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OCC finalizes revisions to its recovery planning guidelines

Initial perspectives related to the Office of the Comptroller of the Currency (OCC) amendments to its recovery planning guidelines

On October 21, 2024, the OCC finalized revisions to its recovery planning guidelines, codified at 12 CFR part 30, Appendix E (Finalized Guidelines).[1] The Finalized Guidelines retain all the substantive provisions included in the initial proposal with some moderate extension of compliance timelines for new covered banks. The Finalized Guidelines will become effective on January 1, 2025.

5 insights you should know

Lower threshold of $100 billion: While the current OCC Recovery Planning Guidelines generally apply to banks with average total consolidated assets of greater than $250 billion, the Finalized Guidelines lower the applicable threshold to banks with average total consolidated assets of $100 billion or more (based on average total consolidated assets for the four most recent consecutive quarters). Additionally, the Finalized Guidelines retain the OCC's reservation authority to extend the requirements to banks under the relevant threshold as the agency determines.

New testing requirement: The Finalized Guidelines include a new requirement for covered banks to test their overall recovery plan and each element of the plan at least annually. Although the Finalized Guidelines do not provide a specific testing format or methodology, testing should be risk-based and reflect the covered bank's size, risk profile, activities, and complexity. The Finalized Guidelines clarify that annual testing does not mean a covered bank is expected to consider every component of each element during each testing cycle, but rather should be risk-based.

Highlighting non-financial risk: The Finalized Guidelines add language stating that a covered bank's recovery plan should appropriately consider both financial risk and non-financial risk, including operational and strategic risk. The OCC noted that the added language was not in response to any deficiencies in banks addressing financial risks in their recovery plans, but rather observations of inconsistent considerations of non-financial risks within banks' recovery plans. The Finalized Guidelines emphasize that both types of risk should be considered in a bank's recovery plans.

Increasing regulatory scrutiny: Recent rulemaking from the Federal Reserve Board of Governors (FRB) and Federal Deposit Insurance Corporation (FDIC), along with the OCC's Finalized Guidelines, illustrates the increasing scrutiny on banks' resolution and recovery capabilities.[2] After a period of raising key regulatory thresholds, regulators have begun to expand prudential requirements onto smaller banking organizations, demonstrating the continued impacts of the spring 2023 banking turmoil on the regulatory agenda.

Transition period: Under the Finalized Guidelines, banks that are currently covered will have 12 months to amend their recovery plans to address non-financial risks and an additional six months to comply with the new testing provision. Newly covered banks will have 12 months to develop their recovery plan and an additional 12 months to comply with the testing provision.

5 considerations to evaluate

1 **Conduct a gap analysis and build recovery capabilities:** Banks should conduct an initial gap analysis of their recovery plans against the Finalized Guidelines' revised standards and, as necessary, prepare to build recovery capabilities accordingly. For newly covered banks, this will likely entail a significant uplift involving—among other things—revising policies and procedures, developing new governance structures, and directing more resources toward staffing and technology infrastructure.

2 **Develop a framework for testing recovery plan:** Testing should enable management and the board to verify that the bank has identified credible options to respond to potential stress scenarios and is adequately prepared to carry out these options, as needed. The results of testing should be carefully reviewed, and any lessons learned incorporated into the institution's recovery plan. Responsibility for any remedial actions identified as part of the testing exercise should be clearly assigned and monitored for progress.

3 **Incorporate non-financial risks into recovery plan:** It is important for banks to not overlook the threats that non-financial risks can pose to a bank's financial strength and viability. For example, this may consider factors such as Cyber Resiliency as an input, or changes in an institution's digitization or other innovation efforts could create more complex operations that may raise the risks of a severe non-financial stress that affects a bank's financial strength and viability. Institutions should maintain a detailed inventory of their non-financial risks and consider incorporating relevant triggers into the recovery plans.

4 **Build operational resilience credibility:** With the increased scrutiny on banks' operational resilience capabilities, it is critical that institutions build credibility with regulators. Banks resolution and recovery plans should demonstrate reasonable assumptions, be backed by verifiable data and information, and closely engage second and third lines. It is important to develop detailed communication plans, assign clear roles and responsibilities, and evidence operational readiness.

5 **Develop a roadmap:** Covered institutions should begin developing a roadmap to effectively address the new recovery planning requirements. This should include potential necessary investments in staff resources, technology infrastructure, and data capabilities. Given the amount of work expected for many newly covered banks, it's advisable to begin work earlier than later.

Endnotes

[1] Office of the Comptroller of the Currency (OCC), "OCC Guidelines Establishing Standards for Recovery Planning by Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches," October 21, 2024.

[2] E.g., Federal Reserve Board of Governors (FRB), Federal Deposit Insurance Corporation (FDIC), "Guidance for Resolution Plan Submissions of Domestic Triennial Full Filers," *Federal Register*, September 19, 2023; FDIC, "Resolution Plans Required for Insured Depository Institutions With $100 Billion or More in Total Assets; Informational Filings Required for Insured Depository Institutions With at Least $50 Billion but Less Than $100 Billion in Total Assets," *Federal Register*, July 18, 2024.

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