

Preview of Supervisory Priorities for FRB and OCC in 2024*

As we near the end of a somewhat turbulent year for the banking industry, institutions are likely wondering what they should be expecting from examiners in 2024. The Federal Reserve Board (FRB) and Office of the Comptroller of the Currency (OCC) have each given a glimpse as to what they will focus on in examinations that occur in 2024.

OCC 2024 Operating Plan. On September 28, 2023, the OCC released its “Fiscal Year 2024 Bank Supervision Operating Plan” (the “OCC 2024 Plan”). The OCC 2024 Plan serves as a cornerstone for the OCC and its staff to develop and implement individual operating unit plans and risk-focused bank supervisory strategies. It delineates the OCC’s supervisory priorities for the 2024 fiscal year.

According to the OCC 2024 Plan, OCC examiners will focus on the impacts of volatile economic conditions such as high inflation, rising interest rates, and continuing recession possibilities. OCC examiners will also consider geopolitical events that may have adverse financial, operational, and compliance implications. While not directly stated in the OCC 2024 Plan, the reference to “geopolitical events” seems to be an indirect reference to the impact of the ongoing conflicts in Russia-Ukraine and Israel on the US financial system.

Additionally, it seems the OCC’s risk-based supervision will focus on the following areas: (i) asset and liability management; (ii) credit risk; (iii) allowance for credit loss methodologies; (iv) cybersecurity; (v) operations and third party relationships; (vi) products and services involving distributed ledger technology (such as crypto-assets); (vii) change management; (viii) payments; (ix) Bank Secrecy Act/anti-money laundering/countering the financing of terrorism and Office of Foreign Assets Control; (x) consumer compliance; (xi) community reinvestment act (CRA); (xii) fair lending; and (xiii) climate-related financial risks.

The OCC 2024 Plan goes into more detail as to what the OCC intends to focus on within each area discussed above. Institutions can review the OCC 2024 Plan in its entirety on the OCC’s website at: <https://www.occ.gov/news-issuances/news-releases/2023/nr-occ-2023-109.html>.

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FRB Supervision and Regulation Report. Michael Gibson, director of the FRB's Division of Banking Supervision and Regulation, also referred attendees at the Clearing House conference in New York City to the FRB's Supervision and Regulation Report published in May 2023 (the "FRB SRR"). It is expected that the FRB SRR reflects the FRB's supervisory priorities for 2024.

According to the FRB SRR, FRB examiners are focused on assessing the adequacy of bank risk management in addressing the impact of higher interest rates on liquidity, asset values, and credit quality. Additionally, for community banking organizations (CBO) (*i.e.* those less than \$10 billion in total assets) and regional banking organizations (RBO) (*i.e.*, total assets between \$10 billion and \$100 billion), the areas of supervisory focus include, credit risk, liquidity risk, interest rate risk, cybersecurity, and third-party risk management.

The FRB notes in the FRB SRR that in response to emerging interest rate and liquidity risks in 2022, it initiated a heightened monitoring of and targeted examinations of CBOs and RBOs reporting a significant decline in their fair value of securities. Additionally, FRB examiners elevated the frequency and depth of monitoring of liquidity and interest rate risks at RBOs and CBOs susceptible to potential deposit outflows.

Additionally, the FRB has increased monitoring of the performance of commercial real estate loans (CRE), specifically CBOs and RBOs that may have a significant CRE concentration risk.

Institutions regulated by the FRB can likely expect its examiners in 2024 to be focused on similar areas discussed in the FRB SRR. Institutions can read the FRB SRR in its entirety on the FRB's website at <https://www.federalreserve.gov/publications/2023-may-supervision-and-regulation-report.htm>.