

**Introduction<sup>1</sup>**

Meetings between regulatory staff and the board of directors—the individuals ultimately responsible for an institution’s affairs—serve a variety of functions. They provide opportunity for interaction, and they facilitate long-term communication, which is especially important when the regulatory process reveals significant adverse information. They help to keep the directors and regulators mutually informed by providing them an opportunity to discuss together:

- The examination process and findings;
- The institution, its business strategy and plans;
- The general financial environment; and
- Industry-related concerns.

They give regulators an opportunity to obtain commitments from the board for corrective action.

Meetings with boards of directors are distinct from management meetings, also known as *exit conferences*, *closing conferences*, or *exit interviews*, near the end of an examination. Management meetings (see Compliance Activities Regulatory Handbook Section 120, Reaching Conclusions and Closing the Examination) are held with members of the executive management team to review technical and overall examination findings and to obtain commitments for corrective action. The examiner in charge (EIC) should notify management of all examination-related items slated for discussion with the board of directors, except for findings that warrant recommendations for removal of management. For further discussion regarding management and the directors’ meetings in connection with compliance examinations, refer to the Compliance Activities Handbook Section 120. Meetings should be conducted in the case of associations rated “4” or “5” for compliance or “Needs

to Improve” or “Substantial Noncompliance” for CRA. Meetings should also be conducted for institutions with a compliance rating of 3 if the rating represents a downgrade from the prior examination. Generally, examiners should meet with boards of directors of all 3 rated institutions; however, Examiners-in-Charge, with the concurrence of the Compliance Exam Manager and/or Assistant Regional Director, have discretion in determining whether such a meeting would be necessary or appropriate in those cases which the 3 rating is not a downgrade from the prior examination.

Because of the value of meetings with boards of directors noted by institution management and the OTS, such meetings with non-adversely rated institutions are encouraged, particularly if the EIC notes adverse trends, increased risk profile, or other matters which need to be brought to the attention of the board. If no such issues exist, the EIC should honor any request from management to forgo a meeting with the board.

For non-adversely rated institutions over \$1 billion, meetings with the boards of directors should be held, whether or not adverse trends are present. A request from management to not hold a meeting may only be honored after consultation with the Compliance Exam Manager or Assistant Regional Director.

Examiners-in-Charge should discuss this policy with the institutions management during examination entrance interviews, or at other appropriate times during the course of the examination, and schedule a mutually agreeable, convenient date and time to hold a meeting with the board of directors. Generally, it is expected that such meetings would be held in conjunction with an institution’s regularly scheduled board meeting following the completion of the examination; however, in some situations it may be convenient to all parties to schedule the meeting during the course of the examination.

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<sup>1</sup> This section is substantially identical to Thrift Activities Handbook, Section 320. Some changes have been made to relate the material to compliance examinations.

### Types of Meetings

There are two primary types of meetings between regulators and boards of directors: regular (examination-related) and special (not primarily for presenting examination findings). However, any meeting may serve multiple purposes. For example, a regular meeting can be used to get acquainted with the board of directors and enhance communication as well as present examination findings.

#### *Regular Meetings*

Regular meetings may result from regular, special, or targeted examinations. Their primary purposes are to present and discuss examination findings and, if necessary, reach agreement on a plan of corrective action. A secondary purpose may be to gather information regarding a new function or plans for the institution. These meetings may also be used to enhance the directors' understanding of the regulatory process and to establish rapport and build lines of communication between regulators and directors.

Regular meetings should normally be held subsequent to the examination, although they may be held during the last week of the examination if the examination results have been discussed with the institution's management. They may also be held in conjunction with the board's next regularly scheduled meeting or at another mutually agreed-upon date. However, whenever possible, they should not be later than 60 days after the examination completion date. When scheduling the meeting, regulators may consider whether receiving a copy of the report of examination (ROE) prior to the meeting would benefit the directors.

The following issues, which warrant the board of directors' attention, are among those that should be considered for the meeting agenda:

- A comparison of the institution's compliance policies, practices, and reporting systems with those one would expect to find in a well-managed institution of comparable size and offering similar services;

- Senior management's actions to correct deficiencies in compliance policies, practices, and reporting systems;
- The institution's system of internal control, including its program of internal audit;
- The extent to which senior management and directors are receiving information needed to manage or oversee the institution effectively;
- Any significant concerns or observations regarding the quality of earnings;
- Management's long-term plans;
- Depth in management personnel; and
- The board's involvement in the institution's affairs.

Regulatory staff should be prepared to discuss methods for correcting deficiencies but should not direct the course of action to be taken. If there are no major deficiencies, regulatory staff can inform the board of directors of the general condition of the institution and obtain the board's view on its future operations. The directors should be encouraged to discuss any matters of interest.

#### *Special Meetings*

Special meetings may be conducted for the following reasons:

- To effect a supervisory action, such as a supervisory agreement or cease-and-desist order;
- To gather information in order to act on a proposal, application, or request by the institution;
- To discuss an institution's progress in achieving the interim goals of a corrective action plan;
- To get acquainted, following a change in the composition of the directorate or a change in the regulatory staff assigned to the institution; or
- In response to a request by the directorate to meet with regulatory staff.

**Meeting Preparation, Presentation, and Documentation**

To ensure a successful meeting, regulatory staff should prepare thoroughly for any meeting with the directorate, be professional in conducting the meeting, and prepare sufficient documentation to ensure appropriate follow-up. When appropriate, regulators should use the following guidelines:

- Preparation
  - Ensure that scheduling and selection of attendees facilitates the meeting's goal (see the discussion below on participation);
  - Choose attendees and determine the responsibilities of each;
  - Select a chairperson;
  - Determine a time and location;
  - Develop an agenda (refer to the discussion below);
  - Notify all participants of the meeting and its purpose;
  - Meet with regulatory staff participants to discuss the agenda and any other related issues;
  - Prepare and organize supporting data, including comparative figures and ratios that indicate trends and graphs to illustrate significant points or trends; and
  - Prepare any handouts or overheads and arrange for their presentation.
- Presentation
  - Conduct the meeting in a dignified, professional and objective fashion;
  - Present the agenda (refer to discussion below) and follow it within reason;
  - Remember that the effectiveness of the meeting is directly related to the extent communication is established and credibility maintained;

- Encourage directors' involvement and questions;
  - Do not attempt to answer questions without being able to offer complete and accurate information. When unable to do so, inform the directors that they will receive a response from the regional office or the Office of Thrift Supervision (OTS) — Washington and then forward the question appropriately for a timely reply; and
  - Obtain commitments for corrective action from the board of directors, if appropriate.
- Documentation
    - Evaluate and document the results of the meeting (refer to the discussion below).

**Participation**

Meetings should be held with the entire board to ensure that all directors are aware of regulatory findings and commitments to correct deficiencies. If all directors cannot attend, regulatory staff may meet with a group, such as the audit, examining, or executive committee, as long as:

- Outside directors are represented;
- A meeting with the full board is not critical (for example, if no material or adverse findings are noted); and
- A meeting with less than the full board is compatible with the goals and circumstances of the meeting.

Honorary directors may attend meetings with regulatory staff to participate in decision making and discuss examinations. However, honorary directors may not vote. Any person or organization connected with the institution, auditor, or holding company representative may attend the meeting upon board resolution. However, regulatory staff may excuse such people if appropriate. As a general rule, state supervisory authorities should attend meetings with the boards of directors of state-chartered institutions.

Examiners-in-Charge should participate in regular meetings with the board of directors. This provides them with the opportunity to discuss the strengths and weaknesses noted during the examination and to answer any questions posed by management. In some cases, it may be advantageous for the EIC to attend special meetings as well.

### *Agenda*

To ensure that meetings with boards of directors are clear, concise and orderly, regulatory staff should prepare a detailed outline of the topics for discussion. The following sample outline is a starting point. It may be used as a guide for regular meetings, but should be considered neither all-inclusive nor limiting as to content or format.

#### Sample Agenda Outline

- Introductory remarks by regional office representative
  - Introductions
  - OTS policy regarding meeting with the board
  - Purpose of meeting
  - Type of examination, scope, and other limitations
- Presentation of examination findings
  - Results of the examination of the association
  - Management
  - Internal controls and audit coverage
  - Adequacy and effectiveness of policies and procedures
  - Adequacy and accuracy of association's reporting systems
  - Compliance systems
  - Violations of law
  - Supervision by board of directors

- Corrective action (after discussion with appropriate regulatory staff)
  - Summary of problems
  - Board commitments
- Other matters
- Questions from the board of directors
- Overall conclusions

### *Documentation*

After the meeting, regulatory staff should prepare a post-meeting memorandum to formally record the meeting results, date, time, location and participants' names and titles. The memorandum should also describe the items discussed, the board of directors' reactions to those items and any commitments for corrective action. If the board has promised corrective action, or if otherwise appropriate, the regulator should send the memorandum to the board for comment/concurrence.

At the conclusion of any meeting conducted by the board of directors (rather than the regulators), regulatory staff should ask for a copy of the minutes. Upon receipt, regulatory staff should review the minutes for accuracy.

A copy of the post-meeting memorandum or minutes, along with the agenda from the meeting, should be filed in the appropriate supervisory file and the continuing examination file.