New FDIC Study is Predictive of Upcoming Risk Management Examinations

By Thomas A. Brooks / Aug 30, 2016

When the FDIC finishes an examination of a bank and finds that improvements are recommended in certain areas, the recommendation is delivered to the bank in the Report of Examination as Matters Requiring Board Attention (MRBA). The types of issues identified by risk management examiners include asset quality, board/management, earnings, violations of law or regulations, IT (cybersecurity), liquidity, BSA/AML compliance and interest rate risk.

A recent study[1] by the FDIC found that asset quality and management related issues constitute the most frequently cited concerns. As banks have grown over the past five years, asset quality has improved and the number of asset quality issues identified in MRBAs has declined. However, management related concerns have increased (57% of the reviewed MRBAs identified board/management issues) in well run banks, and there also has been an increase in MRBAs in the number of liquidity, IT and BSA/AML issues.

In the management category, most of the deficiencies cited relate to policies and procedures or the audit function, highlighting the need for attention to and improvement of corporate governance. The corporate governance issues identified include revising or expanding policies to provide "a clear governance framework; ensuring those policies incorporate sound objectives, procedures, and risk limits; and monitoring bank officer and employee compliance with those policies, banking laws, and regulations."

While the study identified violations of laws and regulations as a separate concern, it noted that the "MRBAs in this category focused on a board's need to correct apparent violations of banking laws or regulations, resolve contraventions of statement of policy, and to reduce such instances in the future."

The FDIC study focused on concerns identified in past examinations. However, banks should read this study as predictive of what the examiners will focus on in upcoming examinations. Banks should review their risk management policies and practices to prepare for upcoming examinations. Management should focus on corporate governance practices, asset quality oversight and increased attention in the areas of IT and liquidity to minimize the MRBA section in its next examination report.

If you have any questions regarding this alert, please contact Thomas A. Brooks at (202) 552-2356 | tbrooks@clarkhill.com or another member of Clark Hill's Banking & Finance Group.

[1] "'Matters Requiring Board Attention' Underscore Evolving Risks in Banking," *Supervisory Insights,* Summer, 2016

