Financial Services Regulatory Update

March 2017

This communication is designed to provide you with quick snapshots and timely perspectives on recent regulatory developments.

FFIEC Guidance on the Uniform Interagency Consumer Compliance Rating System

Background

The Federal Financial Institutions Examination Council (FFIEC) has developed a common methodology for the prudential regulatory agencies (FDIC, OCC, FRB), as well as the Consumer Financial Protection Bureau (CFPB), to use in rating financial institution performance in consumer compliance. Final guidance[1] – the first of its kind in more than three decades – was published on November 16, 2016. The standards will be used in consumer compliance examinations beginning March 31, 2017. At a recent regulatory roundtable, members of each agency discussed practical concerns and implementation strategies for the guidance. The *Uniform Interagency Consumer Compliance Rating System* (CCRS) gives financial institutions both a framework for compliance performance self-assessment and a more structured, objective view of how regulators will assess their compliance management system (CMS).

Coverage and Overview

The CCRS framework outlined in the November 2016 guidance applies to all financial institutions regulated by the prudential regulatory agencies or the CFPB. The framework reflects the agencies' shift toward a risk-based supervisory and examination approach, giving regulators the flexibility to independently rank three categories of a compliance management system's components according to a five-tier rating scale:

		Rating				
		1 – Strong	**2 – Satisfactory**	**3 – Deficient**	**4 – Seriously Deficient**	**5 – Critically Deficient**
CMS Category	**Board and Management Oversight**	Demonstrated commitment to CMS effectiveness	Adequate oversight and commitment to CMS	Inadequate staff and/or oversight	Inadequate staff in numbers and ability; ineffective oversight	Inability or unwillingness to manage compliance risk
	Compliance Program	Mature CMS model (3 lines of defense)	Adequate CMS model	CMS not adequate or comprehensive	Weak CMS; serious deficiencies in one or more 3 lines of defense	Lines of defense critically deficient or absent
	Violations of Law and Consumer Harm	Low number, severity and isolated cause of violations	Limited number and consumer impact	Material weaknesses in CMS; numerous violations	Serious consumer harm; widespread, repeated or long standing issues	Issues result from critical deficiencies in CMS

[1] FFIEC. *Docket No. FFIEC-2016-0003: Uniform Interagency Consumer Compliance Rating System*. https://www.ffiec.gov/press/PDF/FFIEC_CCR_SystemFR_Notice.pdf. November 16, 2016.

Within each Compliance Management System category are compliance risk management components:

Board and Management Oversight	Compliance Program	Violations of Law/Consumer Harm
Oversight and Commitment	Policies and Procedures	Root Case
Change Management	Training	Severity
Comprehension, Identification and Management of Risk	Monitoring and/or Audit	Duration
Corrective Action and Self-Identification	Consumer Complaint Response	Pervasiveness

According to representatives from each of the agencies, the individual rating for each CMS component will drive recommendations for remediation and action plans where deficiencies are identified. Regulators will first evaluate the institution's compliance culture, management and oversight strategies, and view remaining CMS components in light of that evaluation.

Compliance and Risk Management Strategies

The Three Lines of Defense model commonly utilized within financial services compliance risk management strategies creates and enhances the ability to adjust to regulatory, institutional, strategic and product offering changes. The model also facilitates institution-wide alignment of compliance related activities, improving efficiencies and maximizing compliance risk management efforts.

Using the CCRS guidance, we recommend evaluating the strength and effectiveness of each CMS component against regulatory expectations as articulated in the November 2016 guidance. Consider the program generally and in view of the institution's Compliance Risk Assessment, focusing on the adequacy and effectiveness of risk-based controls and activities. For example, where periodic compliance monitoring activities encompass both high and low risk requirements, products and services, consider adjusting the scope or frequency to view higher risk areas more frequently or focusing on newer products or regulatory changes. Include a broader scope and assessment of CMS controls and activities in the third line of defense – Compliance Internal Audit – to free resources in the second line of defense to keep pace with business and regulatory changes. Maintaining independence in the third line of defense also enhances the ability in the first and second lines of defense to collaborate in developing front line controls.

In addition, take steps to keep the Board and executive management apprised of changes in the institution's risk profile. Including regulatory hot topics, compliance monitoring and audit results, and pending regulatory changes in periodic reports will help directors and managers contextualize strategic plans to better manage compliance risk. Inform the Board of regulatory expectations under the new CCRS, and take the opportunity to build and present a business case for making adjustments to the CMS as necessary.

Finally, review and assess CMS control points, such as the Compliance Risk Assessment, Monitoring Plan, and Audit Plan to confirm they are appropriately aligned and operating as expected. Gaining efficiency can also mean greater effectiveness, so taking a process- or product-based approach to assessing compliance risk rather than a regulation-based approach can simplify the risk assessment process while creating a compliance risk management program that accurately reflects the institution's true risk profile.

How Experis can help

Experis Finance offers industry experience in all aspects of Financial Services, including:

- Performing objective assessments of compliance risk management practices
- Assessing the adequacy of your organization's compliance control environment
- Developing internal compliance monitoring and audit programs to address unique risks
- Developing and maintaining first-, second- and third-line controls and testing related to compliance

Our Risk Advisory Services practice can evaluate your compliance management program, provide comprehensive recommendations for improvement and help you address those recommendations.

Our team of professionals has extensive experience working with clients to address these issues to help them avoid costly fines and penalties. If you have any questions about or concerns around your implementation of these steps, contact an Experis representative at financialservicesindustry@experis.com or visit our website Experis Finance.