

Office of the Comptroller of the Currency

# Approach to Federal Branch and Agency Supervision



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# The OCC's Approach to Federal Branch and Agency Supervision

## Introduction

The Office of the Comptroller of the Currency's (OCC) authority to license federal branches and agencies of foreign banking organizations (FBO) stems from the International Banking Act of 1978. Federal branches and agencies generally have the same rights and responsibilities as national banks operating at the same locations and are subject to the same laws, regulations, policies, and procedures that apply to national banks. A federal branch, for example, may conduct a full range of banking activities, including trading and investment activities, accepting wholesale and foreign deposits, granting credit, and acting as a fiduciary. There are important differences, however, between a federal branch or agency and a full-service bank.

This paper provides an overview of the OCC's approach to regulating federal branches and agencies. The paper summarizes the overarching considerations around the licensing of branches and agencies and the fundamental framework employed in supervising these entities. For more information, refer to appendix A, which lists guidance on OCC requirements and approaches. Additional appendixes at the end of this document provide further detail regarding the OCC's supervisory approach and specific licensing requirements.

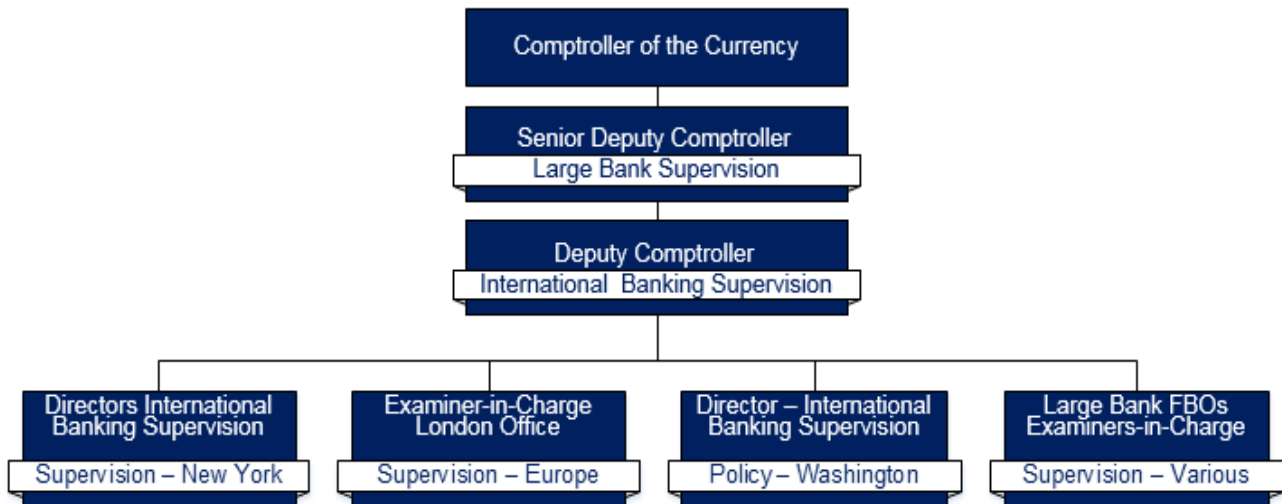
## Background

The OCC supervises federal branches and agencies of FBOs based in Africa, the Americas, Asia, Australia, Europe, and the Middle East. Federal branches and agencies typically operate in major U.S. cities and primarily conduct wholesale business, such as trade and corporate finance. A federal branch or agency can have a broad purpose, such as providing growth opportunities to the foreign bank through expansion in the United States, or a more specific focus, such as serving the banking needs of the foreign bank's customers. The OCC reviews all applications for federal branch or agency licenses and considers them in the context of safe and sound operations and quality of risk management, governance, and controls.

The OCC's federal branch and agency supervision program is managed by International Bank Supervision in New York within the agency's Large Bank Supervision Department (see organizational chart on the following page). Overseeing the program from New York, N.Y., is a dedicated staff of examiners experienced in international banking. While the vast majority of foreign branches and agencies are in New York, local examiners supplement the dedicated staff's work by examining federal branches and agencies in other cities. The Directors of International Banking Supervision in New York oversee the supervisory staff, examination activities, and direct branch and agency interactions. International Bank Supervision reports to the Deputy Comptroller for International Banking Supervision and Senior Deputy Comptroller for Large Bank Supervision, both of whom are located at OCC Headquarters in Washington, D.C. When

the home office of an FBO with an-OCC regulated large bank also has a branch regulated by the OCC, supervision of both the bank and the branch will be consolidated within the Large Bank Supervision program (see organizational chart below).

**Figure: Organization of the OCC's Federal Branch and Agency Supervision Program**



## Supervisory Approach for Federal Branches and Agencies

As with national banks and federal savings associations, the OCC applies its supervision-by-risk philosophy to federal branches and agencies. This risk-based approach to supervision requires an in-depth understanding of each branch or agency's operations, the systems in place to control risk, and the resulting risk profile of each branch or agency. This risk profile determines the OCC supervisory strategy for the individual branch or agency. The resulting strategy specifically addresses each federal branch and agency's unique size, scope of operations, complexity, controls, and risks. For foreign banks with multiple federal branches and agencies, the OCC develops a consolidated risk profile and supervisory strategy for the federally licensed operation. In addition, the OCC strives to examine these branches and agencies simultaneously to ensure the OCC's risk assessment is comprehensive and to reduce redundancy.

The risk assessment process is multifaceted and includes an understanding of the impact of the parent bank on the federal branch or agency. This impact may stem from financial support, capital position, liquidity management, requirements about products, management and management decision making, and evidence of overall support by the parent bank.

Beyond the impact of the parent company, the OCC reviews the operations, governance, control environment, audit program, and overall risk management framework to understand the strengths and vulnerabilities of the federal branch or agency. The OCC looks closely at changes from initial projections provided as part of the application process and at trends in the financial condition of the branch or agency.

The OCC supervises federal branches and agencies using a combination of on-site examinations and off-site monitoring. By law, federal branches and agencies are required to receive a full-scope, on-site examination at least once every supervisory cycle,<sup>1</sup> which ranges from 12 to 18 months. The on-site examination may be supplemented by additional work, as dictated by circumstances and at the OCC's discretion. On-site examination work varies from a full-scope assessment to targeted examinations of specific products or processes. Full-scope examinations cover all applicable risk areas and provide a foundation for drawing overall conclusions about the condition of the branch or agency and assigning regulatory ratings. Targeted examinations are more narrowly focused to gain a deeper understanding of a particular product or process. For large or complex branches and agencies, the OCC may assign a team of dedicated staff to perform the regulatory supervision.

Off-site monitoring on a continuous basis is an important component of the OCC's supervision program. Monitoring includes reviewing internal risk information reports, ongoing contact with branch or agency management, and assessing quarterly regulatory reports and public filings. This ongoing monitoring provides information used to adjust supervisory strategies and to plan on-site activities. Additionally, monitoring facilitates real-time adjustments to regulatory ratings and risk assessments as necessary.

The OCC maintains ongoing communication with home country regulators as appropriate for supervisory monitoring purposes and to ensure a full understanding of home country conditions. Home country conditions are monitored to assess the health of the foreign parent and the home country operating environment, and to provide an understanding of home country supervision.

## **Communications**

The communication of examination results and critical issues is key. Every federal branch and agency receives a report of examination (ROE) at least once every supervisory cycle. The issuance of the ROE typically coincides with the completion of the full-scope examination, and is a culmination of all the supervisory work completed over the supervisory cycle. The ROE contains the ROCA<sup>2</sup> and risk assessment system (RAS) ratings, which are the OCC's assessment of the overall condition of the federal branch or agency. In addition to the ROE, the OCC issues a letter to the home office with a copy to the home country regulator summarizing the regulatory activities completed during the supervisory cycle and the OCC's assessment of branch or agency operations.

OCC examiners routinely meet with branch or agency management to discuss current conditions, changes in assessments, and any issues noted from ongoing supervision. Examiners issue Supervisory Letters to communicate findings from targeted examinations or material findings from ongoing supervision. If deficiencies are noted, the Supervisory Letters instruct management to respond in writing outlining corrective actions to be taken.

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<sup>1</sup> 12 USC 3105(c)(1), along with further refinements in 12 CFR 4.7, prescribe the examination frequency for federal branches and agencies.

<sup>2</sup> ROCA is an interagency uniform supervisory rating system for branches and agencies of FBOs.

The OCC focuses on addressing issues early and providing clear, timely communications to ensure the ongoing safety and soundness of federal branches and agencies. If there are heightened concerns relative to federal branch or agency operations, the OCC increases its level of communication with the affected federal branch or agency and may increase the level of communication with other relevant parties, such as the home country supervisor.

## Rating and Risk Assessment Systems

The OCC uses supervisory ratings and the RAS to assess the condition of a federal branch or agency and to identify any supervisory concerns. The ROCA rating system assesses risk management, operational controls, compliance, and asset quality. Each component is assigned a number grade, from 1 to 5, with 1 considered the least supervisory concern and 5 the greatest. Additionally, the OCC assigns a composite rating representing, in aggregate, the condition of the branch or agency and whether or not significant supervisory concerns exist. The composite rating also employs the same 1 to 5 scale.

A risk assessment is conducted concurrently with ROCA and includes the OCC's eight categories of risk and Bank Secrecy Act/Anti-Money Laundering (BSA/AML), internal control, and audit. Risk assessment determinations are based on the dimensions of quantity of risk, quality of risk management, aggregate risk, and the direction of risk. Together, ROCA and the RAS provide a current and prospective view of the branch or agency.

This section provides overviews of the ROCA and RAS. The *Comptroller's Handbook* booklet "Federal Branches and Agencies Supervision" provides complete descriptions. Refer to appendix C for an ROE ratings grid example.

### ROCA

**Risk management:** The OCC reviews this component with respect to how management identifies, measures, monitors, and controls risk. While the OCC expects the branch or agency to have an effective risk management system in place, the parent company has a role in ensuring comprehensive, enterprise-wide risk management processes exist.

**Operational control:** The OCC expects branches and agencies to have a system of internal controls consistent with the size and complexity of branch or agency operations. This system includes an independent and effective internal audit function.

**Compliance:** The OCC expects branches and agencies to comply at all times with applicable U.S. and state laws and regulations. The branch must have an appropriate system in place to promote compliance efforts.

**Asset quality:** The OCC considers asset quality as part of the overall assessment of the branch or agency with regard to its ability to honor its liabilities.



**Composite rating:** The OCC does not view the composite rating as a simple average of the ROCA components. Rather, the rating reflects the level of supervisory concern at the branch or agency.

## **Risk Assessment System**

The OCC evaluates the following categories of risk as part of the assessment of branch and agency condition and management effectiveness: strategic, reputation, compliance, credit, operational, liquidity, interest rate, and price. The OCC also assesses and assigns risk ratings to BSA/AML risk, internal control, and audit. Given the diverse operations of federal branches and agencies, some risk components may not be applicable to every office. The OCC draws a conclusion on the aggregate risk profile of each federal branch or agency, considering the interconnectedness of the risk categories.

The OCC considers each risk's inherent quantity, the quality of risk management, and aggregate risk and assigns an expected direction of risk over the next 12 months. Quantity of risk and aggregate risk are rated low, moderate, or high. The quality of risk management is rated weak, insufficient, satisfactory, or strong. The assigned direction is rated increasing, stable, or decreasing. Internal control and audit are rated on a slightly different scale, with a singular set of variables: weak, insufficient, satisfactory, or strong.

## **Resolution and Recovery Planning**

Resolution and recovery planning became key initiatives for regulatory agencies and the industry after the 2008 financial crisis. In light of this global initiative to improve resolution and recovery planning, the OCC expects to have access to all resolution and recovery plans affecting the federally licensed branch or agency, as they are developed. Along with the Board of Governors of the Federal Reserve System (Federal Reserve) and Federal Deposit Insurance Corporation (FDIC), which are required by law to review resolution plans, the OCC assesses the plans to ensure branch and agency activities are appropriately considered in a resolution scenario.

One key difference in the United States between a federal branch or agency license and a banking charter relates to the treatment of these entities under resolution. Because uninsured federal branches and agencies do not participate in the FDIC's deposit insurance program, the FDIC is not required to act as receiver in the case of a resolution.<sup>3</sup> The OCC determines what receiver, if necessary, should be appointed. In this regard, the OCC fully supports the rationalization of organizational structures to remove unnecessary complexity. A rational organizational framework improves resolvability, increases the likelihood of recovery success, and facilitates effective risk management.

To fully appreciate individual company conditions and understand specific nuances, the OCC works collaboratively with home jurisdictions and the parent organization to understand strategy, structure, and resources. In addition, it is OCC policy to maintain ongoing dialogue with home

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<sup>3</sup> The Federal Deposit Insurance Corporation Improvement Act of 1991 generally prohibits an FBO's branches from accepting insured deposits; however, the act grandfathered insured federal branches in existence on the date of the act's enactment.

country supervisors, so both sides know what to expect should the need for a resolution action arise. In the event of a cross-border resolution, the OCC works closely with the home jurisdiction and parent of the branch or agency to ensure timely communication of decision points.

Recovery planning efforts are a focus of OCC risk-based supervision. Recovery planning should provide a road map of actions—and the triggers for those actions—that can be undertaken in periods of extreme stress. The OCC will use its knowledge of branch or agency operations, combined with a horizontal perspective of other globally active firms, to assess the overall recovery planning process. The OCC will also discuss activities performed with home country supervisors to understand the interrelations with parent company planning and strategic direction.

## **Licensing Processes for Federal Branches and Agencies**

FBOs have a wide array of licensing choices<sup>4</sup> when entering into or moving within the federal banking system. The OCC's goal is to ensure that the federal branch or agency license is appropriate, given the nature and extent of the proposed operations, to allow for effective supervision of the resulting entity.

For all proposed federal branches and agencies, the OCC considers the risks posed by reviewing the nature of the proposed operations, how those operations fit into the broader context of the parent organization, the views of the parent company supervisor, and the governance and management framework over the federal branch or agency.

The OCC draws heavily on its supervisory experience with the applicant branch or agency, as well as that of other regulators including state, federal, and foreign. The OCC reviews the extent and scope of supervision of the parent company and looks at mechanisms for information exchange with the parent company supervisor and any other key regulators.

The OCC takes a collaborative approach when working with other regulators, domestic or international, in the licensing and ongoing supervision of federal branches and agencies. In the case of a new foreign bank entrant to the United States, the OCC has the authority to license the branch or agency, with the Federal Reserve providing a Comprehensive Consolidated Supervision assessment determination that allows the branch or agency to operate in the United States. The OCC works with the Federal Reserve on the assessment to determine whether the foreign bank's home country supervisor receives sufficient information on the worldwide operations of the foreign bank. The information must allow the home country supervisor to assess the foreign bank's overall financial condition and compliance with laws and regulations.<sup>5</sup>

The OCC reviews other available information sources to determine the relative health of the parent organization and the effectiveness of the supervisory regimes under which it operates.

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<sup>4</sup> See appendix B for different types of OCC licenses. Each comes with different permissions and restrictions.

<sup>5</sup> If the OCC determines that a foreign bank is not subject to Comprehensive Consolidated Supervision, it may approve an application if the home country supervisor is actively working to establish arrangements for Comprehensive Consolidated Supervision and all other factors in the application are consistent with approval.

These reviews may include reports produced by independent third parties or regulatory groups such as the International Monetary Fund, the Financial Stability Board, and the Interagency Country Exposure Review Committee. Input from the home country supervisor is also an important variable for the OCC.

Under certain circumstances, foreign banks already operating in the United States could receive an expedited review and streamlined application process. To qualify, each branch or agency of the foreign bank would need a Composite Uniform ROCA rating of 1 or 2, not be subject to enforcement action(s), and have a satisfactory Community Reinvestment Act rating (if applicable).

The OCC reviews a branch or agency already operating in the United States that is subject to an outstanding enforcement action carefully, with particular emphasis on the status of the enforcement action and whether the entity has achieved substantial compliance with, or made acceptable substantial progress remediating deficiencies identified in, the outstanding enforcement action. The OCC highly recommends a pre-filing discussion to cover the additional application information that will be required and to review the OCC's expectations. Generally, the OCC does not consider a conversion application submitted while a serious or material enforcement action is pending. An action is considered pending if, before the branch files its conversion application with the OCC, the branch's regulator has commenced and notified the branch of—but has not finalized—the action.

Notwithstanding the general principles outlined in this document, depending on the facts and circumstances of a particular application, the OCC may consider additional factors that it deems relevant, such as the interests or policies of the home country regulator with respect to the proposed conversion (including, for example, the potential effects of the conversion on resolution planning), the presence of exceptional or exigent circumstances, or in the case of an unusual transaction.<sup>6</sup>

The OCC recommends a pre-filing discussion for any application to cover the required application information. Refer to the [Comptroller's Licensing Manual booklet "Federal Branches and Agencies"](#) for a detailed discussion of licensing criteria and options.

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<sup>6</sup> See 12 CFR 5.2(b). In the case of exceptional or exigent circumstances or unusual transactions, it may be necessary for the OCC to license activities on an emergency basis based on the record before it. The OCC may condition an approval issued in the case of such circumstances to require the foreign bank to adhere to the terms of the condition in the decision letter, which may require the bank to wind down the operations of the converted branch and surrender its license.



## Appendix A: Guidance

This appendix lists guidance relevant to federal branches and agencies. The list is not all-inclusive. For more information, visit [occ.gov](http://occ.gov).

### Comptroller's Handbooks

#### Examination Process

- “Bank Supervision Process”
- “Community Bank Supervision”
- “Federal Branches and Agencies Supervision”
- “Large Bank Supervision”

#### Asset Management

- “Investment Management Services”
- “Personal Fiduciary Services”

#### Safety and Soundness

- “Commercial Loans”
- “Concentrations of Credit”
- “Country Risk Management”
- “Emerging Market Country Products and Trading Activities”
- “Internal and External Audits”
- “Internal Control”
- “Investment Securities”
- “Rating Credit Risk”
- “Risk Management of Financial Derivatives”
- “Trade Finance”

### Comptroller's Licensing Manual

- “Federal Branches and Agencies”

### Issuances

- Banking Circular 181 (REV), “Purchases of Loans in Whole or in Part-Participations” (August 2, 1984)
- Examining Circular 230, “International Banking Facilities” (May 10, 1985)
- OCC Bulletin 2011-12, “Sound Practices for Model Risk Management: Supervisory Guidance on Model Risk Management” (April 4, 2011)
- OCC Bulletin 2012-18, “Alternatives to the Use of External Credit Ratings in the Regulations of the OCC: Final Rules and Guidance” (June 26, 2012)

- OCC Bulletin 2012-30, “BSA/AML Compliance Examinations: Consideration of Findings in Uniform Rating and Risk Assessment Systems” (September 28, 2012)

## **Laws**

- 12 USC 24, “Corporate Powers of Associations”
- 12 USC 92(a), “Fiduciary Powers”
- 12 USC 3101 et seq; “International Banking Act”
- 31 USC 5311 et seq; “Bank Secrecy Act”
- USA PATRIOT Act (Public Law No. 107-56) (codified in various sections of U.S. Code)

## **Regulations**

- 12 CFR 1, “Investment Securities”
- 12 CFR 4, “Organization and Functions”
- 12 CFR 5, “Licensing”
- 12 CFR 9, “Fiduciary Activities”
- 12 CFR 21, “Security, Suspicious Activities, and Bank Secrecy”
- 12 CFR 28, “International Banking Activities”
- 12 CFR 30, “Safety and Soundness Standards”
- 31 CFR 501, “OFAC Regulations”
- 31 CFR 1010, “Financial Record Keeping and Reporting of Currency and Foreign Transactions”

## **Other**

- *FFIEC Bank Secrecy Act/Anti-Money Laundering Examination Manual*
- *FFIEC Information Technology Examination Handbook*
- FFIEC 002, “Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks”
- FFIEC 002S, “Report of Assets and Liabilities of a Non-U.S. Branch That Is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank”
- FFIEC 019, “Country Exposure Report for U.S. Branches and Agencies of Foreign Banks”

## Appendix B: OCC Licenses

There are various organizational structures that FBOs may establish through the OCC.

- **Subsidiary charter:** A foreign bank subsidiary is chartered as a national bank by the OCC. The foreign subsidiary has the same powers as any other domestic bank and is subject to the same rules and regulations.
- **Federal branch:** An office licensed by the OCC and operated by a foreign bank in any state that may engage in the business of banking, including accepting deposits, and that is not a federal agency.
- **Limited federal branch:** An office licensed by the OCC that may accept deposits that an Edge Act corporation is authorized to accept. In addition, a limited federal branch can exercise powers and conduct activities authorized for federal agencies.
- **Federal agency:** An office licensed by the OCC to conduct certain banking activities. A federal agency primarily makes commercial loans and finances international transactions. The federal agency may not accept domestic deposits or exercise fiduciary powers. Although a federal agency may not accept domestic deposits, the agency can maintain credit balances.
- **Loan production office:** A staffed facility, other than a branch, that is open to the public and provides lending-related services, such as loan information and applications. The OCC may permit federal branches to operate such offices.

## Appendix C: Sample Ratings and Risk Assessment Grid

### Ratings

	Exam date	Prior exam
<b>Composite uniform ROCA rating*</b>	#	#
Component ratings		
Risk management	#	#
Operational control	#	#
Compliance	#	#
Asset quality	#	#
<b>Uniform Interagency Consumer Compliance rating</b>	#	#

\* For a description of the ROCA rating system, see the "[Federal Branches and Agencies Supervision](#)" booklet of the *Comptroller's Handbook*. The "[Bank Supervision Process](#)" booklet of the *Comptroller's Handbook* contains complete rating descriptions.

The branch rating is confidential and may not be disclosed to anyone not directly associated with the branch or the parent bank. Disclosure of the composite rating is subject to penalties as provided by 18 USC 641, as is the disclosure of any of the contents of this report of examination.

Rating numbers are represented by "#" in this sample rating. Actual reports reflect a rating of 1 to 5.

### Risk Assessment Summary

L/M/H stands for low, moderate, or high. W/I/S/S stands for weak, insufficient, satisfactory, or strong. I/S/D stands for increasing, stable, or decreasing.

Risk category	Aggregate risk	Quantity of risk	Quality of risk management	Direction
Credit	L/M/H	L/M/H	W/I/S/S	I/S/D
Interest rate	L/M/H	L/M/H	W/I/S/S	I/S/D
Liquidity	L/M/H	L/M/H	W/I/S/S	I/S/D
Price	L/M/H	L/M/H	W/I/S/S	I/S/D
Operational	L/M/H	L/M/H	W/I/S/S	I/S/D
Compliance	L/M/H	L/M/H	W/I/S/S	I/S/D
Strategic	L/M/H	L/M/H	W/I/S/S	I/S/D
Reputation	L/M/H	L/M/H	W/I/S/S	I/S/D

Risk category	Aggregate risk	Quantity of risk	Quality of risk management	Direction
BSA/AML	L/M/H	L/M/H	W/I/S/S	I/S/D

Rating description	Overall assessment
Internal control	W/I/S/S
Audit	W/I/S/S