



Fiscal Year 2023 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 sets forth the agency's supervision priorities and objectives. The agency's fiscal year (FY) for 2023 begins October 1, 2022, and ends September 30, 2023. The FY 2023 Bank Supervision Operating Plan outlines the OCC's supervision priorities and aligns with *The Office of the Comptroller of the Currency Strategic Plan, Fiscal Years 2023–2027* and the National Risk Committee's (NRC) priorities. The operating plan facilitates the implementation of supervisory strategies for individual national banks, federal savings associations, federal branches, and agencies of foreign banking organizations (collectively, banks), as well as identified third-party services subject to OCC examination. CBS managers and staff will use this plan to guide their supervisory priorities, planning, and resource allocations for FY 2023.

Priority Objectives for CBS Operating Units

The FY 2023 Bank Supervision Operating Plan establishes priority objectives across the CBS operating units. CBS operating units and managers use this plan to develop and implement individual operating unit plans and risk-focused bank supervisory strategies. While the objectives are similar for the Large Bank Supervision and Midsize and Community Bank Supervision operating units, CBS managers will differentiate bank size, complexity, and risk profile when developing individual bank supervisory strategies. CBS operating plans also include resources and support for risk-focused examinations of core processing and other banking services provided to banks by third parties. The Large Bank Supervision and Midsize Community Bank Supervision operating units will adjust supervisory strategies, as appropriate, during the fiscal year in response to emerging risks and supervisory priorities. For FY 2023, examiners will focus on the impacts of volatile economic conditions such as high inflation, increasing recession possibilities, and rising interest rates. Examiners will also consider geopolitical events that may have adverse financial, operational, and compliance implications. In addition to the baseline activities, OCC risk-based supervision will heighten its focus on the following areas:

- **Safety and soundness, and fairness:** Given the rapidly changing economic environment, examiners should focus on strategic and operational planning to assess whether banks maintain stable financial positions, especially regarding capital, allowance for credit losses, management of net interest margins, liquidity, and earnings. Examiners' reviews of bank governance should assess the effectiveness of talent recruitment, training, retention, and succession management processes. Weaknesses in talent management processes could lead to control breakdowns, untimely completion of material audits or other reviews, or failure to comply with rules and regulations that leads to customer impacts.

- **Operational resilience and cybersecurity:** The potential impact to operational risk from cybersecurity threats, control breakdowns, and risk management gaps remains a supervisory focus. Operational resilience examinations should consider incident response and business resumption practices, with explicit evaluation of data backup and recovery capabilities. Information and cybersecurity examinations should focus on fundamental controls to identify, detect, and prevent threats and vulnerabilities; such controls include authentication, access controls segmentation, patch management, and end-of-life programs. Examiners should review the effectiveness of governance processes dealing with technology investment and the implementation of systems and infrastructure changes.
- **Third parties and related concentrations:** Examiners should determine whether banks are providing proper risk management governance of their third-party relationships, commensurate with the risks posed, which may include relationships with financial technology (fintech) companies. Examiners should identify the risk attributes of these relationships, for example, if they involve customer-facing products and services, are critical to bank operations, represent significant concentrations, affect the bank's operational resilience, or affect compliance with requirements such as the Bank Secrecy Act and consumer protection laws. Additionally, examiners should determine whether the bank and third parties have sufficient, qualified staff to meet contractual obligations. Examiners should be aware of the cyber-related risks arising from third parties and evaluate the bank's assessments of third parties' cybersecurity risk management and resilience capabilities.
- **Credit:** Banks are coming out of a period in which credit losses are at historical lows as they seek more normalized performance after the COVID-19 pandemic. Market and external conditions are changing the credit risk environment rapidly. Examiners should evaluate banks' actions to manage credit risk given volatile changes in market conditions, interest rates, and geopolitical events, as well as supply chain disruptions and areas of continued weakness from the pandemic such as urban commercial real estate performance (office, hotels, and retail). Supervisory efforts should focus on risk management functions to determine whether there is appropriate credible challenge. Examiners should evaluate banks' stress testing of adverse economic scenarios and the implications, such as amplified impacts to retail and commercial borrowers experiencing increased operating and borrowing costs at loan origination, at renewal, or over the term of the credit. Risk-based examination work should focus on new products, areas of highest growth, or portfolios that represent concentrations.
- **Allowances for credit losses (ACL):** For all banks, examiners should focus on ACL adequacy, including the need for provisions to build the ACL, consistent with any stress on credit portfolios due to volatile economic conditions. As banks finalize adoption of the current expected credit losses accounting standard according to promulgated schedules, examiners should assess the effectiveness of the implementation and ACL methodology at estimating lifetime expected losses. This assessment includes determining whether assumptions and key policy decisions, such as reasonable and supportable forecast period, materiality exceptions, and discretionary elections, are consistent in policies and procedures. Additionally, the ACL should be re-evaluated each reporting period, robustly documented, and subject to appropriate governance activities, including when ACL processes use third-party modeling techniques.
- **Interest rate risk:** Examiners should determine whether banks appropriately manage interest rate risk through effective asset and liability risk management practices. Risk management should consider a robust suite of interest rate scenarios and assumption sensitivity analyses, when appropriate, as rising rates may negatively affect asset values, deposit stability, liquidity, and earnings.

- **Liquidity risk management:** Examiners should assess banks' liquidity risk management practices, including stress testing of primary, secondary, and contingent sources of liquidity and strategic and tactical measures to address liquidity needs. Banking system liquidity remains strong, but sharp rate increases could adversely affect banks' deposit volume or mix and reduce liquidity from investment portfolio pledging or sales because of unrealized losses. Additional available-for-sale portfolio depreciation will further erode generally accepted accounting principles' net tangible equity capital through negative accumulated other comprehensive income. A negative net tangible equity capital position may limit a bank's access to funding from sources such as Federal Home Loan Bank advances or municipal deposits.
- **Consumer compliance:** In addition to assessments required by statute, regulation, or OCC policy, examiners should focus on compliance management systems, including complaints management, and the build-out of new or innovative products, services, or delivery channels. Focus should also be on how the programs are implemented and how terms of the programs are disclosed in relation to requirements under unfair, deceptive acts or practices and unfair, deceptive, or abusive acts or practices statutes. Examiners should also focus on evaluating compliance staffing, by assessing staff numbers, expertise, training, changes to staffing models, and the extent to which compliance functions are supported by third parties.
- **Bank Secrecy Act (BSA), anti-money laundering (AML), and Office of Foreign Assets Control (OFAC):** Strategies should continue to focus on evaluating the effectiveness of BSA/AML/OFAC risk management systems relative to the complexity of business models. Examiners should also focus on the nature and scope of the bank's products and services offered, customer base, and geographic footprints served. Other areas of focus should be the growing number and complexity of OFAC sanctions programs related to recent geopolitical events; evaluating technology and modeling solutions to perform or enhance BSA/AML and OFAC oversight functions; and determining the adequacy of suspicious activity monitoring and reporting systems and processes in providing meaningful information to law enforcement. Examiners should continue to assess bank change management plans for implementing changes to existing BSA/AML compliance programs that will be necessary to implement the requirements of the Anti-Money Laundering Act of 2020.
- **Fair lending:** Examiners should focus on assessing fair lending risk, including how banks are ensuring fair access to products and services on a nondiscriminatory basis. The assessments should be based on the bank's fair lending risk profile and the annual Home Mortgage Disclosure Act data screening process. Examiners should ensure that banks have sufficient risk management practices in place to assess and mitigate redlining risks. Fair lending supervision activities should consider the full life cycle of credit products, such as mortgages, and the potential for mortgage lending discrimination resulting from appraisal bias or discriminatory property evaluations.
- **Community Reinvestment Act (CRA):** Examiners should be familiar with OCC Bulletin 2021-61, "Community Reinvestment Act: Final Rule to Rescind and Replace Community Reinvestment Act Rule Issued in 2020," and plan accordingly for examinations affected by the 2021 CRA rule, which is largely in line with the 1995 CRA rules. In addition, examiners should be aware of and prepared to alter strategies for any changes that could result from a potential joint rule with the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation intended to strengthen and modernize the CRA that may become effective during FY 2023.
- **New products and services:** Examiners should assess whether banks remain vigilant when considering growth and new profit opportunities. Examiners should assess bank management's

and the board's understanding of the impact of innovative or new activities, including activities offered through third-party relationships, on the bank's financial performance, strategic planning process, and risk profile.

- **Payments:** Examiners should evaluate payment systems products and services that banks offer or plan to offer, with a focus on new products, services, or channels for wholesale and retail customer relationships. Examiners should consider potential risks, including operational, compliance, strategic, credit, liquidity, and reputation, and how these risks are incorporated into institution-wide risk assessments and new product review processes, if applicable.
- **Fintech and digital assets:** Examiners should identify banks that are implementing significant changes in their operations using new technological innovations. These include cloud computing, artificial intelligence, digitalization of risk management processes, and engaging in banking-as-a-service arrangements. Examiners should evaluate the implementation of any changes to and appropriateness of governance processes when banks undertake significant changes. When crypto-related and other new products and services are present, examiners should evaluate risk management practices for these products and services, including reviews of due diligence activities and evaluations of expertise to manage the technology, financial, operational, compliance, strategic, reputational, and other risks. Examiners should assess whether banks have sought and received a supervisory nonobjection before engaging in the activities described in Interpretive Letter 1179.
- **Climate-related financial risks:** The OCC continues its work to better understand climate-related financial risks in the context of safety and soundness, particularly as they relate to risks at large banks. During FY 2023, the agency will continue information gathering efforts and plan on conducting additional industry outreach. At the largest banks, examiners will monitor the development of climate-related financial risk frameworks and will engage with bank management to understand the challenges that banks face in this effort, such as data and metrics, governance and oversight, policies, procedures, and limits, strategic planning, scenario analysis capabilities and techniques, and incorporation of the frameworks into current bank risk management processes.

Supervision resources should focus on significant risks in FY 2023 while considering appropriate coverage of other areas. Strategies should focus on control functions and leverage the banks' audit, loan review, and risk management processes when the OCC has validated their reliability, including qualified staffing and timeliness.

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

The OCC will provide periodic updates about supervisory priorities, emerging risks, and horizontal risk assessments in the *Semiannual Risk Perspective* report.