EXHIBIT 109

Comptroller's Handbook

Examination Process

Large Bank Supervision

Version 1.0, June 2018

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Version 1.2, March 2022

Office of the Comptroller of the Currency

Risk-Based Supervision Approach

Related "Bank Supervision Process" Booklet Sections

- "Introduction" > "Bank Affiliates and Related Organizations"
- "Examination Authority and Full-Scope, On-Site Examination Requirement"
- "Risk-Based Supervision Approach"
- Appendix A, "Functional Regulation"

From a supervisory perspective, risk is the potential that events will have an adverse effect on the bank's current or projected financial condition[16] and resilience.[17] In carrying out its mission, the OCC employs an ongoing risk-based supervision approach focused on evaluating risk, identifying material and emerging concerns, and requiring banks to take timely corrective action before deficiencies compromise their safety and soundness. Examiners evaluate risk using the RAS and tailor supervisory activities to the risks identified.

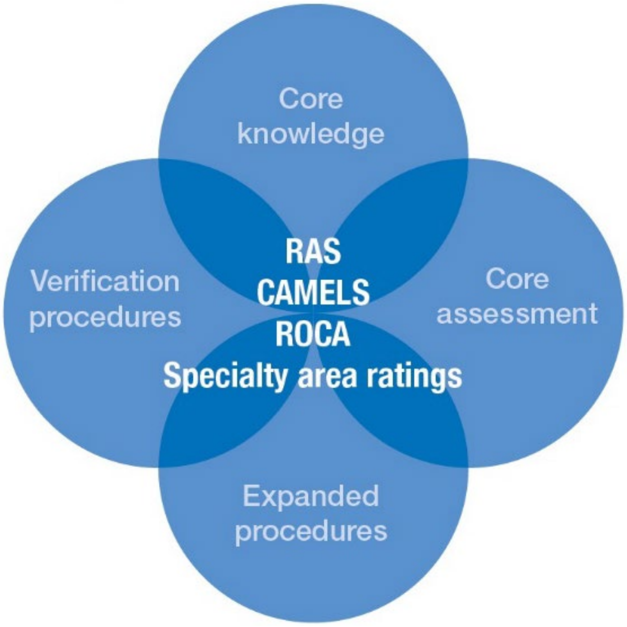
The OCC recognizes that banking is a business of assuming risks to earn profits. Midsize and large banks assume varied risks that may be complex. The foundation of midsize and large bank supervision is a risk assessment framework designed to determine whether banks effectively assess risks throughout their entire enterprise, including subsidiaries and affiliates. Under the risk-based supervision approach, examiners focus on whether banks identify and effectively manage the risks they assume. As a bank grows more diverse and complex, its risk management processes should keep pace. When risk is not properly managed, the OCC directs bank management to take corrective action. In all cases, the OCC's primary concern is that the bank operates in a safe and sound manner and maintains capital commensurate with its risk. (Updated in version 1.2)

To fully implement the risk-based supervision approach, examiners assess the risk profiles and assign regulatory ratings to the lead OCC-supervised bank and its affiliated OCC-supervised banks. Examiners may determine that risks in individual OCC-supervised banks are increased, reduced, or mitigated in light of the consolidated risk profile of the company as a whole. To perform a consolidated analysis, examiners should obtain pertinent information from banks and affiliates (refer to the "Functional Regulation" section of the "Bank Supervision Process" booklet), assess risk to the OCC-supervised banks resulting from activities conducted by the bank's affiliates, and obtain information from other regulatory agencies, as necessary. Figure 1 illustrates the OCC's risk-based supervision approach. The sections that follow explain the relationship between each of the concepts illustrated in figure 1. Later in this booklet, the "Supervisory Process" section explains how each of these components is incorporated into the OCC's supervisory process.

[16] 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.

[17] Resilience recognizes the bank's ability to withstand periods of stress.

Figure 1: Risk-Based Supervision Components



Core Knowledge

Core knowledge is information in the OCC's supervisory information systems about the bank, its culture, risk profile, and other internal and external factors. This information enables examiners to communicate critical data to each other with greater consistency and efficiency.

Core Assessment Overview

(Section updated in version 1.2)

Related "Bank Supervision Process" Booklet Section
• "Risk-Based Supervision Approach" > "Core Assessment"

Core assessment establishes the minimum conclusions examiners must reach to assess risk and assign regulatory ratings. Examiners must reach these conclusions during the course of each supervisory cycle as part of meeting the requirements of the mandatory full-scope, on-site examination. Examiners complete one consolidated core assessment summary for all OCC-supervised banks within a company during every supervisory cycle. The core assessment summary (or portions thereof) may be performed more often when the EIC or supervisory office deems appropriate. Regulatory ratings must be assigned at least annually for each OCC-supervised bank in the company. The core assessment's standards are sufficiently flexible to be applied to all banks; examiners can use the standards to assess risks for all product lines and legal entities. The structure of the core assessment facilitates the analysis of risk in merging banks because examiners use a common language and the same standards to assess risks.

Examiners should use judgment in deciding how to perform the core assessment, including the level of transaction testing needed to reach conclusions. Examiners should be alert to specific activities or risks that may trigger the need to expand the scope of the supervisory activity, which can include expanded procedures from other *Comptroller's Handbook* booklets. A decision to modify an activity's scope should be escalated consistent with OCC processes and documented in the appropriate OCC supervisory information system.

Ongoing Supervision

(Section added in version 1.2)

Ongoing supervision is the OCC's process for assessing risks and reviewing core knowledge about a bank on an ongoing basis. It is a key component of the OCC's risk-based supervision approach. Examiners conduct periodic monitoring through ongoing supervision and target examinations to determine if any changes to regulatory ratings and RAS conclusions are warranted. Examiners prepare a quarterly supervision update to document the results of ongoing supervision each quarter. A quarterly supervision update is not prepared for quarters in the supervisory cycle during which the core assessment is documented.[18]

On a quarterly basis, and generally within 55 days after the end of each quarter, examiners should

- review and evaluate the consolidated financial statements for the bank and significant operating units.
- identify any significant issues that may result in changes to risk assessments and adjust the supervisory strategy to reflect the change, if warranted. If an issue is identified that affects a CAMELS/ITCC rating for the lead OCC-supervised bank and any affiliated OCC-supervised banks, the examiner must update the rating and communicate the rating change to the bank in writing. A CRA evaluation must be performed to change a CRA rating.
- update the consolidated risk profile of OCC-supervised banks within the organization using the RAS. One of these quarterly assessments results in documentation of the core assessment summary and includes a comprehensive narrative on the aggregate risk, direction of risk, quantity of risk, and quality of risk management for each risk category. The three remaining quarterly assessments are quarterly supervision updates that document changes in the bank's risk profile.
- review and update the supervisory strategy and data in the OCC's supervisory information systems to ensure they are current and accurate. The EIC should change the strategies for individual banks, if warranted. Examiners should discuss any significant changes with bank management and obtain approval from their supervisory office.

[18] For more information about the core assessment, refer to the "Core Assessment" section of this booklet. (Footnote added in version 1.2)

Expanded and Verification Procedures

Related "Bank Supervision Process" Booklet Sections

- "Risk-Based Supervision Approach"
  > "Expanded Procedures"
  > "Verification Procedures"

Expanded procedures contain detailed guidance for examining specialized activities or products that warrant extra review beyond the core assessment. These procedures are found in other booklets of the *Comptroller's Handbook*, the *FFIEC BSA/AML Examination Manual*, and the *FFIEC IT Examination Handbook*, or are conveyed separately in an OCC bulletin. Examiners determine which expanded procedures to use, if any, during examination planning or after drawing preliminary conclusions during the core assessment.

Verification procedures are designed to guide verification of the existence or proper recordation of assets or liabilities, or to test the reliability of financial records. These procedures can be found in most booklets in the *Safety and Soundness* and *Asset Management* series of the *Comptroller's Handbook*. Refer to the "Bank Supervision Process" booklet for information regarding use of verification procedures.

Risk Assessment System Overview

(Section title updated in version 1.2)

Related "Bank Supervision Process" Booklet Section

- "Risk Assessment System"

By completing the core assessment and, as necessary, expanded or verification procedures, examiners assess the bank's risk exposure for the following eight categories of risk using the RAS: credit, interest rate, liquidity, price, operational, compliance, strategic, and reputation.[19] These categories are not mutually exclusive. Risks also may be interdependent and may be positively or negatively correlated.

As the primary regulator of federally chartered banks, the OCC has the responsibility for evaluating the consolidated risk profile of such banks. The consolidated risk profile is developed by combining the assessment of risks at each affiliated federally chartered bank, including an assessment of the material risks posed to the banks by the banks' or any FRA's functionally regulated activities, as appropriate. The relative importance of each risk, both for an individual bank and for the federally chartered banks in aggregate, should influence the development of the supervisory strategy, the assignment of resources, and the bank's regulatory ratings. (Updated in version 1.2)

[19] Refer to the "Risk Assessment System" section of this booklet for definitions of each category of risk.

For each of the eight categories of risk, examiners draw conclusions regarding the quantity of risk, quality of risk management, aggregate risk, and direction of risk:

- **Quantity of risk** is the level or volume of risk that the bank faces and is characterized as low, moderate, or high.
- **Quality of risk management** is how well risks are identified, measured, controlled, and monitored and is characterized as strong, satisfactory, insufficient, or weak.
- **Aggregate risk** is a summary conclusion about the level of supervisory concern. Aggregate risk incorporates assessments about the quantity of risk and the quality of risk management. (Examiners weigh the relative importance of each.) Examiners characterize aggregate risk as low, moderate, or high.
- **Direction of risk** is a prospective assessment of the probable movement in aggregate risk over the next 12 months and is characterized as decreasing, stable, or increasing. The direction of risk often influences the supervisory strategy, including how much validation is needed. If risk is decreasing, the examiner expects, based on current information, aggregate risk to decline over the next 12 months. If risk is stable, the examiner expects aggregate risk to remain unchanged. If risk is increasing, the examiner expects aggregate risk to be higher in 12 months.

The presence of risk is not necessarily reason for concern. Examiners determine whether the risks the bank assumes are warranted by assessing whether the risks are effectively managed in a manner consistent with safe and sound banking practices. Generally, a risk is effectively managed when it is identified, measured, monitored, controlled, and reported. Senior bank management should report to the board on the bank's overall risk profile, including aggregate and emerging risks. The bank should have the capacity to readily withstand the financial distress that a risk, in isolation or in combination with other risks, could cause.

If examiners determine that a risk is unwarranted (e.g., not effectively managed or supported by adequate capital), they must communicate to bank management and the board the need to mitigate or eliminate the unwarranted risk. Appropriate actions may include reducing exposures, increasing capital, or strengthening risk management practices.

Examiners should discuss RAS conclusions (preliminary and final) with bank management and the board during each supervisory cycle. Following preliminary discussions, examiners should adjust conclusions when appropriate. Once the risks have been clearly identified and communicated, the OCC can then focus its supervision on the areas of greater risk within the bank, the consolidated banking company, and the banking system. If a change to the RAS occurs that warrants altering the bank's supervisory strategy or requires corrective action by bank management, examiners should formally communicate the rationale for the change to bank management or the board and obtain commitments for any required corrective actions. These communications help the bank and the OCC reach a common understanding of the bank's risks, focus on the strengths and weaknesses of risk management, and achieve supervisory objectives.

Risk Management

(Section updated in version 1.2)

A sound risk management system identifies, measures, monitors, and controls risks. Because market conditions and company structures vary, no single risk management system works for all banks. The sophistication of the risk management system should be commensurate with the bank's size, complexity, and risk profile. As a bank grows more diverse and complex, the sophistication of its risk management should keep pace. Regardless of the risk management system's design, each system should identify, measure, monitor, and control risk.[20]

Banks of $50 billion or more in average total consolidated assets (covered banks) are subject to heightened standards as detailed in 12 CFR 30, appendix D. Under these standards, the OCC expects covered banks to establish and adhere to a written risk governance framework to manage and control their risk-taking activities. Minimum standards are also provided for a bank's board to follow in overseeing the risk governance framework.

Examinations focus on the overall integrity and effectiveness of risk management systems. Periodic validation, a vital component of examinations, verifies the integrity of these risk management systems. When examiners assess risk management systems, they consider the bank's policies, processes, personnel, and control systems.[21] If any of these areas is deficient, the bank's risk management is typically also deficient.

Measuring and Assessing Risk

Examiners obtain both a current and prospective view of the bank's risk profile and determine the bank's overall condition. When appropriate, this risk profile incorporates the potential material risks to the bank from functionally regulated activities conducted by the bank or the bank's FRAs.[22] Completing the core assessment provides the conclusions to complete the RAS. Together, the core assessment and the RAS enable the OCC to measure and assess existing and emerging risks, regardless of the bank's size or complexity. (Updated in version 1.2)

Additionally, the RAS drives supervisory strategies and activities, and it helps examiners determine when to require action by bank management to address deficiencies before those deficiencies compromise the bank's safety and soundness. The RAS also facilitates discussions with bank management and the board about the bank's risks.

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[20] For more information about identifying, measuring, monitoring, and controlling risk, refer to the "Corporate and Risk Governance" booklet of the *Comptroller's Handbook*. (Footnote added in version 1.2)

[21] For more information about policies, processes, personnel, and control systems, refer to the "Corporate and Risk Governance" booklet of the *Comptroller's Handbook*. (Footnote added in version 1.2)

[22] Refer to the "Functional Regulation" section of the "Bank Supervision Process" booklet.

Internal Controls and Audit

Related "Bank Supervision Process" Booklet Section (Text box added in version 1.2)

- "Examination Authority and Full-Scope, On-Site Examination Requirement" > "Assessment of Audit Functions"

Examiners evaluate and validate two fundamental components of any bank's risk management system—internal controls and audit—as part of the core assessment. An accurate evaluation of internal controls and audit is critical to the proper supervision of the bank. Examiners communicate to the bank their overall assessments (strong, satisfactory, insufficient, or weak) of the system of internal controls and the audit program, along with any significant concerns or weaknesses. Based on these assessments, examiners determine the amount of reliance they can place on internal controls and audit for areas under examination. Effective bank audit functions may help establish the scopes of current supervisory activities and contribute to strategies for future supervisory activities. (Updated in version 1.2)

Internal Controls

An effective system of internal controls is the backbone of the bank's risk management system. For banks covered by 12 CFR 363, bank management must assess the effectiveness of the bank's internal control structure annually and the external auditors must attest to bank management's assertions.[23] Examiners should obtain an understanding of how the auditors reached their conclusions. (Updated in version 1.2)

The core assessment includes factors for assessing the bank's control environment during each supervisory cycle. The factors are consistent with industry-accepted criteria[24] for establishing and evaluating the effectiveness of internal controls. When examiners need to use expanded procedures, they should refer to the "Internal Control" booklet of the *Comptroller's Handbook* (national banks), OTS Examination Handbook section 340, "Internal Control" (FSAs), other appropriate booklets of the *Comptroller's Handbook*, the *FFIEC IT Examination Handbook*, and the *FFIEC BSA/AML Examination Manual*. These resources provide more information on the types of internal controls commonly used in specific banking functions.

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[23] Banks that are subject to 12 CFR 363 or that file periodic reports under 12 CFR 11 and 12 CFR 16.20 may be subject to the provisions of the Sarbanes–Oxley Act. For more information, refer to the "Internal and External Audits" booklet of the *Comptroller's Handbook.*

[24] The Committee of Sponsoring Organizations of the Treadway Commission's 1992 report "Internal Control–Integrated Framework" discusses control system structures and components. The committee is a voluntary private-sector organization, formed in 1985, dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. The committee was jointly sponsored by the American Accounting Association, the American Institute of Certified Public Accountants, the Financial Executives Institute, the Institute of Internal Auditors, and the National Association of Accountants.

Audit

> **Related "Bank Supervision Process" Booklet Section**
>
> - "Examination Authority and Full-Scope, On-Site Examination Requirement" > "Assessment of Audit Functions"

Assessment of the bank's audit functions (internal and external) is fundamental to the OCC's overall supervisory process and forms the basis for the OCC's assessments of internal controls. Effective bank audit functions may help establish the scopes of current supervisory activities and contribute to strategies for future supervisory activities.

The EIC should tailor the audit review to fit examination objectives. When doing so, he or she should consider the bank's size, complexity, scope of activities, and risk profile. Examiners responsible for audit reviews, through coordination with functional and specialty area examiners, should determine how much reliance the OCC can place on audit work. OCC examiners assess the bank's overall audit function during each supervisory cycle by

- drawing a conclusion about the adequacy and effectiveness of the overall audit program and the board's oversight of the audit program.
- assigning a rating to the overall audit program (strong, satisfactory, insufficient, weak).

Midsize and large bank examiners should begin with the minimum audit standards from the "Core Assessment" section of this booklet and tailor their review of audit to fit their objectives and needs. Examiners should take into consideration audit assessments in other target examinations, along with ongoing supervision activities, when completing the audit core assessment. As part of the audit reviews, examiners may need to perform expanded procedures from the "Internal and External Audits" booklet to assess the audit function.

The review of internal audit work papers, including those from outsourced internal audit, may not be waived during any supervisory cycle. The EIC has flexibility, however, in limiting the scope of the work paper reviews (i.e., the number of internal audit programs or work papers reviewed) based on his or her familiarity with the bank's audit function and findings from the previous review of internal audit. Examiners typically do not review external audit work papers[25] unless the review of the internal audit function discloses significant issues (e.g., insufficient audit coverage) or questions are raised about matters normally within the scope of an external audit program.

Examiners may identify significant audit or control discrepancies or weaknesses, or may raise questions about the audit function's effectiveness after completing the core assessment. In those situations, examiners should consider expanding the scope of the review by selecting expanded procedures in the "Internal and External Audits" or "Internal Control" booklets of the *Comptroller's Handbook* (national banks); *OTS Examination Handbook* section 340,

[25] Before reviewing external auditor work papers, examiners should meet with bank management and the external auditor, consult with the OCC's chief accountant, and obtain approval from the supervisory office.

"Internal Control" (FSAs); or other appropriate booklets of the *Comptroller's Handbook*, the *FFIEC IT Examination Handbook*, or the *FFIEC BSA/AML Examination Manual*.

When reviewing the audit function, significant concerns may remain about the adequacy or independence of an audit or about the integrity of the bank's financial or risk management controls. If so, examiners should consider further expanding the audit review to include verification procedures. Even when the external auditor issues an unqualified opinion, verification procedures should be considered if discrepancies or weaknesses call into question the accuracy of the opinion. The extent to which examiners perform verification procedures is decided on a case-by-case basis after consultation with the supervisory office.[26]

Direct confirmation[27] with the bank's customers must have prior approval of the appropriate deputy comptroller. Examiners should notify OCC legal counsel when the OCC is considering direct confirmations. (Updated in version 1.2)

If examiners identify significant audit weaknesses, the EIC should recommend to the appropriate supervisory office what action the OCC should take to require the bank to correct the weaknesses. Consideration should be given to whether the bank complies with the laws and regulations[28] that establish minimum requirements for internal and external audit programs. Further, if the bank does not meet the audit system operational and managerial standards of 12 CFR 30, appendix A, possible options to consider are having bank management develop a compliance plan, consistent with 12 CFR 30, to address the weaknesses, or making the bank subject to other types of enforcement actions. In making a decision, the supervisory office considers the significance of the weaknesses, the overall audit assessment, audit-related matters requiring attention (MRA), bank management's ability and commitment to effect corrective action, and the risks posed to the bank.

For more information, refer to the "Bank Supervision Process" and "Internal and External Audits" booklets of the *Comptroller's Handbook*.

12 CFR 363 Annual Report Review

Examiners review annual reports for banks covered by 12 CFR 363 or voluntary submitters of such reports.[29] The primary purpose of this review is to facilitate the early identification of problems in financial management of these banks. Examiners should conduct a review of the

[26] Internal control questionnaires and verification procedures can be found in certain booklets of the *Comptroller's Handbook*.

[27] Direct confirmation involves the OCC confirming the accuracy of bank records directly with a bank customer. Direct confirmations are rare. (Footnote added in version 1.2)

[28] For more information on the laws, regulations, and policy guidance relating to internal and external audit programs, refer to appendix A of the "Internal and External Audits" booklet of the *Comptroller's Handbook*.

[29] The requirements are applicable to insured banks with $500 million or more in total assets. Uninsured banks and banks below this asset threshold may choose to voluntarily comply with some or all of 12 CFR 363's requirements. (Footnote updated in version 1.2)

12 CFR 363 annual reports as part of the next ongoing supervision activity or target examination, no later than the quarter following the bank's submission. Results of this review should be used in the supervisory process, for example, in examination planning, supervisory strategy considerations, subsequent examinations, and discussions with bank management, as appropriate. Examiners should promptly advise the supervisory office of any qualified or adverse opinion or disclaimer of opinion encountered. For more information, refer to appendix C, "12 CFR 363 Reporting," of the "Internal and External Audits" booklet of the *Comptroller's Handbook*. (Updated in version 1.2)

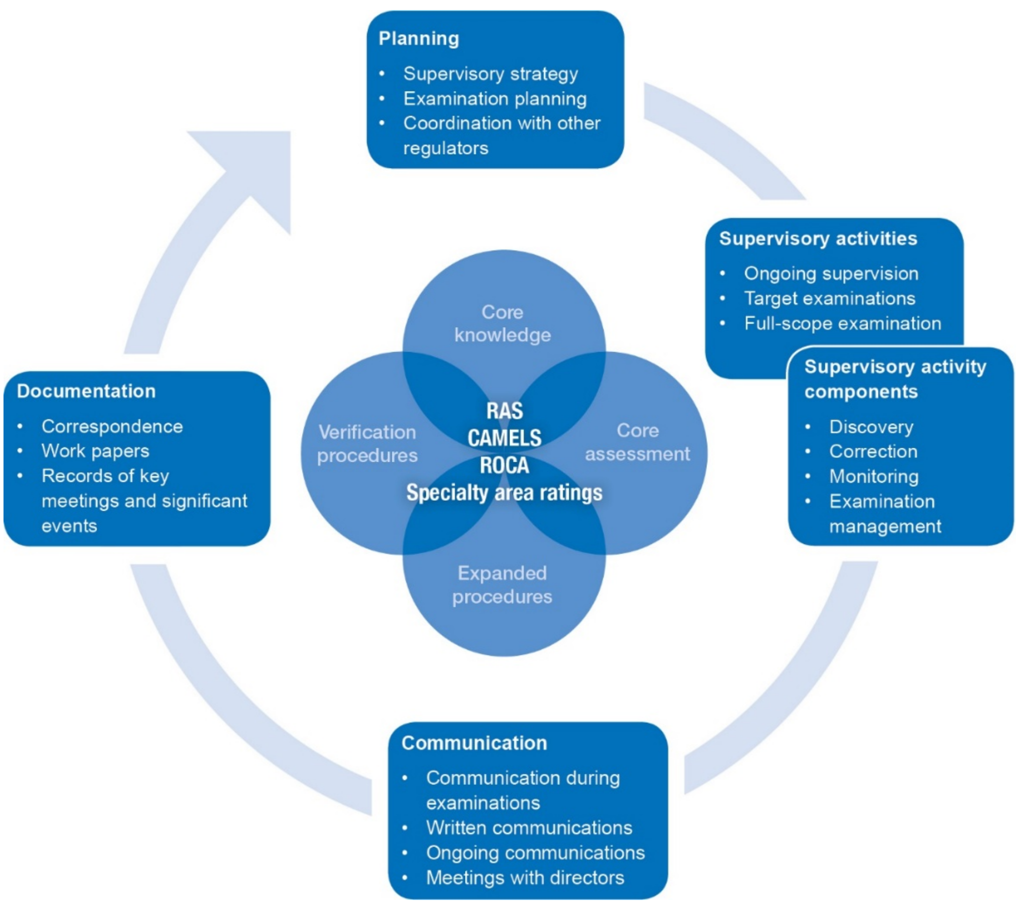
Supervisory Process

Related "Bank Supervision Process" Booklet Section

- "Risk-Based Supervision Approach" > "Supervisory Process"

The OCC fulfills its mission principally by supervising banks on an ongoing basis. In midsize and large banks, supervisory activities occur throughout the supervisory cycle. The supervisory process includes planning, supervisory activities, communication, and documentation as illustrated in figure 2. The elements of the OCC's risk-based supervision approach discussed earlier in this booklet are integrated throughout the supervisory process.

Figure 2: Supervisory Process



Planning

Related "Bank Supervision Process" Booklet Section

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Planning"

Planning is essential to effective supervision and occurs throughout the bank's supervisory cycle. Planning requires careful and thoughtful assessment of the bank's current and anticipated risks (e.g., examiners should assess the risks of both existing and new banking activities).[30] Planning includes

- developing and maintaining a supervisory strategy for each bank. (Supervisory strategies for OCC-supervised banks are generally documented as one strategy for all OCC-supervised banks within a multibank organization.) (Updated in version 1.2)
- examination planning that occurs before starting a supervisory activity.
- coordinating with other regulators, as appropriate.

Supervisory Strategy

Related "Bank Supervision Process" Booklet Sections

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Planning" > "Supervisory Strategy"
- "Examination Authority and Full-Scope Examination Requirement" > "Specialty Area Considerations"

The supervisory strategy is the OCC's detailed supervisory plan for the bank and outlines supervisory objectives, supervisory activities, and work plans. The supervisory strategy integrates all supervisory activities planned for the supervisory cycle and quantifies the necessary examiner resources (e.g., workdays and experience level) to complete the identified activities.

Supervisory strategies for OCC-supervised banks (e.g., within a multibank organization) are generally documented as one strategy for all OCC-supervised banks within the organization. If necessary, consolidated strategies can be supplemented by plans specific to one or more affiliates. The EIC develops the supervisory strategy with input from the resident examiners or functional EICs, as appropriate. For large banks, the appropriate deputy comptroller reviews and approves each strategy. For midsize banks, the appropriate assistant deputy comptroller approves the strategy. Examiners document strategies in the appropriate OCC supervisory information system. (Updated in version 1.2)

Each supervisory strategy includes supervisory objectives, supervisory activities, and work plans, and is based on

- core knowledge, core assessment, RAS, regulatory ratings, and the supervisory history of the bank.

[30] Refer to OCC Bulletin 2017-43, "New, Modified, or Expanded Bank Products and Services: Risk Management Principles."

- statutory examination requirements.
- the OCC's annual bank supervision operating plan.[31]
- supervisory priorities of the agency.
- economic conditions.
- banking industry trends.
- other examination guidelines (e.g., expanded procedures in the *Comptroller's Handbook, FFIEC IT Examination Handbook,* or *FFIEC BSA/AML Examination Manual*).

The supervisory strategy should also incorporate an assessment of the company's merger and acquisition plans and any conditions attached to corporate decisions.
Supervisory objectives define the goals of supervision for the specific bank, based on its risk profile, and are the foundation for all activities and work plans. Strategies may optionally include an overview of the profiles of the bank's significant lines of business to support the supervisory objectives.

Supervisory activities are the means of achieving supervisory objectives. Each activity must be linked to at least one objective. Supervisory activities must be sufficient, in aggregate, to meet the definition of a full-scope, on-site examination.[32] The strategy should identify the supervisory activities recommended for each quarter of the supervisory cycle. This information is often consolidated by each RAS category and then modified to address the bank's specific risk profile, including areas of potential or actual risk, emerging risks, and regulatory mandated examination areas. (Updated in version 1.2)

Work plans outline the scope, timing, and resources needed to meet the supervisory objectives and activities. Work plans should

- identify the complexity, workdays, and expertise of staff needed to perform the bank supervisory activities recommended for the year.
- include a preliminary budget projection of the work to be completed, including any international travel.

Work plans may also include an internal and external communications strategy for the year. This communications strategy may detail the types of information examiners exchange with boards, bank management, bank personnel, and other regulators and describes how this information is to be exchanged (i.e., meetings and reports).

Supervisory strategies are dynamic. Strategies are reviewed and updated on an ongoing basis based on company, industry, economic, legislative, and regulatory developments. Examiners should follow established procedures for receiving approval for and documenting strategy changes. Examiners should discuss supervisory strategies with bank management as the plans are made and when any of the plans are modified.

[31] The OCC's Committee on Bank Supervision issues an annual bank supervision operating plan that sets forth the OCC's supervision priorities and objectives.

[32] Refer to the "Full-Scope Examination Requirement and Types of Supervisory Activities" section of this booklet for criteria.

Coordination With Other Regulators

Related "Bank Supervision Process" Booklet Sections

- "Introduction" > "Bank Affiliates and Related Organizations"
- "Examination Authority and Full-Scope Examination Requirement" > "Specialty Area Considerations" > "Consumer Compliance"
- "Risk-Based Supervision Approach" > "Supervisory Process" > "Planning" > "Coordination With Other Regulators"
- Appendix A, "Functional Regulation"

Effective planning for supervision of midsize and large banks, especially complex, diversified companies, requires adequate and timely communication among supervisory agencies, including functional regulators. Effective functional supervision is attained through close cooperation and coordination among the various regulators. EICs should maintain open channels of communication with other regulators and work directly with them on bank-specific items. By doing so, EICs help promote comprehensive supervision and reduce the burden of overlapping jurisdiction on the regulated entities.

Examiners should be aware of the bifurcated authorities between the CFPB and the OCC for banks with more than $10 billion in assets. The prudential regulators and the CFPB 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 Dodd–Frank.[33]

When planning supervisory activities, examiners must follow existing written sharing agreements, delegation orders, interagency agreements, OCC policies, and laws and regulations governing cooperation and information sharing with other regulators. Interagency guidelines on coordination among U.S. banking regulators are detailed in Banking Bulletin 1993-38, "Interagency Examination Coordination Guidelines." Examiners planning supervisory activities of international operations should also coordinate with the International Banking Supervision Division regarding communications with foreign bank supervisors.

Supervisory Activity Components

Supervisory activities, regardless of type, include discovery, correction (when applicable), monitoring, and examination management. When assessing the bank's condition, examiners must consider the risk associated with activities performed by the bank and its nonbank subsidiaries and affiliates.

[33] Refer to OCC news release 2012-85, "Agencies Sign Memorandum of Understanding on Supervisory Coordination."

Discovery

Related "Bank Supervision Process" Booklet Section

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Supervisory Activity Components" > "Discovery"

Through discovery, examiners gain a fundamental understanding of the bank's condition, quality of management, and effectiveness of risk management systems. This understanding helps examiners focus on the areas of greatest concern. A primary objective of discovery is to validate the integrity of the bank's risk management systems. During the validation process, examiners should perform independent tests in proportion to the risks they find, to validate the bank's key control functions.

In discovery, examiners

- evaluate the bank's condition.
- identify and quantify risks.
- evaluate bank management's and the board's awareness and understanding of the significant risks.
- assess the quality of risk management.
- perform sufficient testing to verify the integrity of risk management systems (including internal and external audits and internal controls).
- identify unwarranted levels of risk, deficient risk management practices, and the underlying causes of any deficiencies.

Examiners' assessments form the foundation for future supervisory activities. Bank supervision is an ongoing process that enables examiners to periodically confirm and update their assessments to reflect current or emerging risks. This revalidation is fundamental to effective supervision.

Correction

Related "Bank Supervision Process" Booklet Sections

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Supervisory Activity Components" > "Correction"
- "Supervisory Actions"

The OCC uses various supervisory actions, including MRAs, citations of violations of laws or regulations, or enforcement actions to address banks' deficiencies. In the correction process, examiners obtain commitments from bank management to correct each deficiency.[34]

[34] For more information, refer to the "Supervisory Actions" section of the "Bank Supervision Process" booklet of the *Comptroller's Handbook*.

The bank's plans for corrective actions should be formally communicated through action plans. Action plans detail steps or methods that bank management has determined will correct the root causes of deficiencies rather than symptoms. Bank management is responsible for developing and executing action plans. Directors are expected to hold bank management accountable for executing action plans. Action plans should

- specify actions to correct deficiencies.
- address the underlying root causes of deficiencies.
- set realistic time frames for completion.
- establish benchmarks to measure progress toward completion.
- identify the bank personnel who will be responsible for correcting deficiencies.
- detail how bank management will effectively execute the plan, and how the board will oversee bank management's actions.

Monitoring

Related "Bank Supervision Process" Booklet Section

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Supervisory Activity Components" > "Monitoring"

Ongoing monitoring allows the OCC to respond in a timely manner to risks facing individual banks and the industry as a whole. The dynamic nature of midsize and large banks makes monitoring an important part of effective supervision. (Updated in version 1.2)

In monitoring the bank, examiners

- identify current and prospective issues that affect the bank's risk profile or condition.
- determine how to focus future supervisory strategies.
- follow up on bank management's progress in correcting outstanding MRAs, violations of laws or regulations, and complying with enforcement actions, which includes
  - assessing bank-prepared action plans to resolve each deficiency, including the appropriateness of the time frames for correction.
  - determining whether the bank is executing its action plans.
  - verifying the bank's documentation to confirm that bank management completed its corrective actions.
  - validating that bank management's corrective actions are effective and sustainable.
  - recommending the use of informal or formal enforcement actions when warranted.
- communicate with bank management regarding areas of concern, if any.

Examiners must tailor monitoring to each bank. Monitoring activities are focused on assessing the bank's risks, including any potential material risks posed by functionally regulated activities conducted by the bank or FRAs. Monitoring activities are adjusted to include the risks facing each significant affiliated OCC-supervised bank. More complex banks generally require more frequent and comprehensive oversight. In addition to assessing the bank's progress in executing plans and correcting deficiencies, examiners are required to meet certain minimum requirements for monitoring activities for midsize and large banks. (Updated in version 1.2)

Examination Management

Related "Bank Supervision Process" Booklet Section

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Supervisory Activity Components" > "Examination Management"

The EIC (including the functional EIC or EIC of a particular activity, as applicable) is responsible for effective examination management and must provide an organized environment in which supervisory goals and objectives can be achieved within appropriate time frames. During the examination, examining staff must inform the EIC of preliminary conclusions, and the EIC must evaluate progress toward completing the supervisory objectives.

Communication

Related "Bank Supervision Process" Booklet Section

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Supervisory Activity Components" > "Communication"

Communication is essential to high-quality bank supervision. The OCC is committed to ongoing, effective communication with the banks that it supervises and with other banking and functional regulators. Communication includes formal and informal conversations and meetings, ROEs, supervisory letters, and other written materials. Regardless of form, communications should convey a consistent conclusion regarding the bank's condition. Communication should be ongoing throughout the supervisory process and tailored to the bank's structure and dynamics. The timing and form of communication depends on the situation being addressed. Examiners should communicate with bank management and the board as often as the bank's condition and supervisory findings require. Examiners should include plans for communication in the supervisory strategy.

Examiners should meet with bank management frequently and directors as needed to collect information and discuss supervisory issues. These discussions, which establish and maintain open lines of communication, are an important source of information. Examiners should document these meetings in the OCC's supervisory information systems.

When the OCC is considering an enforcement action, examiners should use care in communications with the bank related to the potential enforcement action. Examiners should consult with the supervisory office and assigned legal counsel before meeting with the bank regarding a potential enforcement action.

Communication During Examinations

Related "Bank Supervision Process" Booklet Section

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Communication" > "Communication During Examinations"

Entrance Meetings With Bank Management

The EIC meets with appropriate bank or company management at the beginning of an examination to

- explain the scope of the examination, the role of each examiner, and how the examination team conducts the examination.
- confirm the availability of bank personnel.
- establish expectations regarding follow-up requests throughout the examination. (Added in version 1.2)
- identify communication contacts.
- answer any questions.

If an examination is conducted jointly with another regulator, the OCC should invite a representative from that agency to participate in the entrance meeting.

Ongoing Communication During Examinations

Ongoing communication and discussions with bank management allow examiners to obtain the information necessary to reach sound and accurate conclusions. Periodic meetings with bank management are essential during the examination. Discussion of key issues and preliminary findings prevents misunderstanding and allows bank management to provide more information.

Exit Meetings With Bank Management

After each examination is completed, the EIC holds an exit meeting with bank or company management to

- discuss the OCC's findings and conclusions.
- discuss deficiencies and obtain bank management's commitments for corrective action.
- discuss the areas of greatest risk to the bank.
- provide preliminary ratings and RAS conclusions, when applicable.
- outline plans for future supervisory activities, when possible.

The EIC should encourage bankers to respond to OCC concerns, provide clarification, ask about future supervisory plans, and raise any other questions or concerns. At the exit meeting, the examiners ask for bank management's commitment to correct deficiencies identified during the supervisory activity and, when appropriate, offer examples of acceptable solutions. (Updated in version 1.2)

Examiners may conduct exit meetings with bank management of specific departments or functions before the final exit meeting. The functional EICs summarize the issues and commitments for corrective actions from these meetings. The bank EIC then discusses the issues and commitments with senior bank management at the final exit meeting. (Updated in version 1.2)

Before the exit meeting, the EIC should discuss significant findings, including preliminary ratings and RAS conclusions, with the appropriate OCC supervisory office. Meeting with the supervisory office promotes consistent application of OCC policy, and confirms that OCC management supports the conclusions and the course of action for any deficiencies. The EIC and the supervisory office should decide who attends the exit meeting on the OCC's behalf, and the EIC should inquire about the attendance of senior bank management and others. If the examination was conducted jointly with another agency, the EIC or supervisory office should invite a representative from that agency to participate in the exit meeting.

Examiners must convey significant decisions discussed during the exit meeting in written correspondence. Examiners should discuss issues with bank management before discussing them with the board, unless, in the supervisory office's view, the subject is best approached confidentially with the board.

Written Communication

Related "Bank Supervision Process" Booklet Sections

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Communication" > "Written Communication"
- "Supervisory Actions"
- "Other Supervisory Considerations" > "Disclosure of Ratings"
- "Report of Examination"

Written communication of supervisory activities and findings is essential to effective supervision. Examiners should periodically provide written communication to the board highlighting concerns that arise during the supervisory process. Written communication should focus the board's attention on the OCC's major conclusions, including any supervisory concerns.

Written communication must

- be consistent with the tone, findings, and conclusions orally communicated to the bank.
- convey the condition of the bank or, if appropriate, the condition of an operational unit of the bank.
- be addressed to the appropriate audience based on the nature of the content and how the bank or company is structured and managed.
- discuss any concerns the OCC has about bank risks or deficiencies.

- summarize the actions required to address deficiencies, including bank management's commitment to corrective action.

Reports of Examination

In addition to written communication throughout a supervisory cycle, **the OCC must provide the boards of the lead OCC-supervised bank and each affiliated OCC-supervised bank an ROE at least once during every supervisory cycle.** For federal branches and agencies that do not have boards, the OCC provides the ROE to local branch management. The OCC also provides a "head office letter" to the parent bank of U.S. regulated federal branches and agencies summarizing the general condition of the branch or agency. (Updated in version 1.2)

The ROE conveys the bank's overall condition and risk profile and summarizes examination activities and findings during the supervisory cycle. The ROE

- contains conclusions on assigned regulatory ratings, the bank's risk profile, and the adequacy of the bank's BSA/AML compliance program.
- discusses deficient risk management practices, violations, and excessive risks.
- details corrective actions to which bank management or the board has committed.

ROE requirements can be found in the "Report of Examination" section of the "Bank Supervision Process" booklet of the *Comptroller's Handbook.*

Meetings With Directors

Related "Bank Supervision Process" Booklet Section

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Communication" > "Meetings With Directors"

The OCC maintains communication with boards throughout the supervisory cycle to discuss OCC examination results and other matters of mutual interest, including current industry issues, emerging industry risks, and legislative issues. The EIC meets with the board or an authorized committee that includes outside directors after the board or committee has reviewed the ROE. If necessary, the OCC meets with the board to discuss how the board should respond to supervisory concerns and issues.

The OCC should conduct a board meeting at least once during the supervisory cycle for the lead OCC-supervised bank. More frequent meetings should be conducted when justified by the bank's condition or special supervisory needs. When meetings are routinely conducted with board committees, examiners are encouraged to meet periodically with the full board to confirm findings and facilitate effective communication. Examiners should conduct board meetings with affiliated OCC-supervised banks that are not lead OCC-supervised banks only when significant supervisory concerns exist or when meetings are expected to enhance overall supervision. Senior management of the appropriate OCC supervisory office should attend and participate in board meetings with midsize and large banks. If the examination was conducted jointly with another regulator, the supervisory office should invite a representative from that agency to participate in the board meeting.

The EIC conducting the meeting should be prepared to discuss conclusions, findings, any concerns, and methods of corrective action (if applicable). The EIC should encourage directors to ask questions or make comments.

Documentation

Related "Bank Supervision Process" Booklet Section

- "Risk-Based Supervision Approach" > "Supervisory Process" > "Documentation"

Documentation is an ongoing process throughout the supervisory cycle. Examiners must document their decisions and conclusions. Examiners document and communicate narrative and statistical information about OCC-supervised banks in the OCC's electronic supervisory information systems. The OCC maintains limited information about affiliates of OCC-supervised banks to help examiners assess risks to OCC-supervised banks from these affiliates.[35] (Updated in version 1.2)

The recorded information reflects the bank's current condition, supervisory strategy, results of supervisory activities, the OCC's actions in response to deficiencies (i.e., MRAs, violations of laws or regulations, and enforcement actions), and bank management's progress in correcting deficiencies. Using this information and data, OCC senior management can review the condition of supervised banks and groups of banks. Other federal banking regulators also have access to certain information, as appropriate, through various formats. (Updated in version 1.2)

Many electronic files are official records of the OCC and may be discoverable items in litigation. Examiners must be succinct, clear, and professional in their documentation and avoid informality that might be misunderstood or misused.

The EIC and the supervisory office are responsible for maintaining accurate and up-to-date information in supervisory information systems for their assigned institutions. Examiners should record information as follows:

- Comments pertaining to or affecting all OCC-supervised banks within a multibank organization should generally be recorded in the electronic file under the holding company or lead OCC-supervised bank, as appropriate. (Updated in version 1.2)
- Comments particular to a bank should be recorded in the electronic file under that bank.

[35] For more information about affiliates, refer to the "Bank Affiliates and Related Organizations" section of this booklet. (Footnote added in version 1.2)

Core Assessment

Core assessment establishes the minimum conclusions examiners must reach to assess risks and assign regulatory ratings. These minimum conclusions are documented in a core assessment summary. Examiners' conclusions for each risk consider the interrelationships with other risks and cover all applicable lines of business and functions. (Updated in version 1.2)

Core Assessment Summary

(Section updated in version 1.2)

Examiners complete one consolidated core assessment summary for all OCC-supervised banks within a multibank organization during every supervisory cycle. Examiners consider the supervisory activities conducted throughout the supervisory cycle when completing the core assessment summary. The core assessment summary (or portions thereof) may be completed or updated more often when the EIC or supervisory office deems appropriate. The core assessment summary should provide OCC management and examiners with a clear and concise narrative to support the following minimum conclusions:

- Conclusions for the quantity of risk, quality of risk management, aggregate risk, and direction of risk, for each RAS category, Bank Secrecy Act/anti-money laundering/Office of Foreign Assets Control (BSA/AML/OFAC) risk, and asset management risk, as applicable. Conclusions should be based on the definitions for quantity of risk, quality of risk management, aggregate risk, and direction of risk.[36]
- Conclusions for internal controls and audit. Conclusions should be based on the definitions in this booklet for audit and internal controls assessments.
- Conclusions for the assessment factors for the quantity of risk and quality of risk management for each RAS category, BSA/AML/OFAC risk, and asset management risk.
- Conclusions for the assessment factors for internal controls, audit, and BSA (program and each pillar).
- Conclusions for the regulatory ratings and regulatory rating assessment factors. Conclusions for regulatory ratings should be based on the regulatory rating definitions and assessment factors in the "Bank Supervision Process" booklet of the *Comptroller's Handbook.*

The assessment **factors** are the minimum standards that examiners must assess during every supervisory cycle to ensure quality supervision. Examiners must document conclusions for each risk and regulatory rating assessment factor. The **sub-factors** are material criteria, including risk appetite, risk profile, and risk governance criteria, that have been shown to

[36] For each RAS category, BSA/AML/OFAC risk, and asset management risk, this booklet includes definitions for low, moderate, and high quantity of risk and strong, satisfactory, insufficient, and weak quality of risk management. Refer to the "Bank Supervision Process" booklet for general definitions of quantity of risk, quality of risk management, aggregate risk, and direction of risk that apply to all risk assessments. (Footnote added in version 1.2)