Risk-Focused Consumer Compliance Supervision Framework

Overview of the Program

The Board adopted a program for risk-focused consumer compliance supervision in 1997. Since then, the program has been modified several times to increase its efficiency and effectiveness in an evolving banking environment. The procedures implementing the risk-focused consumer compliance supervision program are currently being revised to, among other things, incorporate a wide range of existing supervisory guidance.[1] Once the revised procedures have been tested and formally approved, they will be added to this *Consumer Compliance Handbook.*

The risk-focused consumer compliance supervision program is designed to reasonably ensure that all organizations supervised by the Federal Reserve comply with consumer protection laws and regulations. It is founded on the expectation that consumer compliance risk management is an integral part of the corporate-wide risk management function of each state member bank and bank holding company.

The risk-focused supervision program directs System resources to organizations, and to the activities within those organizations, commensurate with the level of risk to both the organization and consumers. This focusing of resources reduces burden on those organizations that already have appropriate risk mitigators in place. In recognition of the rapidity of change in the financial services industry, the program is designed to be adaptable to different types of organizations and risk profiles.

Particularly in a period of rapid change, the more informed organizations are about the regulatory environment in which they operate, the greater the opportunity for them to achieve compliance on their own. For that reason, the program supplements traditional supervisory activities with timely communications concerning consumer compliance regulatory and supervisory matters. Given the interrelationship among different types of risk, the program requires examination reports and other products of the supervision process to be meaningful to all stakeholders, including the supervised entities, the Federal Reserve, and state banking authorities.

Following are some highlights of the program:

- Provides for the efficient and effective deployment of System resources by allowing Reserve Banks to tailor supervisory activities to the size, structure, complexity, and risk of the bank. As a result, both the frequency and depth of review should be commensurate with a bank's risk profile. Sufficient information about the use of resources will be captured and analyzed to help direct future decision making at the System and Reserve Bank levels.
- Incorporates guidelines for evaluating compliance management programs in the context of risk to the organization as well as to consumers. These guidelines will be evaluated routinely and updated as necessary to reflect changing risk within the financial services industry. The program will provide specific guidance on evaluating the efficacy of internal controls and audit programs as well as on applying appropriate testing methodologies.
- Requires coordination with other supervisory disciplines and other regulators, as warranted, to ensure a full understanding of the organization's risk profile such that consumer compliance risks are incorporated into overall risk assessments and consumer compliance ratings influence overall management ratings and risk management ratings as appropriate. The form of specific supervisory products will be dictated by the needs of relevant stakeholders.
- Promotes communication between supervised organizations and Reserve Banks, outside of the supervisory process, for the purpose of sharing timely information about industry developments and consumer compliance risk management practices as well as changes to laws and regulations. Resulting improvement in institutions' risk management programs should allow for more-efficient use of examiner time and resources while reducing regulatory burden.

1. The procedures are also being revised to incorporate revised guidance related in part to the supervision of LCBOs (large complex banking organizations), including those without a state member bank.