



ENTERPRISE RISK APPETITE STATEMENT

April 2016

About the OCC Enterprise Risk Appetite Statement

The Office of the Comptroller of the Currency (OCC) is an independent agency entrusted with unique powers and authorities to administer the federal banking system. The OCC established its Enterprise Risk Management (ERM) function in 2015 to identify and assess OCC's mission-critical risks and support the agency in managing those risks. By establishing a systematic approach to identifying, assessing, and managing risk, the OCC intends to continually improve the agency's governance, increase accountability, and enhance overall performance.

The Office of Enterprise Risk Management, led by the Chief Risk Officer, reports directly to the Comptroller of the Currency and administers the agency's ERM framework. As part of the framework, the Risk Appetite Statement articulates the level and type of risk the agency will accept while conducting its mission. This statement is the result of a careful evaluation of how risks affect the agency's ability to achieve its strategic goals.¹

The Risk Appetite Statement establishes risk tolerance in the following nine categories:

Supervision Risk – The risk that supervisory processes do not identify and mitigate significant risks to the banking industry. This risk is a function of ensuring banks soundly manage their risks, adhere to applicable laws and regulations, provide fair access to financial services, treat consumers fairly, and maintain their ability to compete effectively. Factors affecting supervision risk include objectivity, supervisory plan execution, resource allocation and expertise, quality and timeliness of supervisory guidance, quality of tools to assist examiners, and intra-agency and interagency collaboration.

Human Capital Risk – The risk that resource use and employment practices do not align with the agency's mission and strategic objectives. This risk includes talent management and is a function of hiring, training, retention, career and leadership development, succession, performance management, and compensation. Human capital risk also includes compliance with Equal Employment Opportunity laws, diversity principles, the collective bargaining agreement, and workplace safety laws and regulations.

Strategic Risk – The risk that agency strategy selection, prioritization, modification, and implementation jeopardize achievement of OCC goals and objectives. Strategic risk is a function of business decisions, the execution of those decisions, and resources deployed against strategies. It also includes responsiveness to changes in the internal and external operating environments. Proper management of strategic risk is critical to ensure the OCC's relevance and ability to continue to operate independently and effectively.

Reputation Risk – The risk that negative perception jeopardizes the OCC's credibility, achievement of mission and strategic objectives, or ability to maintain the agency as a preeminent bank regulator. Reputation risk is inherent in all agency activities and encompasses factors such as regulatory capture; employee conduct; human resource practices; supervision, legal, licensing, and policy decisions; fiscal responsibility; and information security. The assessment of reputation risk should consider the agency's culture, issue escalation and response, and communication strategies.

Technology Risk – The risk that information technology processing, security, stability, capacity, and performance jeopardizes core agency operations. This risk is a function of the resilience of the agency's technology infrastructure against external threats and business resiliency planning and execution. Technology risk includes the capability of systems to meet user demands and support a mobile workforce with reliable telecommunications.

Operational Risk – The risk that people, processes, systems, or external events impede the OCC's ability to meet its objectives. This risk is a function of internal controls, employee conduct, process efficiency, third-party oversight,

¹ See [OCC Strategic Plan, Fiscal Years 2015-2019](http://www.occ.gov/publications/publications-by-type/other-publications-reports/occ-strategic-plan-2015-2019.pdf) at <http://www.occ.gov/publications/publications-by-type/other-publications-reports/occ-strategic-plan-2015-2019.pdf>.

physical security, and business continuity planning. Operational risk also includes the breakdown of processes to comply with laws, regulations, or federal directives.

Legal Risk – The risk that the agency does not fulfill its obligations under law and regulation or has gaps in mission-critical functions to supervise, license, and maintain a sound banking system. Legal risk is inherent in all agency activities and decisions. Legal risk encompasses factors such as supervision, licensing, and policy decisions; enforcement actions; employee conduct; human resource practices; contractual obligations; and regulation development and interpretation. Interagency coordination with other regulatory and governmental entities is also critical to identifying and managing legal risk.

External Risk – The risk that political, geo-political, or external stakeholder events affect the agency's ability to achieve objectives. This includes legislative, regulatory, and industry changes and domestic and international issues. Proactive management of external risk is critical to minimize unintended consequences.

Financial Risk – The risk that the OCC's financial resources will be impaired because of adverse economic conditions, reduction in assets under supervision, inefficient resource utilization, or increasing expenditures reducing the ability to successfully complete the agency's mission. This risk is also a function of financial stewardship, internal controls, and reporting.

The OCC considered a number of factors to determine its tolerance for each of these risks. This Risk Appetite Statement characterizes the agency's tolerance for each risk as low, moderate, or high, according to the following definitions:²

Low – The level of risk will not substantially impede the ability to achieve OCC's mission, goals, or strategic objectives. Controls³ are prudently designed and effective.

Moderate – The level of risk may delay or disrupt achievement of the OCC's mission, goals, or strategic objectives. Controls³ are adequately designed and are generally effective.

High – The level of risk will significantly impede the ability to achieve OCC's mission, goals, or strategic objectives. Controls³ may be inadequately designed or ineffective.

NOTE: The following pages discuss the OCC's risk appetite using graphics and narrative. The graphics are intended to highlight or provide a quick reference of the risk appetite characteristics within each risk category. The narrative should be used in conjunction with the graphics.

² There are also some areas identified in the statement where the agency has no tolerance for risk.

³ Controls consist of policies, processes, personnel or activities that could reduce the likelihood and/or impact of risk events.

Overall Enterprise Risk Appetite Statement

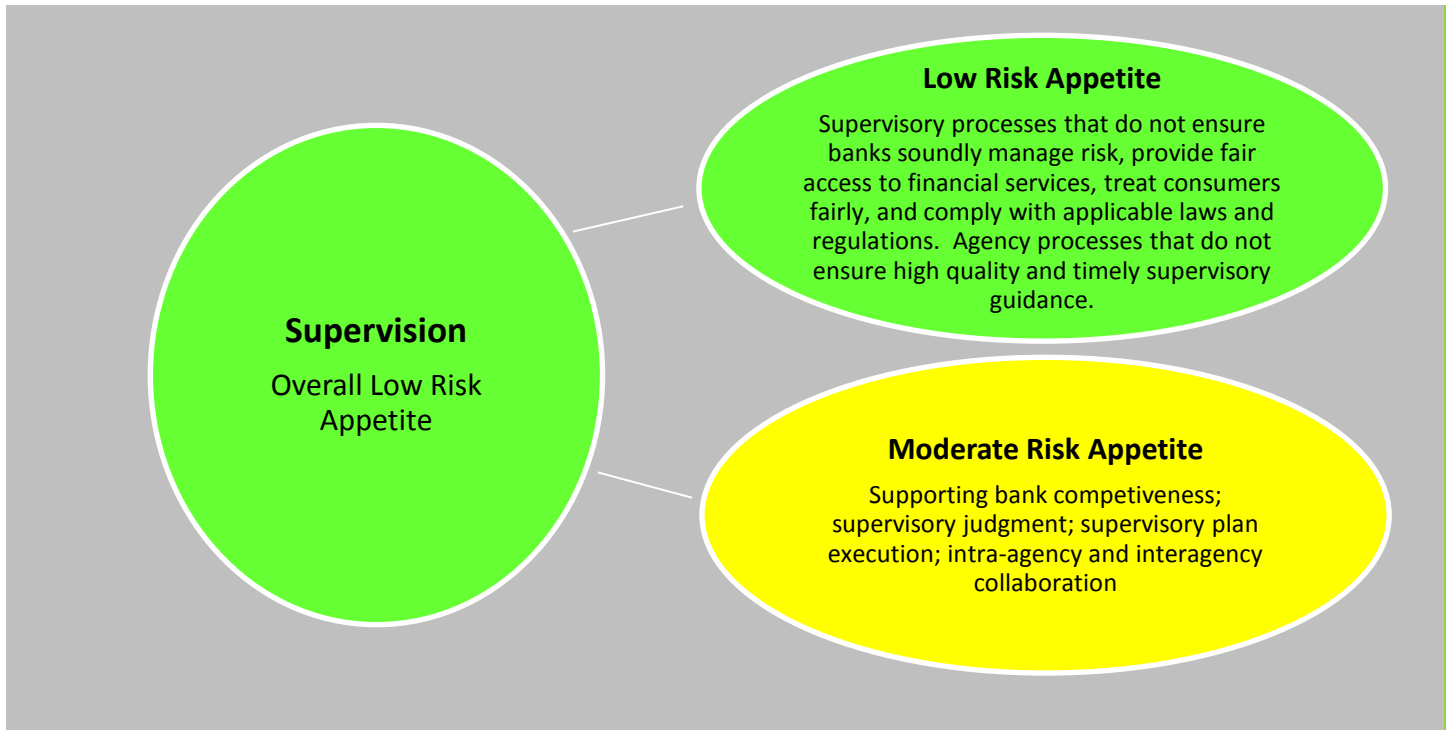
The OCC has an overall conservative risk appetite. The agency will act in accordance with this risk appetite statement to achieve strategic objectives and remain a preeminent prudential supervisor. The OCC must employ sound enterprise risk management principles, transparent decision-making, and effective communication to prioritize risk. The OCC manages nine interrelated categories of risk to effectively supervise and ensure a safe and sound federal banking system that supports consumers, communities, businesses, and the U.S. economy. The OCC has a low appetite for supervision, strategic, reputation, technology, operational and financial risks and a moderate appetite for human capital, legal, and external risks. Where we have discretion, the agency is willing to assume more risk to remain nimble in meeting the challenges of an evolving banking landscape. The best risk management practices will not prevent challenges but will enable the agency to operate proactively.

The OCC's strategic objectives closely align with its mission, vision, and core values in support of agency powers to examine, charter, take supervisory action, and issue rules and regulations for national banks and federal savings associations. The agency must maintain a highly motivated, diverse, talented, and empowered work force and will deploy resources to maximize their use and effectiveness. The OCC will operate with integrity, maintain strong ethical standards, and adhere to applicable legal requirements. The OCC accepts some risks in fostering a vibrant, safe and sound, fair and innovative federal banking system and recognizes it is not practical or desirable to avoid all risk. The agency must maintain proactive supervisory approaches that address significant risks to the financial system and its consumers, recognizing the best supervisory processes will not always prevent banks from experiencing problems or failing.

ERM Risk Appetite by Risk Category

RISK CATEGORY	RISK APPETITE
Supervision	Low
Human Capital	Moderate
Strategic	Low
Reputation	Low
Technology	Low
Operational	Low
Legal	Moderate
External	Moderate
Financial	Low

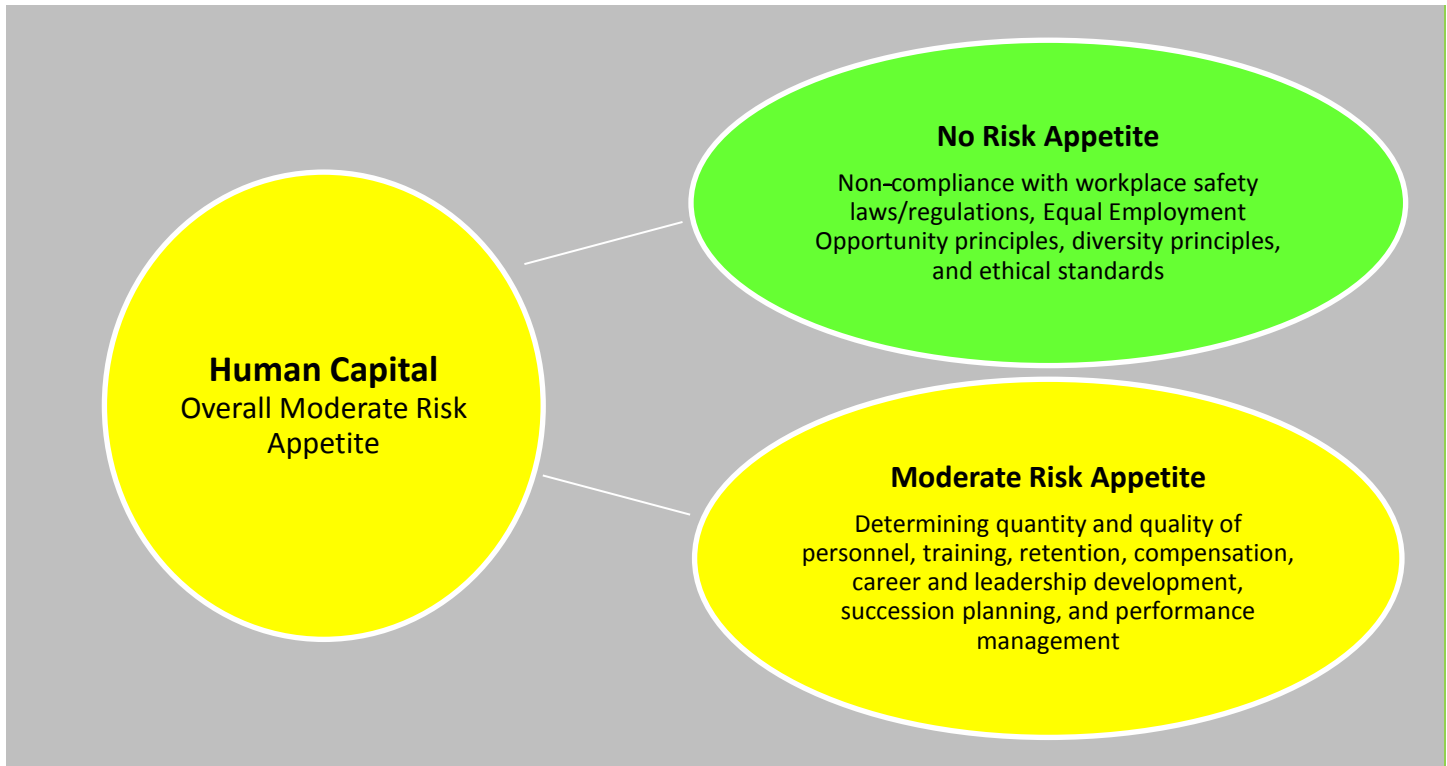
Supervision Risk Appetite



The OCC's appetite for Supervision risk is low. Supervision of the federal banking system is the OCC's longstanding and critical mission. The agency must maintain supervisory approaches that proactively address significant risks that could harm the health and well-being of the financial system or prevent the fair treatment of consumers. To address risks in an evolving banking system, the agency must deliver high quality and timely supervisory guidance and use proactive, risk-based supervisory processes. The OCC's risk-based supervision is directed at minimizing material risk. We recognize the best supervisory processes will not always prevent banks from experiencing problems or failing.

- The OCC has a low appetite for supervisory processes that do not ensure bank management soundly manages risk, provides fair access to financial services, treats consumers fairly, and complies with applicable laws and regulations. The agency also has a low appetite for risks affecting: the quality and timeliness of supervisory guidance, resource allocation, and examiner tools necessary to achieve our mission. These core elements are necessary to ensure our risk-based supervisory efforts are effective.
- Financial institution supervision is complex and requires specialized expertise and sound judgment. The OCC has a moderate appetite for allowing our expert workforce to exercise flexibility and discretion in the execution of supervisory processes to fulfill our mission. Flexibility and discretion applies to supervisory judgment, supervisory plan execution, and intra-agency/interagency collaboration. The OCC supports the ability of financial institutions to compete effectively in meeting consumer needs while operating in a safe and sound manner.

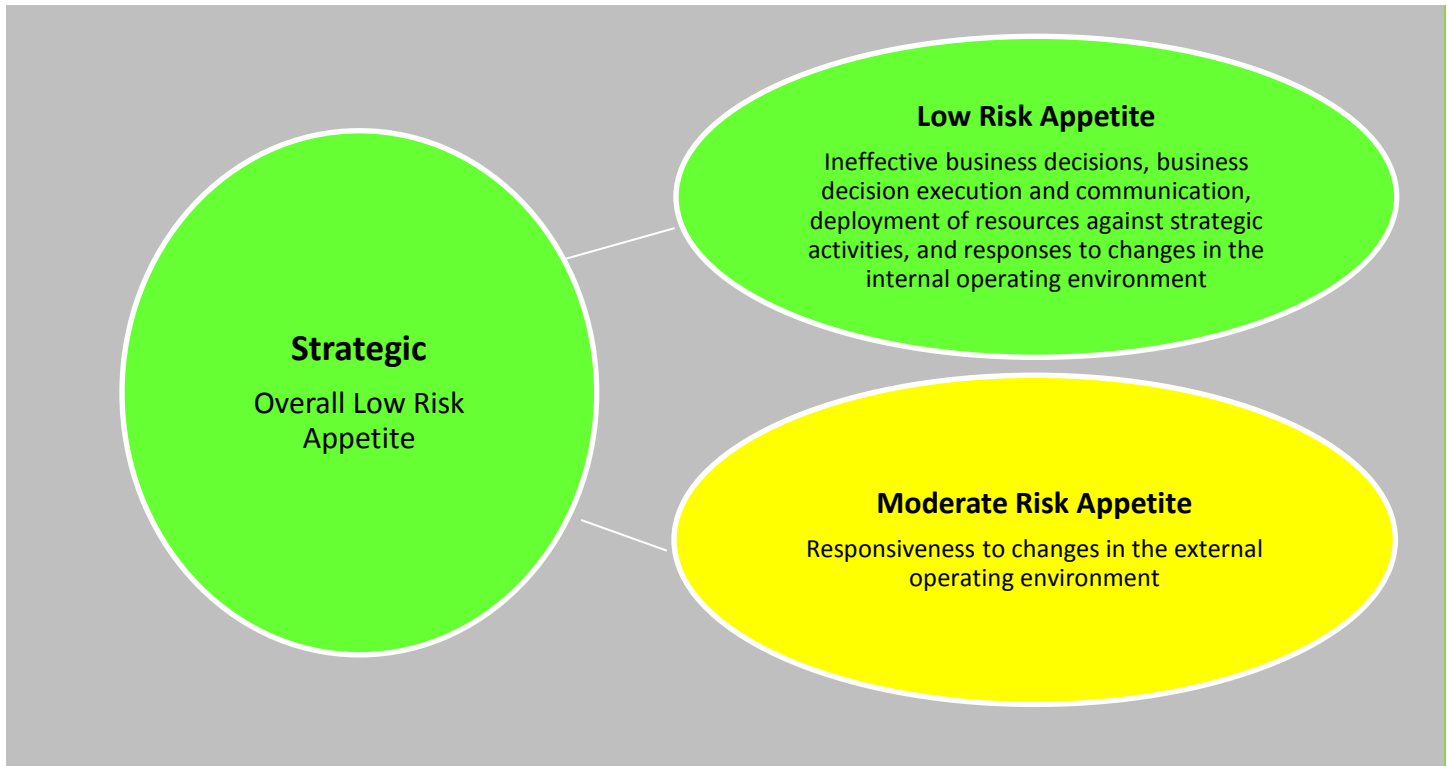
Human Capital Risk Appetite



The OCC's appetite for Human Capital risk is moderate. Employees are the agency's most valuable asset and are critical to achieving its mission. The agency must maintain and properly deploy a highly motivated, diverse, talented, and empowered work force. Disciplined and objective employment practices and compliance with human resource laws and regulations are essential to controlling human capital risk. The agency will strive to maintain a vibrant and diverse leadership pipeline. A proactive approach necessitates taking well-controlled risks consistent with a moderate Human Capital risk appetite.

- The OCC has no appetite for risks that jeopardize compliance with workplace safety laws and regulations, equal employment opportunity principles, diversity principles, ethical standards, or other matters that could compromise our integrity.
- In pursuit of meeting agency human capital needs and to keep pace with the changing landscape of the banking industry and labor markets, the OCC will accept more risk in the following areas: quantity and quality of personnel, training, retention, compensation, career and leadership development, succession planning, and performance management. Decisions to assume more risk will consider internal and external factors such as best practices, innovation, changes in economic or market conditions, and industry trends.

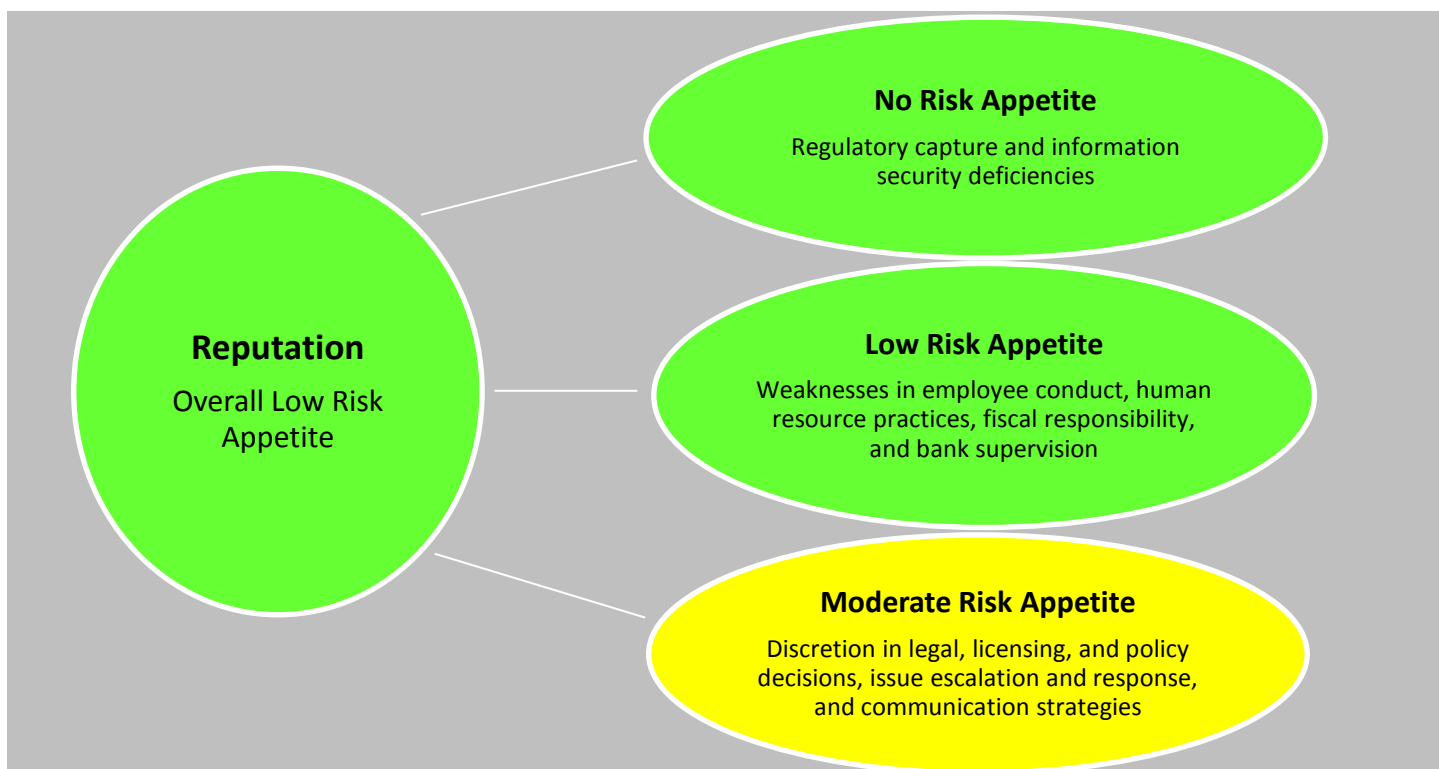
Strategic Risk Appetite



The OCC's appetite for Strategic risk is low. The OCC is committed to remaining a preeminent regulator through effective and efficient execution of the agency's mission. Strategic objectives must closely align with the mission, vision, and core values in support of the OCC's authority to examine, charter, take supervisory action, and issue rules and regulations for national banks and federal savings associations. Effective prioritization, communication, and execution of strategic priorities are essential.

- The OCC has a low appetite for activities that do not align with mission-critical goals. Business decisions, communication and execution of those decisions, resources deployed in pursuit of strategic activities, and responsiveness to changes in the internal operating environment are among the activities the agency must properly execute to achieve its goals.
- The OCC has a moderate appetite for responsiveness to changes in the external operating environment such as support for responsible innovation. Where consistent with OCC mission and vision, the agency supports responsible innovation that allows supervised institutions to remain competitive in a dynamic industry.

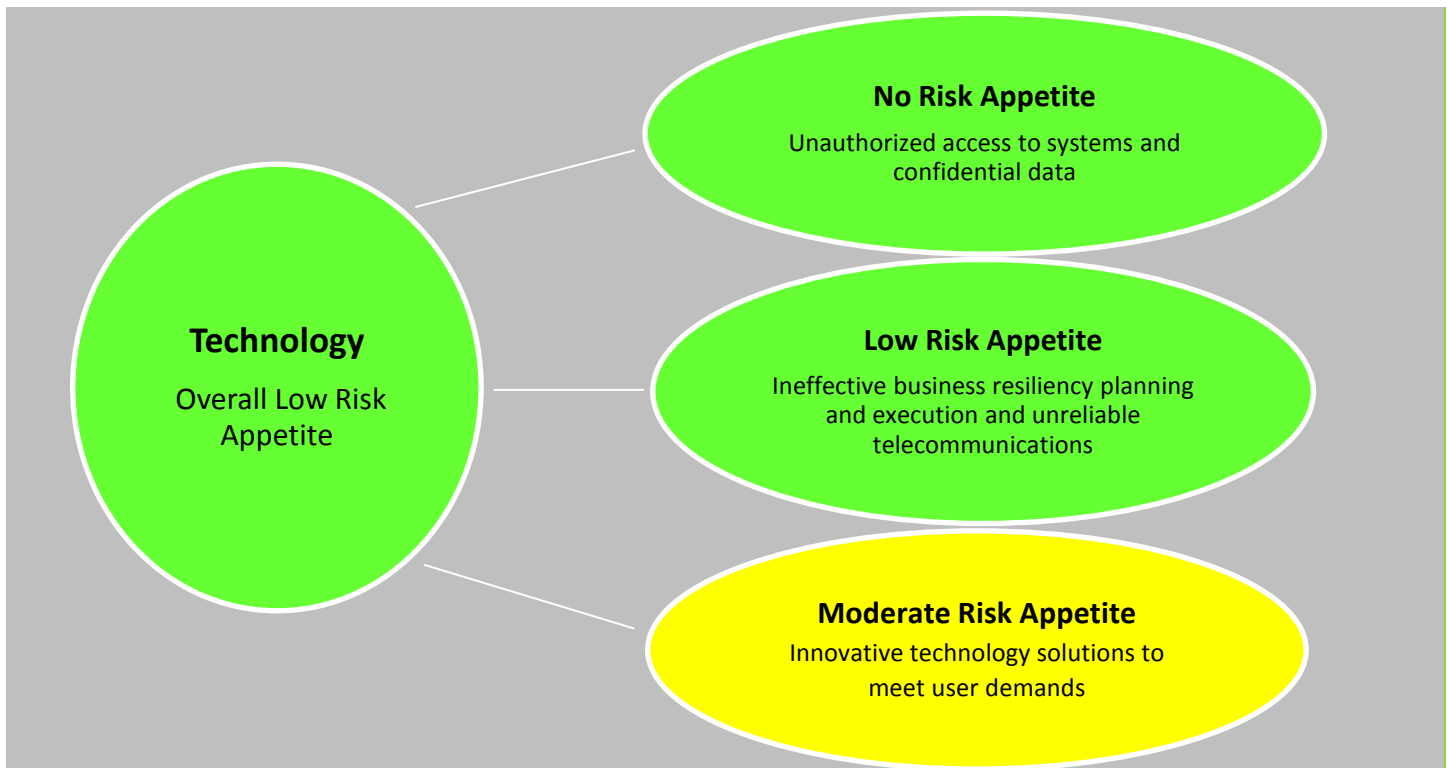
Reputation Risk Appetite



The OCC's appetite for Reputation risk is low. The reputation of the agency is important to maintain the credibility necessary to achieve its mission. The agency will act with integrity and in accordance with strict ethical standards. The protection of sensitive information on agency systems is paramount. Where we have discretion, the agency will accept slightly more risk to achieve supervisory and regulatory policy objectives. These judgments should be mission-focused, transparent, supported, and consistent with governance processes.

- The OCC has no appetite for regulatory capture and information security deficiencies.
- The OCC has a low appetite for employee misconduct and weaknesses in human resource practices, fiscal responsibility, and bank supervision.
- The OCC has a moderate appetite for discretion in legal, licensing, and policy decisions; issue escalation and response; and communication strategies. Discretionary actions must be balanced and consistent with the OCC's mission and core values necessary to protect agency credibility.

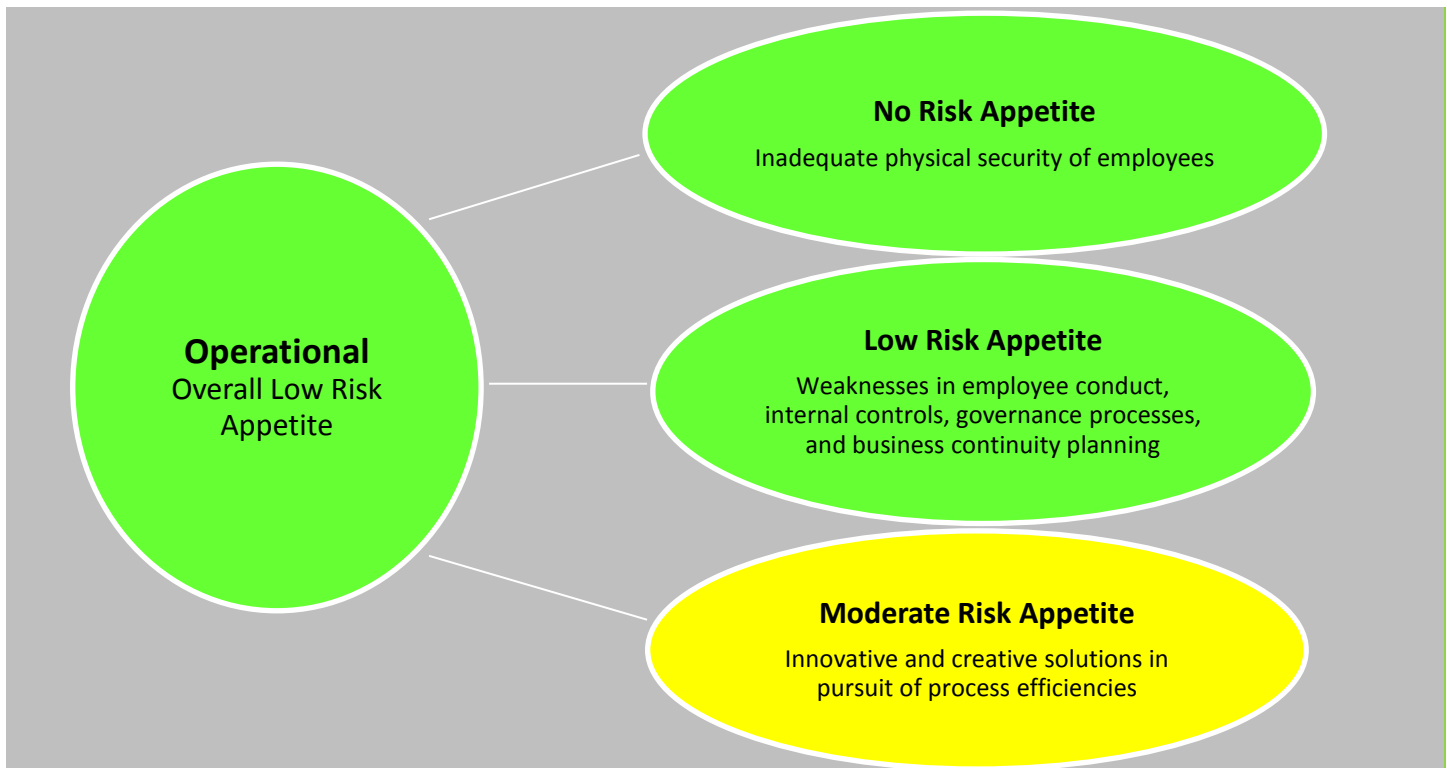
Technology Risk Appetite



The OCC's appetite for Technology risk is low. Information systems must support core agency functions with sufficient capability, capacity, resiliency, and security from internal and external threats. The agency relies on an increasingly mobile and technologically dependent workforce to carry out its core mission. Therefore, the OCC has a low appetite for unreliable technology. The OCC will ensure a robust technological infrastructure that meets its workforce and operational needs while supporting measured innovation.

- The OCC has no appetite for unauthorized access to systems and confidential data and will maintain strong controls to mitigate external threats against its technology infrastructure.
- The OCC has a low appetite for losing continuity of business operations stemming from unreliable telecommunications or system availability. Business resiliency planning and execution must be aligned with strategic objectives.
- The OCC has a moderate appetite for innovative technology solutions to meet user demands in a rapidly changing environment. The agency will exercise appropriate governance and discipline when considering and adopting new technology.

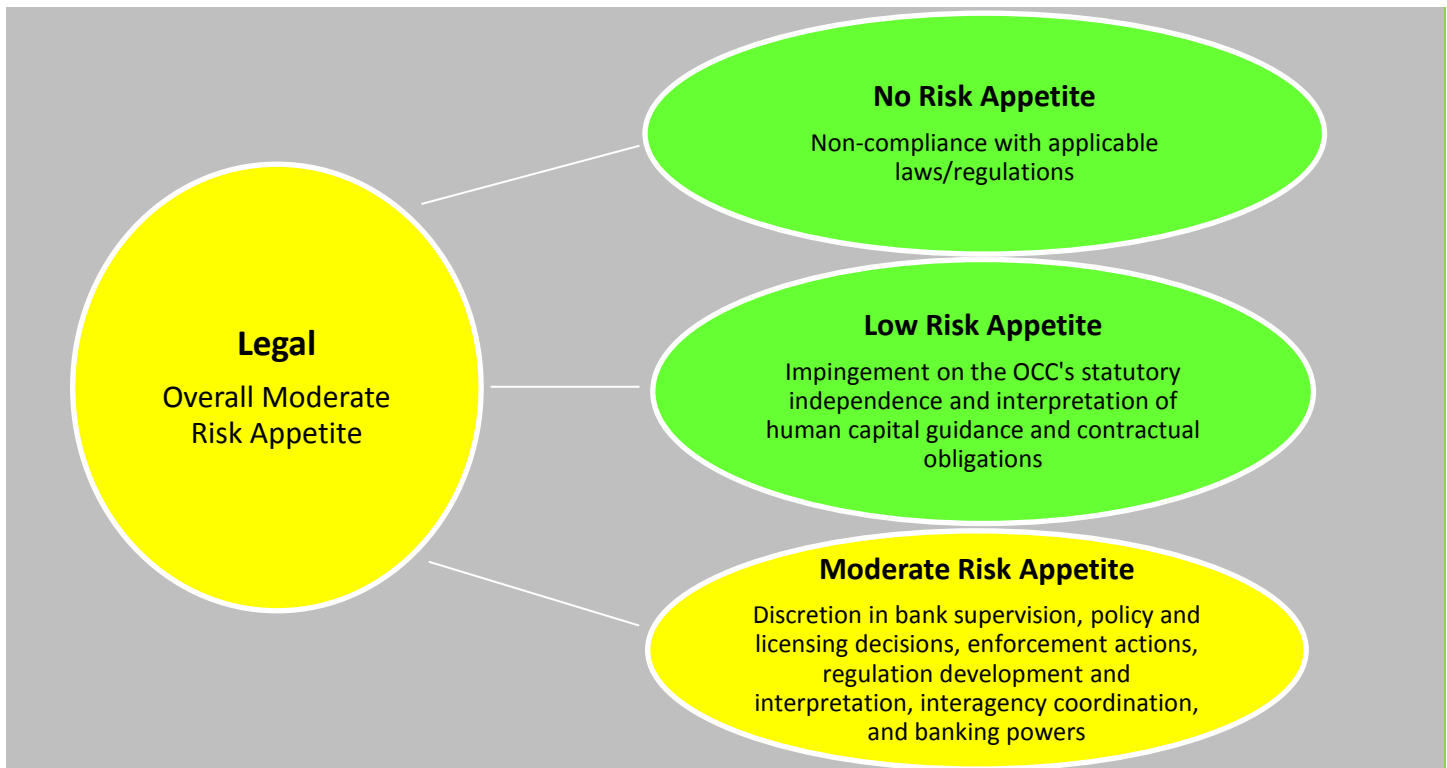
Operational Risk Appetite



The OCC's appetite for Operational risk is low. People, processes, and systems must support achievement of mission-critical activities. The OCC places the highest value on its people and expects employees to act with a high degree of integrity. The agency will maintain effective processes and systems through strong internal controls, quality assurance, and quality control programs to manage operational risk. The OCC will accept controlled risks in operational activities and processes, but will remain in compliance with applicable legal requirements.

- The OCC has no appetite for lapses in physical security.
- The OCC has a low appetite for weaknesses in employee conduct, business continuity planning, governance processes such as vendor oversight, and internal controls.
- The OCC has a moderate appetite for innovation and creativity in our pursuit of more efficient operations. The agency accepts the potential for increased short-term risk to achieve the long-term outcome of greater efficiency and effectiveness within the organization. The OCC will employ appropriate governance processes in the implementation of innovative and creative solutions to mitigate those risks.

Legal Risk Appetite



The OCC's appetite for Legal risk is moderate. The OCC will uphold its legal obligation to ensure a safe and sound banking system and fair access to financial services for consumers. Legal risk considerations are multi-faceted, complex and span the entirety of OCC operations. The need for legal judgment necessitates decision-making be transparent, supported, and subject to appropriate governance processes. Where we have discretion, the agency will accept slightly more risk to remain nimble in responding to the changing banking landscape.

- The OCC has no risk appetite for non-compliance with applicable laws and regulations.
- The OCC has a low appetite for impingement on its statutory independence and interpretation of human capital guidance and contractual obligations.
- The OCC will exercise responsible discretion, where policy allows or where legally permissible, to foster a diverse and vibrant federal banking system that supports consumers, business, and the national economy. The agency has a moderate appetite for exercising such discretion in the areas of supervision, policy and licensing decisions, enforcement actions, regulatory development and interpretation, interagency coordination, and banking powers.

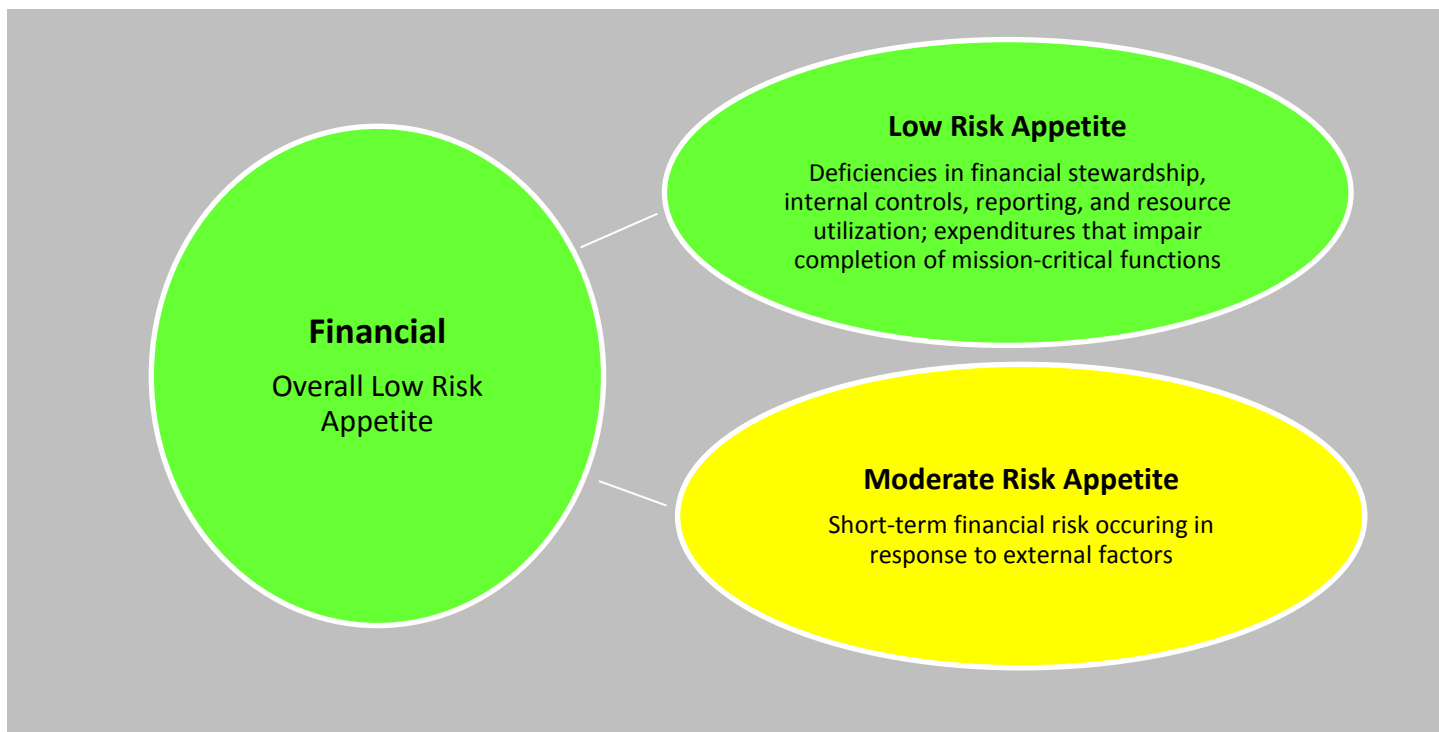
External Risk Appetite



The OCC's appetite for External risk is moderate. The agency will proactively manage external risks that are within its ability to influence through sound policy decisions, regulatory proposals, and other actions. The OCC will be a thought leader on supervisory and policy issues in support of its mission. The agency will act responsibly to protect the best interests of consumers and the federal banking system. The OCC will maintain awareness of potential external risk and exercise discretion in proactively addressing those risks.

- The OCC has a moderate risk appetite for engaging in activities to address external risks. External risks can be less controllable and predictable, and may have an industry-wide impact. The OCC will be flexible and exercise discretion in responding to legislative, regulatory, and industry changes, and domestic and international issues. Objective and collaborative risk responses support the fair treatment of consumers and a safe and sound federal banking system.

Financial Risk Appetite



The OCC's appetite for Financial risk is low. The agency will exercise prudent stewardship over its financial resources in fulfillment of its mission. The OCC will maintain strong internal controls and ensure compliance with applicable governmental and accounting standards. The agency cannot control or predict external factors that may affect our financial resources, but will make prudent decisions to mitigate the financial impact. The OCC has the discretion to accept incremental risk, where necessary, following appropriate analysis.

- The OCC has a low appetite for weaknesses in financial stewardship, internal controls, reporting, and resource utilization and expenditures that impair completion of mission-critical functions.
- The OCC has a moderate appetite for short-term financial risk that occurs in response to external factors, providing it is consistent with a plan for long-term health and stability of the agency and its people.