SUPERVISORY PLANNING OVERVIEW

The purpose of supervisory planning is to develop an efficient, risk-focused examination strategy that is tailored to the institution's business model, risk profile, and complexity. The examination principles discussed in this Manual apply to all institutions, but since institutions subject to continuous examinations are often larger and/or more complex, some planning activities differ from those outlined in this Manual's Section 21.1 Examination Planning – Point-in-Time Examinations.

Risk-focused supervision involves employing a tailored approach to each examination. The risk-focused supervision approach to examinations is not comprised of a fixed set of routine procedures. Rather, the procedures that constitute a full-scope examination depend on the nature and complexity of the institution's business activities and risk profile. At a minimum, full-scope examinations must include sufficient procedures to reach an informed judgment on the financial, managerial, operational, and compliance factors rated under the CAMELS[1] rating system[2]. An examination meeting those requirements would meet the FDIC's definition of a full-scope examination.

The purpose of the examination planning process for all institutions is to ensure that the institution's operations and activities are understood prior to the start of an examination, so that examination procedures can be appropriately tailored to the institution. By understanding the unique nature of each institution, examiners can evaluate fundamental risks of the institution's activities and the strength of management's practices for mitigating those risks, and focus examination activities and procedures on risks that are not as well-mitigated or that have not been previously assessed because they are new or have been expanded or changed.

The supervisory planning process is designed to provide sufficient flexibility to scale the planning and examination program to each institution's size, complexity, and risk profile. Due to the size and/or complexity of institutions subject to continuous examinations, the planning process for these institutions involves a more structured risk assessment of key business and operational segments. The risk assessment process is segmented by "Risk Area" to identify key lines of business (LOB), support functions, and risk management functions that meaningfully impact the institution's risk profile, and are used to determine examination activities. Continuous examination activities include a mix of targeted reviews (TR), which provide an in-depth assessment of the risk profile of selected Risk Areas, and ongoing monitoring (OGM), which includes a range of activity used to maintain a holistic view of the institution and its risk profile. Both types of activities are conducted throughout the course of the year with results consolidated into the Report of Examination (ROE) at the end of the examination cycle, rather than conducted over a short period of time as during a point-in-time examination.

←

TARGETED REVIEWS

A TR is examination work that is risk-focused and tailored to provide a sufficient assessment of the risk profile of a Risk Area. TR findings are used in conjunction with OGM and other supervisory activities to assign CAMELS and specialty ratings at the conclusion of the examination cycle, and when appropriate, on an interim basis. Examination activities from TRs will generally include an evaluation of selected first-line risk management practices, an evaluation of second-and third-line oversight, and an evaluation of the Risk Area's impact on the institution's financial condition. Examination procedures for TRs generally include examination scoping, transaction testing, and interaction with institution management.

TRs of first-line Risk Areas are essential for assessing risk exposures; however, an equal, if not more important goal is to assess risk management functions (i.e., second-line of defense) and internal audit (i.e., third-line of defense). The effectiveness of an institution's control structure through its second-and third-lines of defense is fundamental to its risk management and a priority for FDIC to monitor and assess; therefore, when developing the Supervisory Plan (Plan), examiners should consider how to design the strategy to assess the risk management practices, products, lines of business (LOBs), and systems as well as the effectiveness of the entirety of the risk management program. An institution may have strong lines of defense over certain business activities, but have risk management weaknesses in other LOBs. Therefore, designing a Plan that provides for examiners to assess the adequacy of oversight throughout the examination cycle and periodically aggregating findings can aid in identifying thematic weaknesses and is key to performing a holistic review of the risk management frameworks for the second-and third-lines of defense.

[1] Under the Uniform Financial Institution Rating System (UFIRS), the component ratings for capital adequacy, asset quality, management capabilities, earnings sufficiency, liquidity position, and sensitivity to market risk are commonly referred to as CAMELS ratings.

[2] This could include, as appropriate, risk management for Information Technology, Bank Secrecy Act (BSA)/Anti-Money Laundering (AML)/Office of Foreign Assets Control (OFAC) reviews, Trust, Registered Transfer Agent, Municipal Securities Dealer, and Government Securities Dealer examination programs. These specialty examination areas are incorporated into CAMELS through the Management component rating, as outlined in the Uniform Financial Institutions Rating System. *See 62 Fed. Reg. 752, January 6, 1997.*

If the design and effectiveness of the institution's risk management frameworks satisfactorily identify, measure, monitor, control, and report risks, the Plan may allow for examiners to leverage internal reporting in assessing risk. In developing a Plan, examiners should expand their understanding of an institution's risk profile and form examination strategies using the institution's Enterprise Risk Management (ERM), internal audit, internal loan review, and other second-and third-line risk management programs, as long as those functions perform adequate independent risk assessments based on independent testing. Strengths and weaknesses identified by the second-and third-lines and examiner identified gaps in second-and third-line coverage are important considerations in planning efficient, risk-focused examinations.

←

ONGOING MONITORING

OGM is performed throughout the examination cycle or planned for a specific purpose (OGM-Scheduled) and works in conjunction with TRs to maintain a holistic view of the institution and its risk profile. Results of OGM activities are to be reflected in the Core Analysis Decision Factors within ED Modules, in the assignment and support for supervisory ratings, and in the analysis needed to complete the ROE at the conclusion of the examination cycle.

The primary objectives of OGM include the following:

- Monitor and assess the institution's financial condition, risk profile, and strategic direction through regular real-time review of board and committee meeting agendas, information packets and minutes; line of business reporting; enterprise risk management assessments; internal and external audit reports and responses; SEC and other regulatory financial reports; press releases, industry analysts reports, etc.;
- Proactively identify emerging risks and trends through horizontal review and comprehension of target review findings and the monitoring activities listed immediately above;
- Identify, inform, and support adjustments to the supervision strategy, including upcoming TRs;
- Monitor and assess efforts to remediate Supervisory Recommendations, including Matters Requiring Board Attention and identify potential common root causes; and
- Facilitate completion of the ROE, assignment of CAMELS ratings, completion of the Plan, and contribution to any Horizontal Reviews.

OGM is necessary to properly oversee institutions subject to a continuous examination due to their relative size and complexity. The range of appropriate OGM activities developed to efficiently and effectively supervise the institution will vary based on each institution's business model, risk profile, and complexity. OGM may consist of both a recurring set of baseline activities conducted throughout the examination cycle (i.e., ad hoc/monthly/quarterly) as well as a range of examination activities (i.e., transaction testing) during a specific time frame for a specific purpose. The latter is referred to as OGM-Scheduled.

Scoping, transaction testing, and communication activities for any type of OGM are comparatively lesser in extent, comprehensiveness, and formality than for TRs. OGM activities provide a planning mechanism that offers flexibility to conduct examination procedures and analysis sufficient to assign and support ratings without conducting a TR, when appropriate, and in some instances, can provide a way for staff to adjust the, examination strategy throughout the cycle. The Plan provides the basis for supporting the examiner's rationale to conduct examination procedures through either a TR or OGM.

←

USE OF TARGETED REVIEWS VS ONGOING MONITORING

Whether a review is characterized as a TR or OGM should not be driven by the physical location of the work (onsite versus offsite, for example) or the timing and number of individuals participating. The primary distinction between a TR and OGM is the depth and breadth of the review activities and the difference in objectives. The purpose and nature of examination activity should be the determining factors that distinguish a TR from OGM activities. Conclusions from the Risk Assessment section of the Plan determine the mix of TR and OGM activities, which should then be scheduled based upon existing authorized staffing levels, recommendations for new dedicated or designated staff, and support from FT, RO, or WO resources. Factors to consider when distinguishing between a TR and OGM include, but are not limited to, the following:

- Objective of the examination activity (assessment of the risk profile of a Risk Area (TR) or maintaining a holistic view of the institution (OGM), for example),
- Breadth of assessments made (multiple risk management practices versus one practice, for example),
- Level of planning and scoping necessary,
- Scope of request lists,
- Level of transaction testing performed, and
- Degree of interaction with management.

←
SUPERVISORY PLAN DOCUMENTATION

Plans for continuous examinations are documented in two components: the Plan narrative and the Supervisory Planning Tool (SP Tool). The narrative portion of the Plan documents the annual risk assessment and outlines the examination strategy. The SP Tool is an internal software application that documents the estimated hours and resources needed to execute the strategy. The components of the Plan are designed to achieve the following objectives:

- Provide a consistent and transparent process for developing an examination strategy and documenting the resources needed to execute that strategy;
- Use the hours projections and support contained in the Plan as the basis for staffing allocations for dedicated, designated, and Field Territory (FT) examiners; and
- Project staffing requests for FT, Regional Offices (RO), and Washington Office (WO) to aid in scheduling decisions for the calendar year.

This supervisory planning process applies to continuous examinations regardless of the staffing approach used for a particular examination. Typically, dedicated examiners are assigned to a continuous examination by RO management and are expected to work almost exclusively on that examination. Dedicated examiners provide continuity to manage the continuous examination, complete ongoing monitoring, and serve as a consistent point of contact for institution management. While dedicated and/or designated examiners are the primary point(s) of contact for most institutions subject to continuous examinations, FT, RO, and WO staff also participate in continuous examinations. Participation by FT examiners can be on a short-term basis (e.g., assigned to one or more TRs) or on a longer-term basis (e.g., assigned as a designated Examiner-in-Charge (EIC)). RO and WO Specialists provide subject matter expertise for complex issues and may provide both on and offsite support to the dedicated or designated examiners.

←
SUPERVISORY PLANNING TIMELINE

Supervisory Planning Timeline (Dates Approximate)

May 15	Projected Staffing Changes due to WO
By May 31	Supervisory Planning Kickoff
August 1	Draft Supervisory Plans due to WO
August 15	First WO feedback due to RO
August 31	Final WO feedback due to RO
September 15	Final Supervisory Plans due to WO

Due to the relative complexity, annual time period covered, and the larger resource needs for continuous examinations compared to point-in-time examinations, the planning process is more extensive, with planning beginning approximately 8 months in advance of the examination cycle and lasting four months from start to finish. This timeline aligns with the FDIC's annual staffing evaluation, as projections from Plans support continuous examination resource needs for the following calendar year.

←
CONTINUOUS SUPERVISORY PLANNING

Supervisory planning for a continuous examination is not a static, once-a-year exercise. The Plan outlines the expected examination strategy; however, one of the primary benefits of a continuous examination is the ability to use information obtained during OGM and TRs to adjust the supervisory strategy, when needed. Examiners should use OGM to shape future supervisory activities including the expansion, reduction, or postponement of planned TRs. While flexibility exists to adjust to evolving circumstances, material changes made after the Plan's approval must be discussed with FT and RO management, other agencies, and any other applicable stakeholders. Written concurrence from the RO Assistant Regional Director is required prior to implementation of material changes to the examination scope. In addition, actual targeted review activities compared to planned activities are to be reviewed throughout the examination cycle with deviations noted and explained in the SP Tool.

←
COMMUNICATION

Effective communication is key to developing and executing a strong supervisory planning program. The dedicated or designated EIC[3] is responsible for drafting the

[3] If a Dedicated or Designated Examiner in Charge is not in place, Regional Office management should designate a preparer.

Plan and submitting it to the Case Manager for review; in addition, other personnel are involved in developing the supervisory strategy and coordinating resource needs. From the beginning of the Plan's development, preparers must work collaboratively with dedicated team members, specialty examiners, State Agencies, FT management, RO management, Division of Depositor and Consumer Protection (DCP) staff, Consumer Financial Protection Bureau (CFPB) points of contact (if applicable)[4], and Federal Reserve Bank (FRB) staff (if applicable), among others. Preparers should discuss the following topics with relevant stakeholders to come to a consensus on goals, objectives, and their respective roles:

- Current and emerging risks;
- Strategic and growth plans;
- Institution-prepared risk assessments;
- Scope and findings from prior reviews;
- Examination priorities;
- Potential opportunities to collaborate;
- Staffing needs and availability; and
- Other matters as appropriate.

FDIC staff should be aware of other regulators' examination planning timelines and strategies to ensure communication is sufficient to address changes to the supervisory strategy (such as changing the timing or scope of a TR) throughout the examination cycle. Coordination with Federal and State regulators is expected in order to achieve effective and efficient supervision, as well as to lessen burden on the institution to the extent possible. If the institution is owned by a bank holding company (BHC), the FRB should be given the opportunity to participate in examination activities in those areas that are part of the FRB's supervisory process for BHCs. Likewise, the FDIC should actively participate in the FRB's supervisory activities of the parent, if they significantly impact the state nonmember institution. Similar coordination should occur with regulators of industrial bank parent companies.

For Anti-Money Laundering/Countering the Financing of Terrorism[5] (AML/CFT), OFAC Compliance, and specialty reviews (i.e., Information Technology (IT), Trust, Municipal Securities Dealer (MSD), Government Securities Dealer (GSD), and Registered Transfer Agent (RTA)), the EIC or Case Manager should coordinate with their respective FT and RO management to identify designated specialty leads, subject matter experts (SME) and/or Specialists to draft or assist with Plan development and specialty examination strategies. This coordination should occur well in advance of the Plan's due date to ensure availability of needed experts for Plan preparation. In addition, EICs should consult with these specialists to evaluate opportunities for collaboration on selected reviews such as corporate governance, vendor management, or internal audit.

EICs and FT management should coordinate schedules of continuous examination activities and other FT responsibilities to plan for appropriate resource availability. Furthermore, RO management should design a process to coordinate Regional resources among their continuous examinations, as needed.

Collaboration between the Division of Risk Management Supervision (RMS) and DCP staff should be a routine part of a continuous examination, including supervisory planning meetings or consideration of activities that may be conducted jointly. DCP's input and involvement will vary depending on the institution's consumer risk profile. Draft Plans should be shared with the appropriate DCP point of contact for comment no later than the date they are submitted to LBS for review (August 1). Once Plans have been approved, preparers should share a summary of planned supervisory activities with institution management.

[4] A Memorandum of Understanding dated May 16, 2012, establishes requirements for coordination between the CFPB and the Prudential Regulators, which includes the FDIC.

[5] The *Anti-Money Laundering Act of 2020* (the AML Act), amended subchapter II of chapter 53 of title 31 United States Code (the legislative framework commonly referred to as the "Bank Secrecy Act" or "BSA"). The AML Act requires the Financial Crimes Enforcement Network (FinCEN), in consultation with Federal functional regulators, to promulgate AML/CFT regulations. Due to the addition of the CFT, and for consistency with FinCEN, the FDIC will use the term AML/CFT (which includes BSA/AML) instead of BSA/AML when referring to, issuing, or amending regulations to address the requirements of the AML Act.