Fiscal Year 2024 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 2024 begins October 1, 2023, and ends September 30, 2024. The FY 2024 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 priorities. The operating plan facilitates the implementation of supervisory strategies for individual national banks, federal savings associations, and federal branches and agencies of foreign banking organizations (collectively, banks), as well as third-party service providers subject to OCC examination. CBS managers and staff will use this plan to guide their supervisory priorities, planning, and resource allocations for FY 2024.

Priority Objectives for CBS Operating Units

The FY 2024 Bank Supervision Operating Plan establishes priority objectives across CBS operating units. CBS managers and staff 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 critical processing and other banking services provided to banks by third parties.

The OCC will adjust supervisory strategies, as appropriate, during the fiscal year in response to emerging risks and supervisory priorities. For FY 2024, examiners will focus on the impacts of volatile economic conditions such as high inflation, rising interest rates, and continuing recession possibilities. Examiners will also consider geopolitical events that may have adverse financial, operational, and compliance implications. In addition to baseline activities, OCC risk-based supervision will focus on the following areas:

- **Asset and liability management:** Examiners should determine whether banks are managing interest rate and liquidity risks through use of effective asset and liability risk management policies and practices, including stress testing across a sufficient range of scenarios, sensitivity analyses of key model assumptions and liquidity sources, and appropriate contingency planning. Examiners should also determine whether banks' risk appetites and policy limits are consistent with projected risk to asset values, deposit stability, liquidity, capital, and earnings. Examiners should determine whether management sufficiently incorporates nonparallel rate scenarios in addition to more standard scenarios. Reevaluation of the timing and amount of deposit outflow assumptions under both idiosyncratic and systemic liquidity stress scenario analyses may be warranted based on recent market disruptive events. Supervisory focus should also include back-testing practices to assess whether models performed accurately during recent stress events. Contingency funding plans should be reviewed to determine whether banks have adequate operational readiness to access contingent funding sources, effective monitoring of established borrowing lines, good collateral management practices, and the ability to access contingency liquidity sources in an efficient and timely manner. Examiners should also assess whether contingent funding sources are sufficient to meet potential funding needs and periodically tested.

- **Credit:** Examiners should evaluate the effectiveness banks' actions to identify and manage credit risk given significant changes in market conditions, interest rates, and geopolitical events. Examiners should evaluate banks' stress testing of adverse economic scenarios and potential implications to capital. Areas of focus for stress testing reviews should include increasing operating and borrowing costs for vulnerable retail and commercial borrowers. Risk-based examination work should focus on concentrations risk management, including for vulnerable commercial real estate and other higher-risk portfolios, risk rating accuracy, portfolios of highest growth, and new products. Examiners should evaluate whether loss mitigation practices, including forbearance and modification programs, consider borrowers' ability to repay and offer meaningful, affordable, and sustainable payment assistance. Examiners should determine whether bank risk management functions are providing a credible challenge, including the potential for additional adverse economic scenarios and their implications.
- **Allowance for credit losses (ACL):** Examiners should determine the effectiveness of banks' ACL methodologies at estimating lifetime expected credit losses considering present economic conditions and expectations over a reasonable and supportable forecast period. Examiners should also determine whether banks' ACL methodologies and assumptions are well documented and subject to effective governance activities, including sound model risk management, commensurate with the bank's size, complexity, and risk profile.
- **Cybersecurity:** Cybersecurity, incident response, data recovery, and operational resilience should remain supervisory focal points because of continued evolution and volatility in cyberattacks. Examiners should review the results of banks' cybersecurity assessments and identify control weaknesses and areas of supervisory concern by applying the Cybersecurity Supervision Work program in a risk-based manner. Banks' operational resilience capabilities should be reviewed, with an emphasis on system and data backup techniques that enable recovery from disruptive and destructive attacks, such as ransomware. Examiners should evaluate banks' cyber intelligence gathering and analysis, threat and vulnerability detection and remediation, software patch management, and authentication and access controls, including use of multi-factor authentication. Examiners should assess incident response processes and compliance with regulatory incident reporting requirements, including those involving ransom or other extortion demands. Examiners should consider the effectiveness of banks' third-party risk management, including their validation of third-party controls and data protections, such as access management, network management, and data management. Examiners should also evaluate the effectiveness of banks' processes to inventory information technology assets and determine asset life cycles and end-of-life risks, such as the Microsoft Windows 10 end-of-life expected in 2025.
- **Operations:** Examiners should identify and assess products, services, and third-party relationships with unique, innovative, or complex structures, such as real-time payments, banking-as-a-service arrangements, distributed ledger-related activities, or use of artificial intelligence technologies. Examiners should determine whether banks' due diligence, ongoing monitoring processes, and risk governance are commensurate with the nature and criticality of

new, modified, or expanded products and services. In addition, examiners should assess banks' risk management processes and controls of third-party relationships, particularly those with financial technology (fintech) companies, to safeguard against operational, compliance, reputation, financial, or other risks. Reviews of bank governance should assess the effectiveness of talent recruitment to include internal and, when applicable, third-party retention and succession management processes.

- **Distributed ledger technology (DLT) related activities:** Examiners should assess risk management processes for any DLT-related products and services, including cryptoasset custody, tokenization of real-world assets and liabilities, payments, and other uses to support business operations. Reviews should include banks' due diligence and risk assessments, including the integrity and controls for distributed ledgers used (e.g., governance structure, consensus mechanism, encryption methods) to determine whether management has effectively identified and mitigated risks. Examiners should also determine whether management has sufficient expertise to manage the technology and related financial, operational, compliance, strategic, and reputation risks. In addition, examiners should determine whether banks are following the supervisory nonobjection process described in OCC Interpretive Letter 1179 for DLT-related activities.
- **Change management:** Examiners should identify banks that are implementing significant changes in their leadership, operations, risk management frameworks, and business activities, including the use of third-party service providers that support critical activities. Examiners should determine the suitability of governance processes, including acquisition or retention of qualified staff, when the board or management undertakes significant changes. This includes changes resulting from mergers and acquisitions, system conversions, regulatory requirements, and implementation of new, modified, or expanded products and services, such as the use of technological innovations.
- **Payments:** Examiners should identify and evaluate banks' payment systems and payments-related products and services being offered or planned, especially new or novel products, services, or delivery channels, such as person-to-person payments. Examiners should consider potential operational, compliance, credit, liquidity, strategic, and reputation risks and how they are incorporated into bank-wide risk assessments. When banks have opted to use the FedNow payment system, examiners should assess banks' risk management practices, including governance and controls of change management, information technology, information security, compliance, and fraud.
- **Bank Secrecy Act (BSA)/anti-money laundering (AML)/countering the financing of terrorism (CFT) and Office of Foreign Assets Control (OFAC):** Examiners should evaluate banks' BSA/AML programs to assess whether banks' operations and systems are reasonably designed and implemented to mitigate and manage money laundering and terrorist financing risks from business activities, including products and services offered and customers and geographies served. Examiners should also evaluate systems and processes for compliance with the U.S. sanctions administered and enforced by OFAC. Additional areas of focus should include evaluating banks' preparations for implementing the AML Act of 2020.
- **Consumer compliance:** Examiners should focus on banks' compliance risk management systems for new or innovative products, expanded services, and delivery channels offered to consumers or that involve products or services offered through third-party relationships, including those with fintechs or through banking-as-a-service activities. Examiners should also evaluate the effectiveness of compliance functions supported by third-party service providers. Supervisory focus should include banks' processes to ensure compliance with statutory requirements prohibiting unfair, deceptive, or abusive acts or practices, including review of risk

management practices for overdraft protection programs with features that may present heightened risk such as "authorize positive, settle negative" or multiple representment fees. Related supervisory activities should consider whether relevant aspects of products or services, including those offered through third-party relationships, are communicated to consumers in a clear and consistent manner. With increasing use of person-to-person payments, examiners should focus on compliance challenges, including fraud and error resolution. Additionally, examiners should evaluate the due diligence performed on any prospective third-party relationships relative to the specific roles and responsibilities of the bank and the third party.

- **Community Reinvestment Act (CRA):** Examiners should conduct CRA evaluations due in FY 2024 according to the banks' applicable CRA evaluation period, plus any approved extensions. Strategies should reflect examination guidance issued in FY 2022 to address challenges posed by rule changes in June 2020 and December 2021. Examiners should evaluate banks' compliance with assessment area regulatory requirements, including whether a bank has arbitrarily excluded low- or moderate-income census tracts or the assessment area reflects illegal discrimination. In the case of inappropriately defined assessment areas, examiners should also discuss with the bank an inappropriately defined assessment area that may raise redlining risk. In addition, examiners should review the sufficiency of banks' change management processes to incorporate and address any changes to the CRA rules.
- **Fair lending:** Examiners should focus on assessing fair lending risk and whether banks are ensuring equal access to products and services. Risk assessments should consider all factors that could affect a bank's fair lending risk, including changes to strategy, personnel, products, services, underwriting systems, CRA assessment areas, and operating environments since the previous risk assessment. Additionally, unless deferred or waived, examiners must conduct fair lending examinations for focal points identified during OCC's 2023 annual statistical screening of the Home Mortgage Disclosure Act data or after assessing a bank's fair lending risk profile. Fair lending supervision activities should encompass the full life cycle of credit products, including the potential for mortgage lending discrimination resulting from appraisal bias or discriminatory property evaluations.
- **Climate-related financial risks:** For national banks, federal savings associations, and foreign banking organizations with over $100 billion in consolidated assets and any branch or agency of a foreign banking organization that individually has total assets of over $100 billion, examiners should monitor the development of banks' climate-related financial risk framework for safety and soundness and engage with bank management and other regulators to better understand the challenges banks face in this effort, including data and metrics, governance and oversight, policies, procedures, limits, strategic planning, and scenario analysis capabilities and techniques.

Supervision resources should focus on significant risks, and the board and management's ability to control those risks, while considering appropriate coverage of other areas. Examination activities should integrate multiple risk disciplines and include cross-disciplinary teams when feasible to help provide a complete assessment of risks. Strategies should focus on risk governance and control functions and leverage banks' audit, credit risk review, and risk management processes when the OCC has validated their reliability, including scope, timeliness, and competence.

To facilitate an agency-wide view of risk on the areas of focus, 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.