a continued easing in underwriting standards and an increasing level of policy exceptions. Examiners in each line of business are focusing on individual bank underwriting practices and requiring corrective action when undue risk is identified.
- Issuing the sixth OCC [Semiannual Risk Perspective](#) report, which discusses emerging risks facing OCC-supervised banks and identifies supervisory priorities for the OCC.
- Conducting hundreds of outreach meetings with bankers to ensure that the banking industry understands OCC perspectives and expectations.
- Coordinating with the FDIC, Federal Reserve, Financial Stability Oversight Council, and Basel-related committees on supervisory policies and strategies.
- Addressing recommendations from the OCC's international peer review by selecting a Deputy Comptroller for Supervision Risk Management and a Deputy Comptroller for Strategic Management. The agency is also building out lead expert groups and establishing a team to develop an enterprise risk management function for the agency.
- Actively implementing the Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and developing enhanced capital and liquidity rules.

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<sup>2</sup> The findings from this focused assessment of IRR practices were highlighted in the [Fall 2014 Semiannual Risk Perspective](#) as Part IV: Range of Practice in IRR Modeling.

<sup>3</sup> The Federal Financial Institutions Examination Council (FFIEC) press release, "[FFIEC Focuses on Cybersecurity, Will Debut Self-Assessment Tool](#)," provided an overview of its cybersecurity priorities for the remainder of 2015. The press release also addressed developing and issuing a self-assessment tool that financial institutions can use to evaluate their readiness to identify, mitigate, and respond to cyber threats.

<sup>4</sup> [OCC Bulletin 2014-55](#), "Leveraged Lending: Frequently Asked Questions for Implementing March 2013 Interagency Guidance on Leveraged Lending," was issued to foster industry and examiner understanding of the 2013 leveraged lending guidance and to promote consistent application of the guidance in policy formulation, implementation, and regulatory supervisory assessments.

<sup>5</sup> [OCC Bulletin 2014-52](#), "Matters Requiring Attention: Updated Guidance," addresses recommendations in a report titled "An International Review of OCC's Supervision of Large and Midsize Institutions." The report supports the agency's mission of ensuring a safe and sound federal banking system by emphasizing timely detection and correction of deficient bank practices before they affect the bank's condition.

## Priority Objectives for CBS Lines of Business

For the remainder of FY 2015, the OCC will continue to execute individually approved 2015 supervisory strategies. These strategies are designed to prioritize risks, achieve supervisory objectives, and effectively use OCC resources. Generally, the objectives are similar for large bank supervision and midsize and community bank supervision; however, individual bank strategies vary given the size, complexity, and risk profile of the bank. The supervisory focus for the second half of FY 2015 centers on the following:

- **Strategic planning and execution:** OCC supervisory staff will focus on the adequacy of strategic, capital, and succession planning processes in light of assumed risks and planned initiatives. Staff will assess whether banks' plans are realistic and appropriate risk management processes are established and followed.
- **Corporate governance:** OCC supervisory staff will reinforce the importance of sound corporate governance appropriately calibrated to the size and complexity of the individual bank.
- **Stress testing:** OCC supervisory staff will review the appropriateness of Dodd–Frank Act stress testing processes conducted by banks with more than \$10 billion in assets.
- **Operational risk:** OCC supervisory staff will assess the operational risk present in banks. Staff will focus on all phases of risk management, including planning, due diligence, internal controls, reporting, and ongoing monitoring.
- **Cyber threats:** OCC supervisory staff will review banks' programs for assessing the evolving threat environment and continuously adjusting controls, as well as for robust vulnerability assessments and timely correction, access management, and incident response programs.
- **Loan underwriting:** OCC supervisory staff will evaluate the underwriting practices for new or renewed loans in banks, with specific emphasis on leveraged loan, indirect auto, and energy portfolios for slippage in structure and terms.
- **Interest rate risk:** OCC supervisory staff will focus on IRR measurement processes to ensure that management properly assesses banks' vulnerability to changes in interest rates and implements measurement tools to monitor and control this risk. Staff will focus on banks' ability to accurately identify and quantify IRR in both assets and liabilities (e.g., investment securities and non-maturity deposits) under varying model scenarios.
- **Compliance:** OCC supervisory staff will assess effectiveness in complying with consumer laws, regulations, and guidance. Staff reviews will include assessments of banks' processes to analyze, manage, and control risks posed by new products and services and emerging technologies.

This summer, the OCC will release the supervisory priorities that form the basis for developing supervisory strategies for FY 2016. The OCC will continue to adjust supervisory strategies as appropriate, given meaningful changes in emerging risks and supervisory priorities. In addition to the annual fiscal year guidance, the OCC will provide periodic updates to communicate supervisory priorities through the *Semiannual Risk Perspective* in the spring and fall, and a mid-cycle operating plan update in the third quarter of the fiscal year.