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Regulatory management as strategy
Perspectives on regulatory remediation

Strategies for success in a new business-as-usual paradigm

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Center *for*
Regulatory Strategy
US

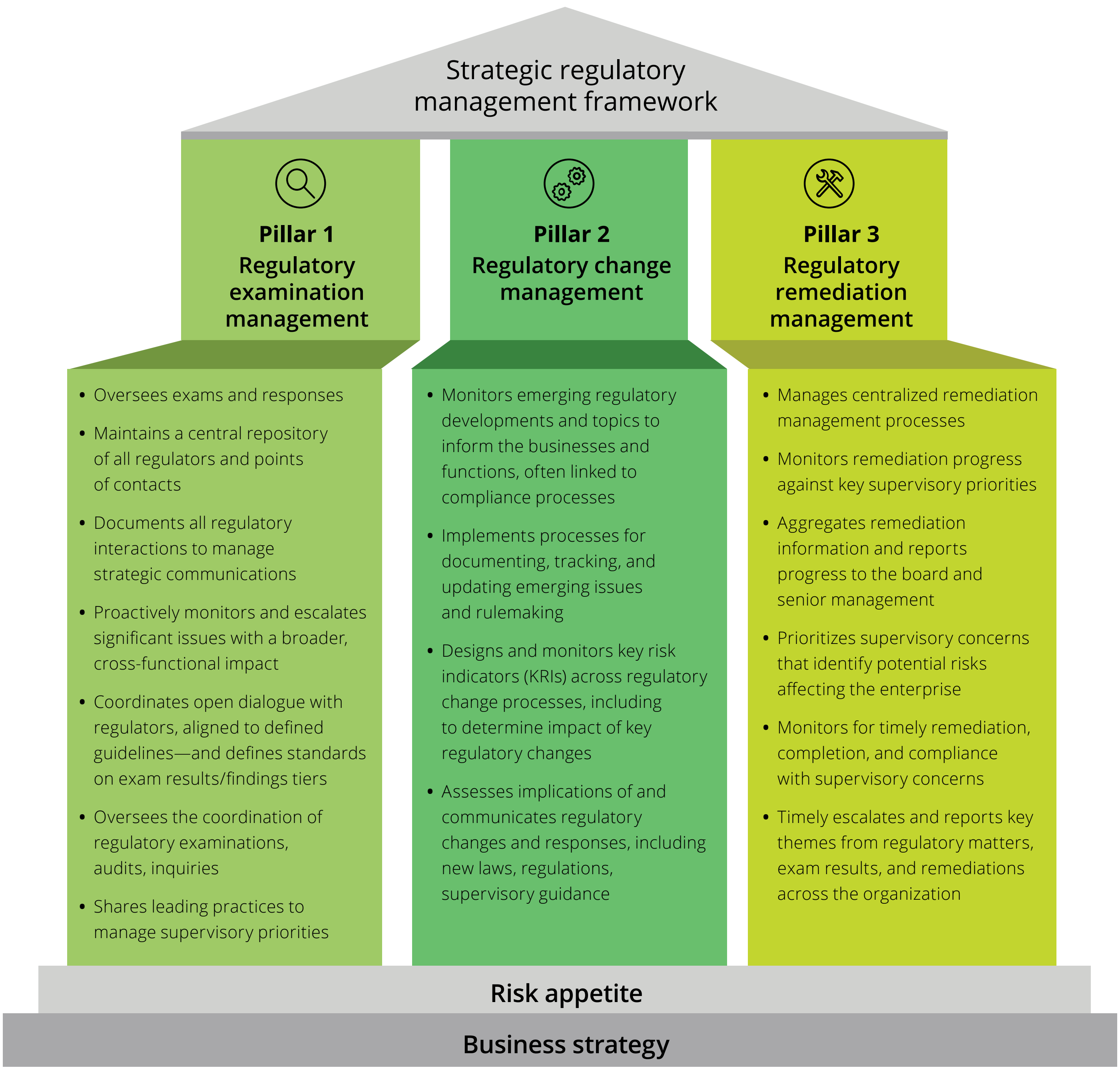
Introduction

This is the third of four perspectives we are issuing in our "Regulatory management as strategy" series. While this series generally is geared toward more complex and large banking organizations (e.g., Categories I–IV[1]), we believe that many of these practical insights may help inform regulatory engagement by community and regional banks under $100 billion in assets as well.

Our first perspective described our views on an emerging paradigm that calls for a strategic end-to-end regulatory management program across three traditional pillars: regulatory examination management, regulatory change management, and regulatory remediation management (figure 1).[2] In our second perspective, regulatory examination management was considered as a key strategic imperative for embracing a more integrated and coordinated approach owned by the board[3] and senior management and led by an empowered senior leader.[4]

This edition focuses on the **third pillar**: regulatory remediation management. This edition provides insights regarding regulatory-driven transformations and strategic regulatory remediation management.

Figure 1. The three pillars of an integrated and strategic regulatory management framework



Repeating an important theme reflected in our first perspective, gone are the days when a bank's board and senior first-line management can focus narrowly on business strategy and financial matters, leaving "regulatory matters"—including remediation of regulatory findings and gaps—to others. Due to supervisory pressures, new requirements, and the changing regulatory landscape, boards are expected to provide oversight and monitoring that necessitates more initiative-taking measures if remediation is chronically behind schedule or not improving.[5] Boards should demonstrate they are holding management accountable where remediation progress is insufficient.

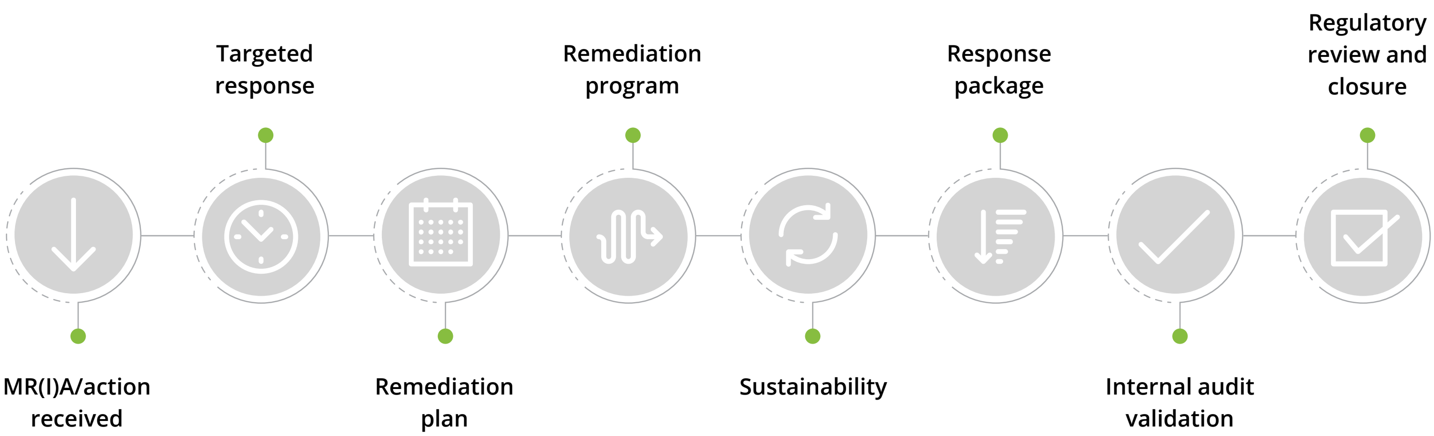
Based on our industry experiences and observations over the past 15 years, it appears also gone are the days when regulatory remediation could be looked at narrowly as episodic "one-off" item-by-item deliverables against enumerated supervisory mandates, matters requiring attention (MRA) or matters requiring immediate attention (MRIA), consent orders and written agreements, or self-identified gaps between bank practices and new or enhanced regulatory requirements.

For larger banks subject to enhanced prudential or heightened standards;[6] banks preparing to cross thresholds that increase requirements; and banks with significant growth plans or novel or complex business models, there is a new "remediation" reality. The 2023 US banking failures have reignited the importance of timely issue remediation as supervisors bring even greater immediacy to their work and their expectations for bank action.[7] Meanwhile, outstanding regulatory findings have significantly increased, particularly among institutions at, or near, the $100 billion asset threshold.[8]

Today, a strategic approach to end-to-end regulatory remediation should be top of mind for the board and senior management. Our experience shows remediation is now part of the business-as-usual core at leading banks, viewed by the board and senior management as an ongoing necessity in meeting strategic plans and goals, with related practices baked in to robust and now "normalized" operating procedures.

Remediation needs to consider the entire regulatory life cycle (figure 2), not only when an issue is potentially recommended for closure by management and passes to internal audit for validation. Roles and responsibilities across the three lines model (and board oversight) should be documented.

Figure 2. Regulatory issue life cycle



Hallmarks of leading programs include clear board of director oversight through robust processes and reporting; an engaged C-suite; deliberate accountability of senior executives; empowered and expert staff; adequate funding; and carefully tailored, well-executed holistic and sustainable solutions.

Remediation stakes are increasing, reflecting current risks and related potential reputation and other impacts. The number of MRAs and MRIAs have increased substantially over the past few years.[9] Meanwhile, our experience shows some institutions are being labeled by supervisors as "repeat offenders" or otherwise cited for failures to close out remediation items in a timely, complete, and sustainable way.

Achieving success in executing against the three pillars of a regulatory management strategy—regulatory examination, change, and remediation management—is grounded in a number of common attributes that are not mutually exclusive. Against that backdrop, this paper focuses on successful execution against the remediation pillar, across these key elements:

- Regulatory strategy that considers business strategy
- Governance and oversight with accountability for sustainable remediation
- Central remediation program offices with a mix of program execution and subject matter expertise
- Outcome-oriented solution design and execution

"Less-than-satisfactory" supervisory ratings continue to increase as many banking institutions face significant challenges in successfully executing the closure of regulatory issues raised by the federal banking agencies.[10] We have observed several drivers for these challenges, including long-dated remediation, lack of traceability to regulatory feedback, insufficient staffing, and expertise on complex end-to-end remediation. Foundational risk management and compliance components, such as data management, risk assessment, internal controls, and compliance programs, should continue to be a core focus for banks. Our experience shows regulators are increasing their expectations for holistic, rather than siloed, approaches to remediations, such as front-to-back integration and root cause analysis of systemic issues. Lastly, regulators have been examining ways to improve the speed, force, and agility of their supervision.[11]

Regulatory strategy

As a threshold matter, remediation from a strategic vantage point starts with core corporate cultural values and results in timely, efficient, and sustainable solutions. Strategic approaches should recognize that remediation is an ongoing, initiative-taking process, not simply tactical one-off reactionary responses, and should be linked with monitoring new rulemaking and shifts in supervisory approaches. These efforts can contribute to a culture of continuous improvement.

Strategic approaches for remediation should evidence traceability to regulatory feedback and demonstrate operational and regulatory risk reduction (both tactical and long term), particularly since remediation can involve teams across the three lines model, automated versus manual solutions, and core foundational enhancements. To the extent regulatory feedback links to regulatory requirements (e.g., Regulation YY,[12] Heightened Standards,[13] or other supervisory guidance), these requirements may need to be aligned to areas of enhancements, milestones, and deliverables.

A strategic approach, rather than a one-off tactical approach, will better provide clearly defined outcomes that address root causes, with supporting metrics to monitor risk reduction. This should include appropriate measures to demonstrate progress. It is also important to differentiate between shorter-term compensating controls and sustainable long-term automation and capability uplift. A strategic approach should recognize that ultimate regulatory acceptance is dependent on clear traceability of outcomes to regulatory findings and action plans.

A successful strategy is dynamic and incorporates lessons learned from regulatory failures, including rejected closure packages; reopened items by second-line quality assurance; management postponement requests; supervisor questions during monitoring; and recurring issues in MRAs/MRIAs, internal audits, or self-identified problems.

Governance and oversight

Lack of clear decision-making authority and siloed decision-making can adversely affect a firm's ability to get to decisions. Reporting to governance forums often focuses on status, rather than highlighting the real issues and content decisions. Additionally, some firms may not adequately prepare the organization for a multi-year journey and address new ways of working, including sustainable solutions.

Our experience shows regulatory expectations have moved toward more centralized governance models for oversight of remediation matters (including closure of gaps to new regulatory requirements). This movement reflects the often incredibly significant costs and complexities involved in remediation work. It also reflects the broad scope of work that is generally required across the enterprise at the business line, function, entity, and jurisdiction level.

The scale and complexity of remediation work now mandates board and senior management engagement, including second line and third line. This escalation is necessary for a number of reasons. First, the scale and scope of work and change often affects a firm's strategy and strategic plans. In a world without endless resources, and where hard choices must be made regarding which business initiatives are pursued, funded, and grown and which initiatives are not, the role of the board and senior management as deciders is clear. Second, senior management is uniquely positioned to work through and resolve cross-workstream and cross-functional dependencies. Many firms recognize this as one of the most difficult challenges to overcome. Third, senior management is best positioned to consider the impact of solution design choices, including policies and risk appetites, on various business lines.

A strategic approach to remediation should include clearly defined escalation paths to the board, senior officers, and governance forums with clear decision-making authority. This should also include a pathway for clearing siloed solutions and siloed thinking. Effective governance forums are often composed of senior trusted leaders from the organization with deep organizational knowledge and an appreciation of complexities that can create hurdles to achieving success. The approach should emphasize clear ownership, responsibilities, and accountability across the first and second lines.

Effective reporting to governance forums is important to achieving effective remediation governance and oversight. In our experience, effective reporting to the C-suite and the board highlights the real issues, content, and context beyond simple color coding (e.g., green, yellow, and red). While there is a balance that must be honored between the oversight role of the board and the day-to-day execution mandate of the C-suite and management, and a related balancing act between too much and too little information (i.e., when everything is important, nothing is), the board and C-suite should receive sufficient information to be able to effectively challenge the remediation—from start to finish.

Central Regulatory Program Office

Poor program management can lead to inefficient and inconsistent expectations across execution teams. This may also result in a lack of a clear operating model across businesses, jurisdictions, and functions, without targeted consideration of material legal entities. Finally, some organizations may suffer from cumbersome project management/execution processes, which lack the required infrastructure for strategic execution and require manual and resource-intensive program management processes.

In our second edition in this series addressing the strategic importance of regulatory examination management, we noted that many firms have recognized the importance of managing regulatory engagements as a strategic priority and have created a centralized function led by a senior executive.[14] We noted that titles of regulatory engagement functions may vary from firm to firm, as do their reporting lines and functional alignment (e.g., Office of the CEO, Operations, Finance). We have observed that senior leaders of these functions often come to these roles as experienced former regulators, risk and control managers, or compliance or legal professionals, and that, in recent years, many organizations have raised the stature of this function and its leaders, along with the standards for who fills these leadership roles. In our experience, leaders with broad knowledge of the organization's operations, who understand regulatory points of interest, have become the top contenders to lead remediation efforts.

Successful and strategic regulatory remediation management shares many attributes with successful and strategic regulatory examination management. Importantly, this includes the appointment of a senior accountable executive for the regulatory portfolio with knowledge of the business and appropriate stature with the C-suite to drive change and remove roadblocks.

In our experience, successful remediation is also typically facilitated through an effective central program office (figure 3) that has a focused drive to sustainable remediation, without the narrow counting of milestones or checklist approach. These program offices often include senior personnel from across functions and disciplines. Personnel with a broad range of subject matter expertise enable these offices to challenge the viability more effectively—including time, expenses, dependencies, and ultimate effectiveness—of proposed solutions across the entire regulatory issue life cycle. Program office personnel ideally should include individuals with firm knowledge of regulatory expectations. The governance forum should have the ability to drive the organization and make decisions, challenge existing methods and processes, and weigh in on the delivery (i.e., right individuals and right resourcing). Put simply, these offices should function as substantive forces, and not as clerical functionaries.

Figure 3. Illustrative central program office activities

Steering committee ↔ Design authority

Senior accountable executive

Central regulatory program office

Working groups

Technology	Capital and liquidity	Finance	Governance and oversight
Data, reporting, analytics	Risk, compliance, controls	Targeted initiatives	Accountability, culture, talent

Central regulatory program office - key activities

Operations

- **Establish deliverables**, governance, critical path, and checkpoints at **both the individual project and overall program level**
- Monitor progress against key milestones; verify that key work products meet predefined quality standards
- Manage and facilitate working group discussions and communication
- Implement decisions, resolve issues, and manage scope
- **Develop documentation standards applicable across the entire program**
- Develop an onboarding package
- Streamline reporting and make it simple yet effective for the business

Requirements management

- **Define process by which risk domain SMEs will act as a clearinghouse** for risk-transformation related requirements, both explicit and implied
- Intermediate finalization of requirements between business, risk, and technology
- Coordinate the liaison with regulators and industry peers to triangulate and establish leading industry practice standards for risk management
- **Serve as design authority for key end-to-end processes** and architectural considerations
- Facilitate and maintain key decisions affecting requirements

Stakeholder management

- Define protocols for interactions with key stakeholders (e.g., board, steering committee, business executives, internal audit, regulators)
- Establish a communication strategy and framework
- **Coordinate and resolve transition, handoffs, and conflicts arising from dependencies**
- Drive training and education for relevant areas

Program budget office

- Track and monitor program financials: budgeting and planning
- **Critical role given potential to overspend**

Program offices, in our experience, typically have a multi-year budget model that spans remediation, which can be tactical and strategic and involve technology spend. This longer view is consistent with the longer timelines associated with the often transformational requirements of remediations. The longer view also enables change programs and program offices to encompass a normalized, business-as-usual capability that we believe is now part of this aspect of the banking business. This office is critical to transition to business as usual to ensure a run-up of regulatory issues, reopened issues, or long-dated issues is avoided.

Effective program offices are pragmatic by considering resource requirements associated with proposed processes. Some leading practices can include automated project management tools to help reduce burden on manual processes and focus resources on the right actions, as well as playbooks for all major program processes. These offices often enjoy a clear operating model between a central office and business units that define essential elements, including hub-and-spoke activities, resourcing, budgeting, and closure processes. The decision rights of this office should be clear concerning whether they review and challenge, can veto closure of deliverables and issues, analyze lessons learned, and perform root cause analysis.

As a final consideration, performance and compensation outcomes for the accountable program office executive leader and team should be linked to success of the program.

Some firms may over-rely on “plans-for-a-plan,” reducing overall remediation plan credibility while adding execution risk. Additionally, the operational design may not be sufficiently robust or consider alignment to firm strategy, enterprise frameworks, and risk appetite. Another potential pitfall is failing to engage stakeholders across the three lines model, resulting in suboptimal control framework enhancement.

Design

A hallmark of a successful program is one that leverages a design and decision authority to determine, validate, and memorialize key solutions and actions with a view toward sustainability. "Plans-for-a-plan" should be identified and replaced with actual action plans as a priority and as soon as possible. In a related way, we have seen the proliferation of planning milestones often delaying clarity on design, which should focus on resource estimation and, to the extent possible, efficient solutions.

Effective design should be anchored to a well-defined and agreed-upon risk taxonomy and risk appetite framework, addressing both financial and non-financial risks. Where plans appear long-dated, the implementation of effective interim compensating controls, where possible, should be considered to demonstrate tangible risk mitigation. Challenge processes with the second line and internal audit function help support the thoroughness of design and implementation decisions.

A strategic approach, rather than a tactical one-off approach, focuses on robust operational design. Getting to the right solution, rather than simply a solution, is critically important. Strategic design may be facilitated by a "design authority," such as an executive or forum that looks at end-to-end enterprisewide dependencies and has a holistic view of the impact on resources, technology spend, and process improvement.

In this regard, design authorities go beyond just meeting regulatory expectations; they create a sustainable process in line with business strategy, validate robustness and completeness of design and solutions (including core assumptions and dependencies), and bring in external points of view on industry practices and considerations.

Establishing plan credibility with regulators and other stakeholders involves completing as much of the solution design upfront. In our experience, regulators disfavor and often reject or ask for resubmission with the detail behind "plans-for-a-plan" milestones. Plans also should consider any in-flight strategic initiatives and risks that could have an impact on the design, including where they can be leveraged to function as compensating controls.

Design check and challenge processes are an essential element of effective remediation design, as they provide an opportunity for control and assurance functions to weigh in on strategic program decisions. Check and challenge enable alignment across the three lines for critical enhancements to the control environment. The internal audit function is important in this journey, demonstrating and documenting appropriate challenge, and, in doing so, helping to assure regulators on the adequate closure of required actions. Milestones and timelines should include adequate time for both second-line challenge and third-line validation for closure.

Execution

A strategic, execution-focused operating model should drive toward sustainable remediation implementation. Execution is reliant on executive sponsors in the business being responsible and accountable for the delivery and sustainability in the final business-as-usual operations. This includes a detailed and clear articulation of roles and responsibilities across the program, business lines, and functions to provide accountability and to facilitate effective decision-making. In our experience, success is more often than not associated with having one accountable executive for each action plan, even if multiple functions or significant contributors are required for successful completion.

As performance depends on people, defining a talent strategy supports the consistent and effective achievement of remediation outcomes. A resourcing or talent strategy includes assessing the numbers, skills and expertise of key personnel, providing additional training where necessary, focusing on backfill and talent succession strategies, and identifying short-term capacity gaps and longer-term function headcount. The accountable executive should understand key person dependency, and ask and answer questions regarding capacity and related risks where, for example, the same individual is tasked and likely "stretched" across multiple workstreams. In selecting leadership talent, we have found that individuals who combine strong subject matter expertise with strong institutional knowledge can be critical catalysts in realizing success.

The central program office, in order to effectively implement the remediation and avoid unintended consequences and collateral damage, should consider and understand the impact to regions and material legal entities (including non-US entities), as applicable. Addressing this head-on can mitigate the risk of remediation being stalled due to organizational challenges. Considering these broader impacts also is part and parcel of ensuring the robustness of decisioning and issue escalation processes.

Technology and data should not be overlooked. These are often the most critical and should be tackled early. Technology change and data quality and completeness are consistently key areas and a growing regulatory focus—and are often critical in supervisory assessments regarding the sustainability of actions.[15]

Through supporting large-scale regulatory transformation initiatives, we have collected key lessons learned and strategic insights that may help enable more effective regulatory transformation initiatives.

Validation

The role of internal audit in regulatory remediation extends beyond simply providing the final assurance on the sufficiency of management's remedial actions. Internal audit should play a critical advisory role throughout the entire remediation process by offering guidance and constructive challenge during the design and implementation phases. This holistic involvement can help the institution to be successful in meeting regulatory expectations while also positioning internal audit to conduct timely monitoring and testing with the appropriate skill set.

To align with regulatory expectations, internal audit should provide a well-founded opinion on the adequacy of management's remedial actions before regulatory agencies consider lifting any criticisms. Internal audit's validation strategy and approach should thus be structured not only to evaluate management's commitments, but also to offer clear and actionable reporting. This reporting should confirm that the commitments were designed to address the root cause of the issue, are effective in their operation, and are sustainable for the long term.

Internal audit's validation approach should consider the following dimensions to provide the necessary assurance to both the organization and regulators that remedial actions were sufficiently implemented and sustainable.

1. **Spirit and intent:** Internal audit should demonstrate an understanding of the root cause of the finding, how it aligns with broader issues, and whether management's actions align with the underlying spirit of the regulatory concern.
2. **Operating effectiveness:** Internal audit needs to assess whether the new processes and controls are functioning effectively over a significant period, ensuring that they meet the intended outcomes.
3. **Sustainability:** Internal audit should outline why the remedial actions are sustainable. This includes developing clear sustainability criteria, such as whether policies and procedures are in place, whether processes are adequately resourced, and whether self-governance and change management practices support continued compliance.
4. **Effective challenge:** Internal audit should be able to demonstrate that it provides robust and ongoing challenge during the remediation process, ensuring that any gaps or issues are addressed before final validation.

To set up the validation for success, internal audit should ensure that there is a clear understanding and alignment with management with the overall "spirit and intent" of the regulatory feedback at the beginning of the remediation cycle.

Key questions for alignment:

- What are the overall objective and outcomes the regulatory agency wants to see? What is expected to demonstrate "meaningful target-state achievement"?
- What are management's success criteria to meet those objectives and outcomes?
- How does management's response and target outcomes address the spirit and intent and root cause of the criticism?
- What is management's view of why the remedial actions will be sustainable?
- Are there any interdependencies between related findings, especially for larger-scale and multi-year regulatory matters (consent orders, memorandum of understanding, etc.)?

Figure 4. Lessons learned across the regulatory issue life cycle

Regulatory lifecycle	Targeted response	Remediation plan	Remediation program	Internal audit validation and regulatory closure
Lessons learned	• Resistance to acknowledgment of core problem or root cause – Attributed to materiality and documentation • Lack of clarity in response narrative – Unnecessary information – Absence of business and product impacts • Reluctance to provide specifics in plan (plan-for-a-plan) – Plans leave too much optionality and flexibility regarding execution – Data and tech aspects unclear	• Remediation plan (forest, tree, and root problem) – Absence of sufficient strategic and business focus in planning – Remediation plan letter language is parsed into too granular a level – Reluctance to go beyond scope of "written" items to "root" of the issues	• Costly, fragmented, and cumbersome – Lack of standardization – Ineffective project management – Poorly defined requirements – Disconnects between tech and business	• Lack of full alignment with spirit and intent of criticism and required success criteria with management • Back-end loaded plans that compress time frame for submission package affecting quality • "Big picture" story is missing • Insufficient review time during submission resulting in errors, poor documentation, and inaccurate references
Recommendation	• Utilize senior executive (peer) to provide review and input	• Limit the number of plan and action owners • Specifically address "forest" (capability), "trees" (operationalization), and "root" cause (e.g., data, tech gaps)	• Central regulatory management and change office under senior leader • Clear mandate and charter • Design/requirements authority • Balance SME vs. change management • Focus on business outcomes beyond program operations	• Standardized regulatory closure package for IA validation • Formal development of IA validation strategy and timelines • Standard regulatory validation reporting templates with index and traceability to workpapers and artifacts • Independent QA of workpapers and report prior to regulatory submission

Call to action

In closing, we cannot overemphasize the importance of making the strategic pivot to submitting remediation into business-as-usual planning and ongoing operations. Our experience shows banks will likely need to demonstrate to regulators that effective remediation and change management, leading to sustained performance, are now embedded in the bank's culture and operations.

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Endnotes

1. *See* Board of Governors of the Federal Reserve System (FRB), Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, and Foreign Banking Organizations, 84 FR 59032, November 1, 2019.
2. Deloitte, "Regulatory management as strategy," March 2024.
3. References in this document to the "board" also include relevant board committees with oversight over regulatory remediation matters. For ease of reference, we simply refer to "the board" in this document.
4. Deloitte, "Regulatory management as strategy: Perspectives on regulatory engagement," June 2024.
5. *See e.g.*, FRB, "SR 21-3 / CA 21-1: Supervisory Guidance on Board of Directors' Effectiveness," February 26, 2021.
6. 12 CFR Part 252 (Enhanced Prudential Standards/Regulation YY); Office of the Comptroller of the Currency (OCC), OCC Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches; Integration of Regulations, 79 FR 54518, September 11, 2014 (corrected December 16, 2014). *See also* OCC, *Comptroller's Handbook*, accessed September 2024; FRB, "SR 21-3 / CA 21-1: Supervisory Guidance on Board of Directors' Effectiveness," February 26, 2021; FRB, "SR 19-3 / CA 19-2: Large Financial Institution (LFI) Rating System," February 26, 2019.
7. FRB, "Supervision with speed, force, and agility" (speech by Vice Chair for Supervision Michael S. Barr at the annual Columbia Law School Banking Conference, New York, NY), February 16, 2024.
8. FRB, *Supervision and regulation report*, May 2024.
9. Ibid.
10. Ibid.
11. FRB, "Supervision with speed, force, and agility."
12. 12 CFR Part 252.
13. OCC, "OCC Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches; Integration of Regulations."
14. Deloitte, "Regulatory management as strategy: Perspectives on regulatory engagement."
15. *See* FRB, "Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by the Federal Reserve Board," last updated February 18, 2021.

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