FFIEC Provides Update of Examination Modernization Project

Mar 23, 2018

The members of the Federal Financial Institutions Examination Council (FFIEC) today announced an update on its Examination Modernization Project that was undertaken as a follow-up to the review of regulations under the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA).

The objective of the project is to identify and assess ways to improve the effectiveness, efficiency, and quality of community financial institutions safety and soundness examination processes, particularly through increased leveraging of technology. The agencies expect these efforts to help reduce unnecessary regulatory burden on community financial institutions.

The FFIEC members have, in the past, taken a number of steps to enhance the efficiency of the safety and soundness examination process, including:

- Moving from a one-size-fits-all examination process to a risk-based approach that tailors examinations to the size, complexity, risk profile, and business model of each institution; and
- Leveraging technology to improve offsite surveillance systems and improve the efficiency of onsite and offsite reviews.

To further improve the examination process, the FFIEC members have compared current processes, including the staff involved, technology utilized, products generated, and the work that is completed on-site versus off-site. To gain additional perspectives, the FFIEC members sought feedback from selected supervised institutions and examiners. Based on these feedback sessions, the FFIEC members plan to focus initial efforts on the following four areas that have the potential for the most meaningful supervisory burden
1. Highlight and reinforce regulator communication objectives before, during, and after examinations;

2. Leverage technology and shift, as appropriate, examination work from onsite to offsite;

3. Continue to tailor examinations based on risk; and

4. Improve electronic file transfer systems to facilitate the secure exchange of information between institutions and supervisory offices or examiners.

Although, the members’ initial efforts will be focused on the above four themes, the Examination Modernization Project is expected to be a long-term endeavor and other areas of improvement may emerge. As a first step, and to address the first theme, the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the State Liaison Committee (SLC) have each committed to issue reinforcing and clarifying guidance to its examination staff about the importance of being clear and transparent to community bankers during examination processes. While the National Credit Union Administration (NCUA) is not required to participate in the EGRPRA process, it does so voluntarily. The NCUA in 2016 launched a similar effort, its exam flexibility initiative, and the agency has incorporated parts of that initiative into its examination process.

Examiner guidance will cover the following community bank examination communication or transparency practices:

- Assist community financial institutions to prepare for the examination by providing prior notification and addressing spacing needs, staffing, and logistics.
- Tailor the examination request list and scope to the unique risk profile and business model of the institution.
Facilitate the secure exchange of information between institution management and examiners.

Inform institution management of areas under review and provide management the opportunity to communicate any additional information or clarification before the conclusion of the examination.

Establish clear expectations regarding items the financial institutions are expected to address.

The FFIEC expects to take further actions on the other themes listed above and other areas of improvement that may emerge.

The FFIEC was established in March 1979 to prescribe uniform principles, standards, and report forms and to promote uniformity in the supervision of financial institutions. It also conducts schools for examiners employed by the five federal member agencies represented on the FFIEC and makes those schools available to employees of state agencies that supervise financial institutions. The Council consists of the following six voting members: a member of the FRB; the Chairman of the FDIC; the Director of the Consumer Financial Protection Bureau; the Comptroller of the Currency; the Chairman of the NCUA; and the Chairman of the SLC.

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