COMPTROLLER CURRY HIGHLIGHTS EFFORTS TO ENHANCE RISK MANAGEMENT

In remarks delivered before RMA’s annual Governance, Compliance, and Operational Risk Conference on May 8, 2014, OCC Comptroller Curry commended RMA for being “out in front on the issues that matter most to financial institutions” and that are also “front and center” for him as Comptroller. He pointed out that in his first weeks as Comptroller he had stated that addressing the challenges posed by operational risk would be among his foremost priorities as Comptroller.

Comptroller Curry mentioned that one such initiative – the OCC’s proposed formal guidelines on heightened expectations for risk management, internal audit, and governance at large national banks – will soon come to fruition. As he had done in earlier statements, Mr. Curry reassured community bankers that the proposal is focused only on large and complex institutions – those with average consolidated assets of $50 billion or more. The guidelines would be applied to banks under this asset threshold only if the OCC determined that the particular bank’s operations were highly complex relative to its risk-management capabilities.

Mr. Curry said one of the central lessons coming out of the financial crisis was that supervisory expectations for risk management, internal audit, and corporate governance in larger banks needed to be substantially higher. To address this need, the OCC began developing these heightened expectations in 2009. After “field testing” the expectations by assessing bank compliance with informal guidance, Mr. Curry stated that the OCC gained a clearer view of best practices and minimum standards in this area, and concluded that a more robust approach – with the possibility of an enforceable response - was warranted, and the formal proposal was published for comment.

Comptroller Curry characterized the proposed guidance as consisting of two major components. The first sets forth the minimum standards for the design and implementation of a bank’s risk governance framework, based on the “three lines of defense” (front line units, independent risk management, and internal audit). This should ensure that the bank has an effective system to identify, measure, monitor, and control risk taking, and to ensure that the board of directors has sufficient information on the bank’s risk profile and risk management practices to do its job. The second component sets the criteria for the board’s composition and responsibilities, to ensure that boards meet the minimum threshold number of independent directors and that all board members have the information, status, and authority to ensure effective oversight, including the ability to pose a credible challenge to management.

Mr. Curry acknowledged bankers’ desire for a less prescriptive approach in this area; however, he pointed out that many, if not all, of the specific requirements of the proposal already are, or should be, operational in most large, complex banks. He said the OCC feels it necessary to establish heightened expectations for risk management, internal audit, and governance capabilities at large institutions because risk today, in an interconnected world, is qualitatively different – and far more difficult to manage – than just a few years ago. Comptroller Curry made
the observation that some of the most significant losses banks have sustained in the last several years were attributable not to the loans they made but rather to lapses in operational risk management and the ensuing legal judgments, regulatory fines and reputational damage.

Comptroller Curry then mentioned the increase in volume and sophistication of cyber-attacks and that he has been heavily focused on this particular type of operational risk because of the pace at which it is increasing and because of its potential to undermine confidence in our institutions. He mentioned the FFIEC’s Cybersecurity and Critical Infrastructure Working Group, which is working with banks and their critical service providers to effectively identify, assess, and mitigate cybersecurity risks. He pointed out one area of ongoing concern – that being the increasing reliance on third parties. Mr. Curry stated that increasing concentration among service providers is a major concern and the OCC expects bankers to take such concentration risks into consideration as part of their risk management programs.

Mr. Curry concluded his remarks by observing that operational risk issues must be viewed in terms of their impact on the entire enterprise. He said this requires a fully integrated and comprehensive approach to risk management – an approach the OCC’s heightened expectations guidelines are intended to achieve.