

**OCC Guidelines Establishing Heightened Standards for Certain Large Insured National
Banks, Insured Federal Savings Associations, and Insured Federal Branches
Supporting Statement
OMB Control No. 1557-0321**

A. Justification

1. *Circumstances that make the collection necessary:*

The OCC's guidelines, codified in 12 CFR part 30, appendix D, establish minimum standards for the design and implementation of a risk governance framework for insured national banks, insured Federal savings associations, and insured Federal branches of a foreign bank (collectively, bank(s)). The guidelines apply to a bank with average total consolidated assets: (i) equal to or greater than \$50 billion; (ii) less than \$50 billion if that bank's parent company controls at least one insured national bank or insured Federal savings association that has average total consolidated assets of \$50 billion or greater; or (iii) less than \$50 billion, if the OCC determines such bank's operations are highly complex or otherwise present a heightened risk as to warrant the application of the guidelines (covered banks). The guidelines also establish minimum standards for a board of directors in overseeing the framework's design and implementation.

The standards contained in the guidelines are enforceable under section 39 of the Federal Deposit Insurance Act (FDIA)¹, which authorizes the OCC to prescribe operational and managerial standards for insured national banks, insured Federal savings associations, and insured Federal branches of a foreign bank.

2. *Use of the information:*

Following the financial crisis, the OCC developed a set of heightened expectations to enhance supervision and strengthen the governance and risk management practices of large national banks.

The guidelines formalize the OCC's heightened expectations program. They also further the goal of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010² to strengthen the financial system by focusing management and boards of directors on improving and strengthening risk management practices and governance, thereby minimizing the probability and impact of future financial crises.

The standards for the design and implementation of the risk governance framework, which contain collections of information, are set forth below.

¹ 12 U.S.C. 1831p-1. Section 39 was enacted as part of the Federal Deposit Insurance Corporation Improvement Act of 1991, P.L. 102-242, section 132(a), 105 Stat. 2236, 2267-70 (Dec. 19, 1991).

² Public Law 111-203, 124 Stat. 1376 (2010).

Standards for Risk Governance Framework

Covered banks should establish and adhere to a formal, written risk governance framework designed by independent risk management. It should include delegations of authority from the board of directors to management committees and executive officers and risk limits for material activities. It should be approved by the board of directors or the board's risk committee and reviewed and updated at least annually by independent risk management.

Front Line Units

Front line units should take responsibility and be held accountable by the chief executive officer and the board of directors for appropriately assessing and effectively managing all of the risks associated with their activities. In fulfilling this responsibility, each front line unit should, either alone or in conjunction with another organizational unit that has the purpose of assisting a front line unit: (i) assess, on an ongoing basis, the material risks associated with its activities and use such risk assessments as the basis for fulfilling its responsibilities and for determining if actions need to be taken to strengthen risk management or reduce risk given changes in the unit's risk profile or other conditions; (ii) establish and adhere to a set of written policies that include front line unit risk limits (such policies should ensure risks associated with the front line unit's activities are effectively identified, measured, monitored, and controlled, consistent with the covered bank's risk appetite statement, concentration risk limits, and all policies established within the risk governance framework); (iii) establish and adhere to procedures and processes, as necessary to maintain compliance with the policies described in (ii); (iv) adhere to all applicable policies, procedures, and processes established by independent risk management; (v) develop, attract, and retain talent and maintain staffing levels required to carry out the unit's role and responsibilities effectively; (vi) establish and adhere to talent management processes; and (vii) establish and adhere to compensation and performance management programs.

Independent Risk Management

Independent risk management should oversee the covered bank's risk-taking activities and assess risks and issues independent of the front line units. In fulfilling these responsibilities, independent risk management should: (i) take responsibility and be held responsible by the CEO and the board of directors for designing a comprehensive written risk governance framework that meets the guidelines and is commensurate with the size, complexity, and risk profile of the covered bank; (ii) identify and assess, on an ongoing basis, the covered bank's material aggregate risks and use such risk assessments as the basis for fulfilling its responsibilities and for determining if actions need to be taken to strengthen risk management or reduce risk given changes in the covered bank's risk profile or other conditions; (iii) establish and adhere to enterprise policies that include concentration risk limits that state how aggregate risks within the covered bank are effectively identified, measured, monitored, and controlled, consistent with the covered bank's risk appetite statement and all policies and processes established within the risk governance framework; (iv) establish and adhere to procedures and processes, as necessary, to ensure compliance with policies in (iii); (v) identify and communicate to the CEO and the board of directors or the board's risk committee material risks and significant instances where the independent risk management's assessment of risk differs from that of a front line unit, and

significant instances where a front line unit is not adhering to the risk governance framework; (vi) identify and communicate to the board of directors or the board's risk committee material risks and significant instances where independent risk management's assessment of risk differs from that of the CEO, and significant instances where the CEO is not adhering to, or holding front line units accountable for adhering to, the risk governance framework; and (vii) develop, attract, and retain talent and maintaining the staffing levels required to carry out the unit's role and responsibilities effectively while establishing and adhering to talent management processes and compensation and performance management programs.

Internal Audit

Internal audit should ensure that the covered bank's risk governance framework complies with the guidelines and is appropriate for the size, complexity, and risk profile of the covered bank. It should maintain a complete and current inventory of all of the covered bank's material processes, product lines, services, and functions and assess the risks, including emerging risks, associated with each, which collectively provide a basis for the audit plan. It should establish and adhere to an audit plan that is periodically reviewed and updated, takes into account the covered bank's risk profile, emerging risks and issues, and establishes the frequency with which activities should be audited. The audit plan should require internal audit to evaluate the adequacy of and compliance with policies, procedures, and processes established by front line units and independent risk management under the risk governance framework. Significant changes to the audit plan should be communicated to the board's audit committee. Internal audit should report, in writing, conclusions, material issues, and recommendations from audit work carried out under the audit plan to the board's audit committee. Reports should identify the root cause of any material issues and include: (i) a determination of whether the root cause creates an issue that has an impact on one or more organizational units within the covered bank; and (ii) a determination of the effectiveness of front line units and independent risk management in identifying and resolving issues in a timely manner. Internal audit should establish and adhere to processes for independently assessing the design and ongoing effectiveness of the risk governance framework on at least an annual basis. The independent assessment should include a conclusion on the covered bank's compliance with the standards set forth in the Guidelines. Internal audit should identify and communicate to the board's audit committee significant instances where front line units or independent risk management are not adhering to the risk governance framework. Internal audit should establish a quality assurance program that ensures internal audit's policies, procedures, and processes comply with applicable regulatory and industry guidance, are appropriate for the size, complexity, and risk profile of the covered bank, are updated to reflect changes to internal and external risk factors, emerging risks, and improvements in industry internal audit practices, and are consistently followed. Internal audit should develop, attract, and retain talent and maintain staffing levels required to effectively carry out its role and responsibilities. Internal audit should establish and adhere to talent management processes and compensation and performance management programs that comply with the guidelines.

Strategic Plan

The CEO, with input from front line units, independent risk management, and internal audit, should be responsible for the development of a written strategic plan that covers, at a minimum, a three-year period. The board of directors should evaluate and approve the plan and monitor management's efforts to implement the strategic plan at least annually. The plan should (i) include a comprehensive assessment of risks that currently impact the covered bank or that could have an impact on the covered bank during the period covered by the strategic plan; (ii) articulate an overall mission statement and strategic objectives for the covered bank with an explanation of how the covered bank will update the risk governance framework to account for changes to its risk profile projected under the strategic plan; and (iii) be reviewed, updated, and approved due to changes in the covered bank's risk profile or operating environment that were not contemplated when the plan was developed.

Risk Appetite Statement

A covered bank should have a comprehensive written statement that articulates its risk appetite that serves as the basis for the risk governance framework. The statement should contain both qualitative components that describe a safe and sound risk culture and how the covered bank will assess and accept risks and quantitative limits that include sound stress testing processes and address earnings, capital, and liquidity.

Risk Limit Breaches

A covered bank should establish and adhere to processes that require front line units and independent risk management to: (i) identify breaches of the risk appetite statement, concentration risk limits, and front line unit risk limits; (ii) distinguish breaches based on the severity of their impact; (iii) establish protocols for when and how to inform the board of directors, front line unit management, independent risk management, internal audit, and the OCC regarding a breach; (iv) provide a written description of the breach resolution; and (v) establish accountability for reporting and resolving breaches that include consequences for risk limit breaches that take into account the magnitude, frequency, and recurrence of breaches .

Concentration Risk Management

The risk governance framework should include policies and supporting processes appropriate for the covered bank's size, complexity, and risk profile for effectively identifying, measuring, monitoring, and controlling the covered bank's concentrations of risk.

Risk Data Aggregation and Reporting

The risk governance framework should include a set of policies, supported by appropriate procedures and processes, designed to provide risk data aggregation and reporting capabilities appropriate for the covered bank's size, complexity, and risk profile and to support supervisory reporting requirements. Collectively, these policies, procedures, and processes should provide for: (i) the design, implementation, and maintenance of a data architecture and information technology infrastructure that support the covered bank's risk aggregation and reporting needs during normal times and during times of stress; (ii) the capturing and aggregating of risk data and reporting of material risks, concentrations, and emerging risks in a timely manner to the board of directors and the OCC; and (iii) the distribution of risk reports to all relevant parties at a frequency that meets their needs for decision-making purposes.

Talent and Compensation Management

A covered bank should establish and adhere to processes for talent development, recruitment, and succession planning. The board of directors or appropriate committee should review and approve a written talent management program. A covered bank should also establish and adhere to compensation and performance management programs that comply with any applicable statute or regulation.

Board of Directors Training and Evaluation

The board of directors of a covered bank should establish and adhere to a formal, ongoing training program for all directors. The board of directors should also conduct an annual self-assessment.

3. *Consideration of the use of improved information technology:*

Respondents may use any method of improved technology that meets the requirements of the guidelines.

4. *Efforts to identify duplication:*

The required information is unique and is not duplicative of any other information already collected.

5. *If the collection of information impacts small businesses or other small entities, describe any methods used to minimize burden.*

The information collection does not have a significant impact on a substantial number of small businesses or other small entities.

6. Consequences to the Federal program if the collection were conducted less frequently:

If the information were collected less frequently, the OCC would encounter significant difficulties in supervising covered banks and determining whether their governance and risk management practices are appropriate.

7. Special circumstances that would cause an information collection to be conducted in a manner inconsistent with 5 CFR part 1320:

The information collection would be conducted in a manner consistent with 5 CFR part 1320.

8. Comments in response to the Federal Register notice and efforts to consult with persons outside the agency:

On October 5, 2020, the OCC issued a notice for 60 days of comment regarding this collection, 85 FR 62802. No comments were received.

9. Payment or gift to respondents:

Not applicable.

10. Any assurance of confidentiality:

The information collection request will be kept private to the extent permissible by law.

11. Justification for questions of a sensitive nature:

Not applicable. No personally identifiable information is collected.

12. Burden estimate:

The OCC estimates the burden of this collection of information as follows:

Total number of respondents: 23
Total burden per respondent: 3,776
Total burden for collection: 86,848

Cost of Hour Burden
 $86,848 \times \$115.19 = \$10,004,021.10$

To estimate wages the OCC reviewed May 2019 data for wages (by industry and occupation) from the U.S. Bureau of Labor Statistics (BLS) for credit intermediation and related activities excluding nondepository credit intermediaries (NAICS 5220A1). To estimate compensation costs associated with the rule, the OCC uses \$115.19 per hour, which is based on the average of the 90th percentile for six occupations adjusted for inflation (3.1 percent as of Q1 2020 according to the BLS), plus an additional 33.4 percent for benefits (based on the percent of total

compensation allocated to benefits as of Q4 2019 for NAICS 522: credit intermediation and related activities).

13. Estimate of total annual costs to respondents (excluding cost of hour burden in Item #12):

None.

14. Estimate of annualized costs to the Federal Government:

None.

15. Change in burden:

Current: 128,384

New: 86,848

Difference: - 41,536

The change in burden is due to the availability of more accurate burden estimates.

16. Information regarding collections whose results are to be published for statistical use:

There are no publications.

17. Reasons for not displaying OMB approval expiration date:

The agency is not seeking to display the expiration date of OMB approval of the information collection.

18. Exceptions to certification statement:

There are no exceptions to the certification.

B. Collection of Information Employing Statistical Methods

The collection of this information does not employ statistical methods. Statistical methods are not appropriate for the type of information collected and would not reduce burden or improve accuracy of results.