FIRMA 2013

Introduction and Disclosure

The purpose of this presentation today is to provide an overview of the OCC's Heightened Expectations for Large Banks/Thrifts; with specific emphasis on Strong Risk Management expectations and examples of characteristics that would differentiate Strong Risk Management from Satisfactory.

My comments today are based on information the OCC has been providing to the institutions we regulate, although any opinions expressed are my own and may not represent the views or policy of the OCC.

OCC's Heightened Expectations

1. Board willingness to provide credible challenge
2. Talent management and compensation
3. Risk appetite: defining and communicating across the company
4. Development and maintenance of strong audit and risk management functions
5. Sanctity of the national bank charter

Focus for Today's Discussion

Strong Independent Risk Management

- Often the most challenging of HEs
  - CRO role and organization not mature in some banks
  - Different organizational structures require thoughtful changes to meet HEs
- Critical Elements
  - Stature / strong voice
  - "Effective" independence
  - Monitoring & escalating risk exposures > risk appetite
  - Credible challenge
  - Enterprise risk reporting

Focus for Today's Discussion

Strong vs. Satisfactory Risk Management

- To be satisfactory, a firm needs an acceptable corporate organizational structure and an appropriate risk management (RM) framework, including supporting processes.
- To be strong, a firm <u>also needs </u>a strong RM culture and an influential and highly effective Chief Risk Officer (CRO) organization / Second Line(s) of Defense. The CRO organization plays a critical role in ensuring a strong RM culture. Indicators include:

Indicators: Strong vs. Satisfactory RM

- CRO organization has clear, earned stature within the organization – demonstrated ability to challenge all levels of line of business (LOB) management vs. second tier status
- Overtly supported by CEO vs. deferring or wavering with LOB interests
- CRO meets independently with outside directors (both in-committee and one-on-one) vs. meetings that also include members of management team
- Board's risk committee overtly focuses on CRO and the succession planning and compensation of direct reports vs. only focusing on CRO
- Participates in strategic decisions vs. informed of plans ex-post
- CRO has quality leaders and good depth of talent vs. adequate technical skills among leaders and light depth

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Indicators: Strong vs. Satisfactory RM

- **Proactive in highlighting and addressing issues/trends vs. responding to issues/events**
- **Reports to the board and executive management identify emerging issues and major concerns vs. only recapping findings from the recent cycle of assessments**
- **Strives for best practices (staffing, methods etc.) vs. content with being sufficient**
- **Challenges both quality/propriety of policies and procedures and adherence vs. just testing for adherence**
- **Active dialogue with LOB executives on findings and thinking vs. communicating via conclusions**
- **Resolution is timely and repeat findings are rare vs. business responses that periodically involve lags and/or repeat findings**

Indicators: Strong vs. Satisfactory RM

- **Uses key risk indicators, including leading metrics, to measure and convey vs. primarily using lagging indicators or measures of performance**
- **CRO and RM team input is sought and used in compensation decisions vs. input not incorporated into final compensation decisions**
- **LOB owns risks and is held accountable for self identifying bulk of issues vs. discovery or identification by RM or audit**
- **Technology and MIS enable informed and timely assessments of risks, including concentrations vs. fragmented, elongated, and trailing reviews**
- **Bank-wide results over time reflect controlled volatility vs. episodic surprises or evidence of not being prepared for contingencies in adverse markets or external events**

What we are seeing:

- **Common Obstacles / Challenges to Achieving Strong RM**
  - Talent and skills
  - Risk aggregation, analytics, and reporting capabilities
  - Evidence of credible challenge
  - Time, resources, and competing priorities
  - Maturity and effectiveness of self-assessment processes
  - Benchmarking information
  - Lack of internally-defined feedback loop on effectiveness

What we are seeing:

Strengths:

- Expanded role of independent risk functions
- Personnel changes and improved talent
- Enhanced risk culture and awareness throughout the bank
- Benchmarking and peer comparisons

Remaining Gaps:

- Identification and measurement of emerging risks
- Enterprise risk reporting
- Data integrity
- Credible challenge

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OCC Heightened Expectations FIRMA - 2013

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