

EXAMINATION MANAGEMENT

Type of Participant Targeted

Examination Management (XMan) is the capstone course in the Federal Reserve System's safety and soundness assistant examiner training program. XMan primarily targets assistant examiners pursuing the safety and soundness and information technology commissioning tracks¹. The course focuses on development of one case to demonstrate the key elements of examination management, the risk-focused supervisory approach, and integrated supervision rather than emphasizing the banking organization's total assets. In addition, the course highlights the common elements of the examination process (i.e., planning, implementation, and follow-up). Assistant examiners should generally have at least three years of relevant experience.

For the assistant examiner pursuing the safety and soundness or information technology commissioning track, XMan is a requirement for sitting for the Second Proficiency Examination.

Prerequisites

Before attending XMan, participants should possess the following knowledge and skills:

- The ability to analyze the factors that lead to credit, market, liquidity, operational, legal, and reputational risk and the ability to assess the level and trend of these risks.
- The ability to analyze data and information, distinguish critical from non-critical risks, and determine the underlying strengths and weaknesses of an organization's risk management processes.
- A comprehension of safety and soundness, consumer affairs, fiduciary, and information technology integration issues.
- The ability to interview organization management to determine information necessary to identify and clarify critical issues.

In addition, the participant will complete a precourse assignment which is to perform a pre-examination risk assessment for a banking organization. Approximately six weeks prior to class, the participant will be notified that the precourse assignment is available at the System Staff Development website. The exercise requires approximately 21 hours to complete and is due upon arrival at class.

Course Overview

XMan is designed to enhance a participant's analytical, decision making, and leadership skills by working in examination teams and serving as an examiner-in-charge (EIC) during a functional review exercise. The functional review exercises will require participants to synthesize materials

¹ Fiduciary examiners generally follow the safety and soundness commissioning track.

EXAMINATION MANAGEMENT

and information gathered and produced during the exercise to determine the effects on the six risks (credit, market, liquidity, operational, reputational, and legal) of the organization. The functional reviews will include the following areas: operational, credit, market, and management oversight. Participants will use critical thinking skills to review workpapers and summaries of findings², assess the key concerns, evaluate risk management processes, and apply integrated supervision principles. Participants will develop a written product, which will identify the strengths and weaknesses and the risk for the particular functional review exercise and assess the overall risks of the organization. As part of the functional review exercises, participants will identify possible issues to discuss with specialty examiners. Participants will incorporate the findings from the functional review exercises, including specialty issues, and additional information regarding the organization to assess the overall institutional-wide risks. Additionally, participants will identify if any issues warrant continued off-site monitoring.

The course highlights the risk-focused and integrated approach to supervision by requiring the participants to: (1) prepare a written pre-examination risk assessment, (2) prepare written products³ that outline the key findings from the functional review exercises, (3) discuss key findings and proposed recommendations from the functional review exercises, (4) prepare a written assessment of the overall organization-wide risks, including matters for on-going monitoring, and (5) discuss findings with bank and Reserve Bank management.

Course Objectives

During this 4½-day course, the participant will:

- Become familiar with the skills and responsibilities of an EIC regarding risk-focused and integrated supervision principles.
- Analyze appropriate information from bankers to prioritize and assess the risks and identify material findings.
- As EIC, communicate examination findings, including specialty issues, to examination team.
- Incorporate material findings of an institution's organization-wide risks, including the integration of material elements of consumer affairs, fiduciary, and information technology examinations into a written product.
- Present key findings of an organization's risks to the appropriate parties.

² For example, during the functional review exercise for credit, possible workpapers or summaries of findings may be the results of reviews previously completed for the mortgage or commercial real estate lending areas or the analysis of the adequacy of ALLL.

³ The written products require the participants to identify and evaluate the six risks: credit, market, liquidity, operational, legal, and reputational.

EXAMINATION MANAGEMENT

Post-Course Intervention

After completing XMan, the participant should be given on-the-job assignments that will improve the retention of the knowledge and skills presented during class. Such on-the-job assignments include the following examples:

- Prepare pre-examination risk related documents (risk profiles, risk assessments, or scope memorandums, as appropriate).
- Identify, measure, and evaluate key risks present in the overall organization.
- Assess the effects of consumer affairs, fiduciary, and information technology issues and concerns on the safety and soundness of an institution.
- Lead or participate substantially in a bank examination or holding company inspection.

Overview of XMan Curriculum

Subject	Approximate Class Hours	Approximate Homework Hours
Scoping and Planning	2.00	
Assessing the Institutional Risks and Integrated Supervision	1.50	
Pre-examination Risk Assessment	0.00	21.00
Functional Review Exercise – Operational	5.50	
Functional Review Exercise – Credit	4.50	
Functional Review Exercise – Market	4.50	
Functional Review Exercise – Management Oversight	5.50	1.00
Presentation for Each Functional Review Exercise	4.00	
Vetting Session for Each Functional Review Exercise	2.00	
Course Introduction, Expectations, and Energizer	1.50	
Course Wrap-Up	0.50	
Totals	31.50	22.00

EXAMINATION MANAGEMENT

Learning Objectives

The primary focus of XMan is to require the participant to evaluate management's appetite for risk and its ability to identify, measure, monitor, and control risk. Where applicable, the participant will provide recommendations for improving risk management processes.

The course is dedicated to a case study that challenges the participant to implement risk-focused and integrated supervision examination principles and techniques. The learning objectives listed under the headings of "Overall Process Skills" and "Integrated Supervision," will flow throughout the case study and should be incorporated into the six risk categories.

The course is designed to promote the assistant examiner's leadership, teamwork, and critical thinking skills.

After completing each section, the participant, at a minimum, will be able to demonstrate the following skills:

Pre-examination Risk Assessments and Examination Objectives

- Assimilate pre-examination information, including specialty and safety and soundness prior examinations, to identify and analyze the risks within the organization and potential problems.
- Identify both strengths and weaknesses to complete a pre-examination risk assessment and a listing of examination objectives that focus on areas of higher risk within the organization.
- Prioritize risks (high, moderate, low) and determine direction (increasing, stable, decreasing).

Team Exercises

- Work together as a team to achieve common goals.
- Realize the need for full participation and team cohesiveness to achieve success.

Overall Process Skills

- Investigate concerns identified in the pre-examination risk assessment with management to appropriately risk-focus the examination.
- Determine if management's business strategy is in line with the existing risk appetite of the organization.
- Utilize MIS reports as an indicator of management's knowledge and ability to monitor the risk appetite and to assess the adequacy of information and reports used by the bank's senior management and board of directors.
- Evaluate the adequacy, appropriateness, and comprehensiveness of policies and procedures given the size and complexity of the organization. Assess management's monitoring of adherence to procedures and determine the effect of non-compliance or the absence of procedures.
- Support, document, and communicate findings from the functional review exercises to other members of the examination team.

EXAMINATION MANAGEMENT

- Provide a comprehensive assessment of the institution by integrating specialty areas (information technology, fiduciary, and consumer affairs) and functional risk assessments into an overall risk profile of the organization.

Integrated Supervision

- Evaluate content of Information Technology, Consumer Affairs, and Fiduciary examination reports and risk assessments to assess level and effect of the risks arising from those activities.
- Refer potential concerns to the other disciplines.
- Interact and coordinate findings with specialty examiners to determine the implications of the institution's overall risk profile.

Credit

- Assess concerns with regards to the loan portfolio management.
- Evaluate the effectiveness and controls imposed by the loan administration and credit review processes.
- Evaluate the effect of investment portfolio decisions on overall asset quality.

Market

- Assess concerns regarding the effect of investment portfolio decisions on interest rate risk (IRR) management.
- Evaluate the appropriateness of IRR modeling techniques in comparison with investments and asset/liability management policies and procedures.
- Assess whether there is adequate expertise to measure, monitor, and control the risks inherent in the businesses undertaken.
- Assess the adequacy of limit structures and the implications of limit excesses.

Liquidity

- Assess the availability and concentration of funding sources to adequately cover current operations.
- Evaluate the adequacy of liquidity contingency planning and the ability to monitor the effect of business failures or disruptions on liquidity.
- Evaluate management's ability to monitor the loan portfolio and assess the effect on funding decisions and requirements.
- Evaluate the effect of investment portfolio decisions on funding.

Operational

- Assess the adequacy and consistency of the internal and external audit function.
- Assess the adequacy of MIS and the effectiveness of providing senior management and directors with timely and reliable reports on the financial condition, operating performance, contingency, and risk exposure of the organization.
- Evaluate the operational effect of management's business strategy.

EXAMINATION MANAGEMENT

Legal

- Assess the effect of outstanding or anticipated litigation.
- Assess the effect of the non-compliance with federal rules and regulations.
- Assess the potential legal exposure in light of management's business strategy and competitive position.

Reputational

- Assess the effect of the non-compliance with federal rules and regulations.
- Assess the effect of management's business strategy, the economy, and competition.

Vetting Sessions and Class Discussions of Risks

- Discuss and compare each team's findings.
- Determine proper regulatory guidance to be given to bank management through a vetting session with Reserve Bank management.
- Review risk assessments to determine if critical risks and issues were addressed.
- Discuss both safety and soundness and specialty strengths and weaknesses and the implications on the institution's overall risk profile.
- Communicate to senior management the risk management deficiencies noted in the functional review exercises and the effect on the safety and soundness of the organization. Where appropriate, offer proper guidance for improvement.
- Identify and communicate to Federal Reserve management, issues that should require off-site monitoring for continuous supervision.

Financial Modernization and Coordination of Efforts

- In light of evolving legislation, discuss what changes need to be made in the way we regulate financial institutions.
- Comprehend the importance of coordinating efforts with other agencies to effectively supervise these financial holding companies.

Class Size

The maximum number of participants for this course is 16.

Instructors

The course requires:

- One lead Safety & Soundness instructor, to serve as the course facilitator and organizer, who is well versed in the safety and soundness risk-focused supervision principles and understands key issues of integrated supervision.
- Four or five instructors (depending on competencies and number of participants) who are well versed in the safety and soundness risk-focused supervision principles and understand

EXAMINATION MANAGEMENT

key issues of integrated supervision and have a working knowledge of the specialty areas.

Competency in one or more of the following areas is needed by each of the instructors:

- Operational Risk
 - Credit Risk
 - Market Risk
 - Management Oversight
 - Overall Generalist or Central Point of Contact (CPC)
- Potential instructors must observe the course before they instruct.