

Examination Process (EP)

Foreword

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Overview

This booklet, “Foreword,” describes the organization and format of the updated *Comptroller’s Handbook*. The *Comptroller’s Handbook* is a collection of booklets that contain the concepts and procedures established by the Office of the Comptroller of the Currency (OCC) for the examination of national banks, federal savings associations, and federal branches and agencies of foreign banks (collectively, banks, unless specifically excepted). The handbook is designed to

- inform and educate examiners and bankers about the areas reviewed—including associated risks and necessary controls—during bank examinations;
- provide examiners and their managers with the information necessary to plan and coordinate examinations, monitor problems or other conditions, and implement appropriate follow-up; and
- guide examiners in performing consistent, high-quality, professional examinations across the spectrum of banks supervised by the OCC.

The *Comptroller’s Handbook* is available at www.occ.gov and is updated as necessary to accommodate changes in relevant statutes and regulations, in the banking industry, and in the OCC’s responsibilities. Of particular importance are the booklets in the *Examination Process* series. Within this series, the “Bank Supervision Process” booklet describes the OCC’s supervisory philosophy and is the primary reference for supervision policy. Three other booklets in this series—“Community Bank Supervision,” “Large Bank Supervision,” and “Federal Branches and Agencies Supervision”—discuss the OCC’s approach to examinations and contain the minimum scope examination procedures (known as the core assessment) for those types of banks.

Other *Comptroller’s Handbook* booklets contain detailed guidance and expanded procedures for examining specialty areas or specific products, services, or activities. OCC examiners consider the risks posed by and the materiality of the areas under examination to decide the scope and additional procedures to be followed. Examiners tailor the examinations to fit the operations of specific banks while fulfilling OCC and statutory requirements.

Handbook Organization

The *Comptroller's Handbook* is organized into five series, as shown in figure 1.

Figure 1: Five Series in the Comptroller's Handbook

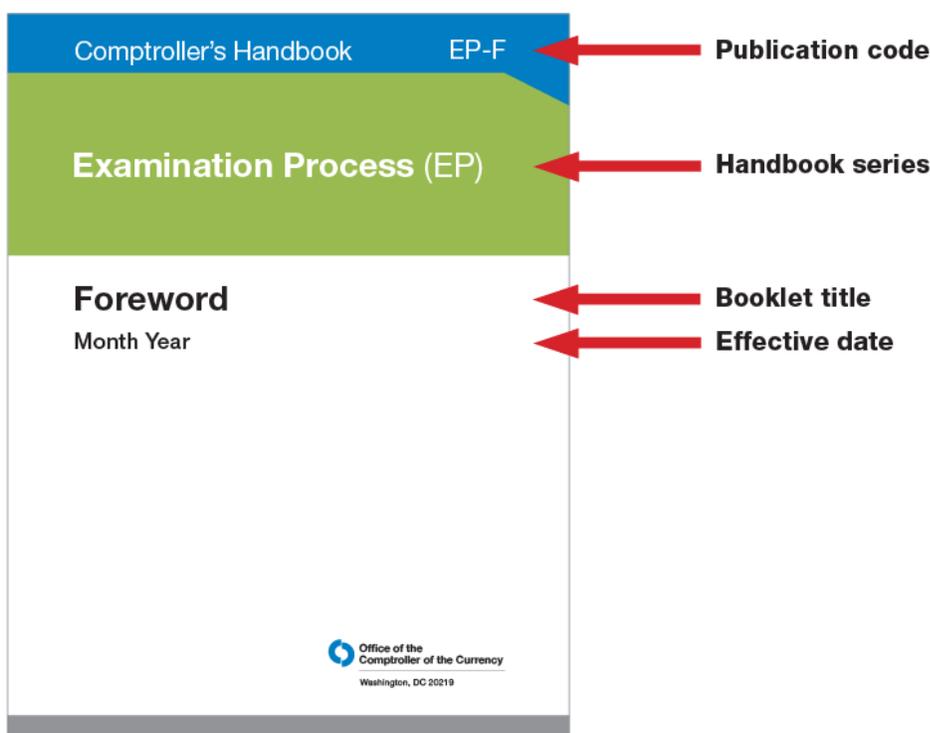


The first series is the previously mentioned *Examination Process*. The other four series are *Safety and Soundness* and the specialty areas of *Asset Management*, *Consumer Compliance*, and *Securities Compliance*. The information technology and Bank Secrecy Act/anti-money laundering specialty areas are not part of the *Comptroller’s Handbook*. These two specialty areas are addressed by interagency guidance and examination procedures issued by the Federal Financial Institutions Examination Council (FFIEC).

Safety and Soundness is divided into seven categories. Six of the categories pertain to the CAMELS components: Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk. The seventh category is called Other Activities—that is, bank activities not directly related to CAMELS. Examinations of specialty areas and other activities help examiners evaluate the overall risk level and condition of banks and can contribute to ratings of specialty areas and CAMELS.¹

Each series and category includes one or more booklets. Booklets may contain more than one examination area; for example, “Other Assets and Other Liabilities.” As shown in figure 2, booklet covers clearly identify the relevant series and title. Each also carries an effective date and a publication code.

Figure 2: Components of a Booklet Cover



¹ Or ROCA (risk management, operational controls, compliance, and asset quality) for federal branches and agencies of foreign banks.

Because the *Safety and Soundness* series is divided into seven categories, these booklet covers feature a row of seven tabs, one for each category. The appropriate tab is highlighted on each *Safety and Soundness* cover to indicate the booklet category as shown in figure 3.

Figure 3: Safety and Soundness Booklet Cover

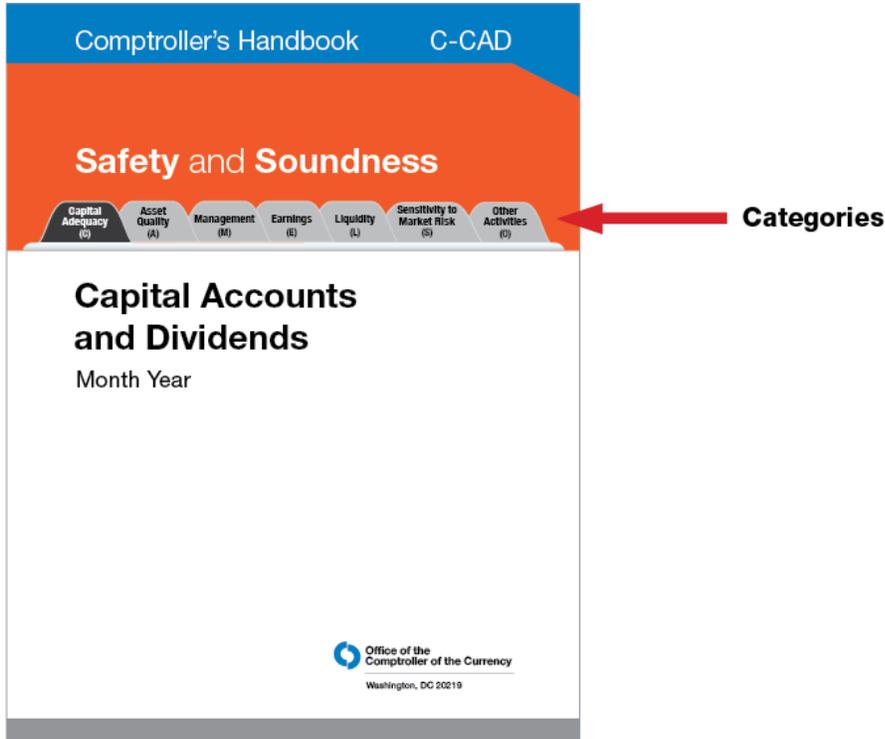


Figure 4 shows examples of covers from the other three series: *Asset Management*, *Consumer Compliance*, and *Securities Compliance*.

Figure 4: Examples of Other Series Covers



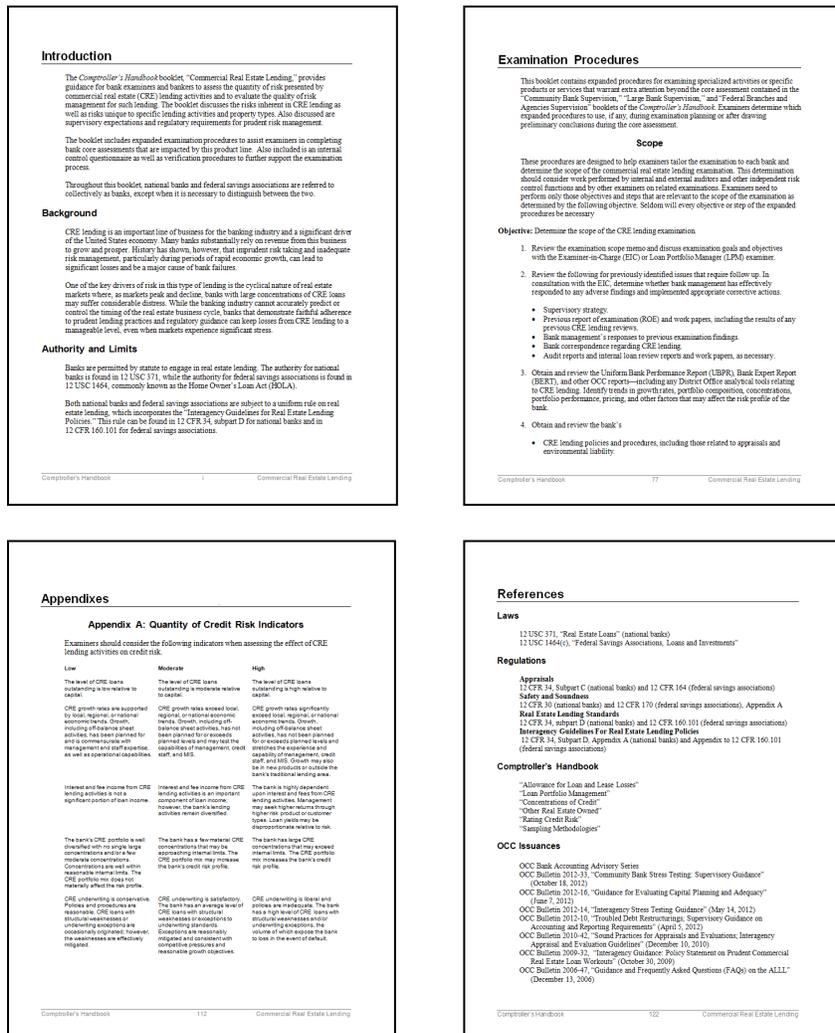
As material changes or new issues emerge, the OCC updates the booklets on www.occ.gov. OCC bulletins announce the publication of new booklets or substantive changes to existing booklets. These transmitting bulletins list any OCC bulletins or other OCC issuances that have been rescinded because their content has been incorporated into or replaced by the booklets. Before booklets are reissued, new information may initially be conveyed to the public through other OCC communications, including issuances, news releases, and educational programs.

Booklet Format

Most booklets are divided into four sections:

- Introduction
- Examination Procedures
- Appendixes
- References

Figure 5: Typical Booklet Format, With Four Main Sections



Not every booklet includes each of these four sections. For example, examination procedures are not included in the “Bank Supervision Process” booklet. The following are descriptions of the four sections that appear in most *Comptroller’s Handbook* booklets.

Introduction

The **Introduction** describes the subject area and explains how the activity, product, service, law, or regulation applies to the operations of a bank. This introductory material provides comprehensive information and guidance to both examiners and bankers. OCC policies about the area, including the content of previously published OCC issuances, are discussed in this section. The Introduction also focuses on the associated risks and necessary controls that examiners evaluate when examining the area.

Examination Procedures

The **Examination Procedures** section generally has four parts:

- Scope
- Quantity of Risk
- Quality of Risk Management
- Conclusions

Each of these parts contains one or more objectives. The objectives state the primary goals for an examination of the area. Each objective includes steps an examiner may follow to accomplish the objective. The steps are not a checklist to be completed for every examination. Rather, they are a comprehensive collection of approaches from which the examiner selects only those necessary to appropriately assess the area under examination.

The examination procedures of some booklets may not be divided into these four parts because they contain interagency examination procedures or because they are arranged by the functional areas typical of the booklet's subject.

The **Scope** procedures are designed to help examiners tailor the examination to each bank and determine the examination scope. This determination should consider work performed by

- internal and external auditors,
- other independent risk control functions, and
- other examiners on related areas.

Quantity of Risk and **Quality of Risk Management** guide examiners to conclusions for the area under examination on these two key components of the OCC's risk evaluation process (known as the risk assessment system or RAS). Under Quantity of Risk, examiners reach conclusions on each associated risk identified in the Introduction section of the subject booklet.

Quality of Risk Management has four components—Policies, Processes, Personnel, and Control Systems. These components help examiners assess management's ability to identify, measure, monitor, and control risks in the area under examination.

- **Policies** are statements of actions adopted by a bank to pursue certain objectives. Policies often set standards (on risk tolerances, for example) and should be consistent with the bank's underlying mission, values, and principles. A policy review should always be triggered when the bank's objectives or standards change.
- **Processes** are the procedures, programs, and practices that impose order on a bank's pursuit of its objectives. Processes define how daily activities are carried out. Effective processes are consistent with the underlying policies and are governed by appropriate checks and balances (such as internal controls).
- **Personnel** are the bank staff and managers who execute or oversee processes. Personnel should be qualified and competent and should perform appropriately. They should understand the bank's mission, values, principles, policies, and processes. Banks should design compensation programs to attract, develop, and retain qualified personnel. In addition, compensation programs should be structured in a manner that encourages strong risk management practices.
- **Control Systems** are the functions (such as internal and external audits, risk review, and quality assurance) and information systems that bank managers use to measure performance, make decisions about risk, and assess the effectiveness of processes. Control functions should have clear reporting lines, adequate resources, and appropriate authority. Management information systems should provide timely, accurate, and relevant feedback.

The **Conclusions** procedures are designed to help examiners reach overall conclusions for the area under examination (including on the aggregate level and direction of associated risks), document them, and communicate them to the Examiner-in-Charge and bank management.

For *Safety and Soundness* and *Asset Management* series booklets, the examination procedures may be supplemented by an **Internal Control Questionnaire (ICQ)** and **Verification Procedures**. An ICQ helps an examiner assess a bank's internal controls for an area. ICQs typically address standard controls that provide day-to-day protection of bank assets and financial records. The examiner decides the extent to which it is necessary to complete or update ICQs during examination planning or after reviewing the findings and conclusions of the core assessment.

Verification procedures are used to verify the existence of assets and liabilities, or test the reliability of financial records. Examiners generally do not perform verification procedures as part of a typical examination. Rather, verification procedures are performed when substantive safety and soundness concerns are identified that are not mitigated by the bank's risk management systems and internal controls.

Appendixes

Appendixes include any supplementary material, such as a glossary, sample forms, accounting requirements, or interagency guidance.

References

References list laws, regulations, other *Comptroller's Handbook* booklets, OCC issuances, and other (external) references that relate to the area.

Booklet Titles

This list contains each booklet title of the *Comptroller’s Handbook*, sorted according to the five series.² Each series has a parenthetical abbreviation that is used as a publication code on the booklet covers—with the exception of *Safety and Soundness*. The *Safety and Soundness* series uses parenthetical abbreviations for the seven categories, as shown in table 1.

Table 1: Booklet Titles

Comptroller’s Handbook series	Booklet titles
Examination Process (EP)	
	Foreword Bank Supervision Process Community Bank Supervision Federal Branches and Agencies Supervision Large Bank Supervision Sampling Methodologies
Safety and Soundness (includes seven categories)	
Capital Adequacy (C)	
	Capital Accounts and Dividends
Asset Quality (A)	
	Agricultural Lending Allowance for Loan and Lease Losses Asset-Based Lending Bank Premises and Equipment Cash and Due From Bank Accounts Check Credit Commercial Lease Financing Commercial Lending Commercial Real Estate Lending Concentrations of Credit Country Risk Management Credit Card Lending Floor Plan Lending Installment Lending Investment Securities Leveraged Lending Loan Portfolio Management Mortgage Banking Oil and Gas Lending Other Assets and Other Liabilities Other Real Estate Owned Rating Credit Risk Residential Real Estate Lending Retail Credit Risk Management Student Lending Trade Finance

² The information technology and Bank Secrecy Act/anti-money laundering specialty areas are addressed by interagency guidance and examination procedures issued by the FFIEC.

Comptroller's Handbook series	Booklet titles
Safety and Soundness (includes seven categories) <i>continued</i>	
Management (M)	
	Corporate and Risk Governance Insider Activities Internal and External Audits Internal Control Litigation and Other Legal Matters New Activities and Services Qualified Thrift Lender Regulatory Reporting Related Organizations
Earnings (E)	
	Income and Expense
Liquidity (L)	
	Asset Securitization Liquidity
Sensitivity to Market Risk (S)	
	Financial Derivatives and Trading Activities Interest Rate Risk
Other Activities (O)	
	Consigned Items and Other Customer Services Insurance Activities Merchant Processing Payment Systems and Funds Transfer Activities Retail Sales of Nondeposit Investment Products
Asset Management (AM)	
	Asset Management Asset Management Operations and Controls Collective Investment Funds Conflicts of Interest Investment Management Services Personal Fiduciary Services Retirement Plan Products and Services Unique and Hard-to-Value Assets

Comptroller's Handbook series	Booklet titles
Consumer Compliance (CC)	
	Community Reinvestment Act Compliance Risk Management Depository Services Electronic Fund Transfer Act Fair Credit Reporting Fair Lending Flood Disaster Protection Act Home Mortgage Disclosure Act Homeownership Counseling Other Consumer Protection Laws and Regulations Privacy of Consumer Financial Information Protecting Tenants at Foreclosure Act Real Estate Settlement Procedures Act SAFE Act Servicemembers Civil Relief Act Truth in Lending Act Unfair or Deceptive Acts or Practices
Securities Compliance (SC)	
	Government Securities Act Municipal Securities Rulemaking Board Rules