



Federal Housing Finance Agency

ADVISORY BULLETIN

AB 2024-02: Enterprise Operational Event Reporting

Purpose

This Advisory Bulletin (AB) communicates the Federal Housing Finance Agency's (FHFA) supervisory expectations for reporting operational loss events by Fannie Mae and Freddie Mac (the Enterprises) and Common Securitization Solutions, LLC (CSS).¹

Background

As part of an effective operational risk management program, the Enterprises and CSS should effectively track and respond to operational loss events. FHFA's Enterprise Regulatory Capital Framework (Capital Rule), 12 CFR part 1240, requires each Enterprise to have an independent management function responsible for designing, implementing, and overseeing the Enterprise's operational risk data and assessment systems, for identifying, measuring, monitoring, and controlling operational risk, and for reporting operational risk exposures, operational loss events, and other relevant operational risk information.² This AB provides FHFA's expectations for the Enterprises and CSS to collect and report on operational loss event data. The Enterprises and CSS should, on an immediate basis, communicate to FHFA operational loss events that are high severity (as outlined below). This guidance is applicable to the Enterprises and CSS.

¹ CSS is an "affiliate" of both Fannie Mae and Freddie Mac, as defined in the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended. 12 USC 4502(1).

² See 12 CFR 1240.121(d)(1) (minimum requirements for operational risk management to support adequacy of risk-based capital).

Guidance

This Advisory Bulletin establishes supervisory expectations for Enterprise reporting of operational loss event information that is supplemental to what is otherwise regularly, consistently, and systematically collected for use in supervisory oversight. This Advisory Bulletin 2024-02 replaces instructions set forth in in Advisory Bulletin 2014-02, *Operational Risk Management*, which has been revised and reissued.

Definition of Operational Loss Event

For the purposes of this AB, FHFA defines an operational loss event in accordance with the Capital Rule as an event that results in loss and is associated with any of the following seven operational loss event type categories:

1. Internal fraud;
2. External fraud;
3. Employment practices and workplace safety;
4. Clients, products, and business practices;
5. Damages to physical assets;
6. Business disruption and system failures; and
7. Execution, delivery, and process management.³

Operational Loss Event System

In accordance with the Capital Rule, an Enterprise's operational risk data and assessment systems must capture operational risks to which the Enterprise is exposed, and must be structured in a manner that is consistent with the Enterprise's current business activities, risk profile, technological processes, and risk management processes.⁴ To do this, the Enterprise should have an effective process to identify operational loss events, identify when the event occurred, identify how long it took the Enterprise to discover the event, estimate the maximum potential loss, understand if the event is correlated with any other events, identify the business line(s) affected by the event, and identify and describe the root cause. The Enterprise's documentation should ensure the integrity of operational loss event data across the Enterprise over time to facilitate ease of reporting, accuracy of data, and ability to audit. The process should also include an evaluation of the financial impacts of the operational loss event, including but not limited to determining the dollar value of the gross financial impact of the event. FHFA expects

³ 12 CFR 1240.101(b).

⁴ 12 CFR 1240.121(d)(2).

the operational loss data process established under the Capital Rule to be used for the reporting of operational loss events.

The Capital Rule requires that the historical observation period for operational loss events be at least five years;⁵ operational loss events reported to FHFA should also be verifiable for the previous five years. In transitional situations,⁶ such as integrating a new business line, the Enterprise may seek FHFA approval to shorten the required observation period. When doing so, the Enterprise should seek to minimize inconsistencies in the data collected and, where possible, develop mapping protocols to document how to bridge old and new data. FHFA expects to be able to request documentation for these operational loss events and validate the data submitted by the Enterprises and CSS.

The Capital Rule requires that the operational risk data and assessment systems include credible, transparent, systematic, and verifiable processes.⁷ The Enterprise should develop appropriate documentation to ensure the integrity of operational loss event data across the Enterprise over time. Examples of such documentation could include standards that set expectations for roles and responsibilities for reporting operational loss events, data dictionaries that describe the information collected and explain how to calculate operational losses and recoveries, procedures for validating operational loss event data, and minimum requirements across the Enterprise. These processes and documentation should support the data reported to FHFA through this Advisory Bulletin. The documentation should be readily available for FHFA to review and should reflect appropriate diligence in ensuring the data submitted to FHFA is clear, accurate, and verifiable.

High-Severity Operational Loss Events

As part of its response to an operational loss event, an Enterprise or CSS should determine which events should be defined as “high severity.” High-severity events are those captured in operational risk data and assessment systems that meet the requirements below for high severity.

⁵ 12 CFR 1240.121(d)(2)(ii)(A).

⁶ 12 CFR 1240.121(d)(2)(ii)(A).

⁷ 12 CFR 1240.121(d)(2)(ii).

High-severity operational loss events are those that could pose an imminent threat to the safety and soundness of the Enterprise or CSS or may trigger the organization's disaster recovery or business continuity plan(s). In addition, high-severity operational loss events could also include events with potential material business impact that is likely to have a substantial adverse effect on the Enterprise or CSS, the market, or individuals associated with the organization (e.g., employees, customers) or have a maximum potential loss (MPL) of greater than \$100,000,000. High-severity operational loss events may result in one or more critical objectives not being achieved or pose an imminent threat to or lead to significant adverse effects on the financial sector. Notifications should include significant disruptive events or data breaches experienced by third parties supporting core services or critical systems.

Immediate Notification of High-Severity Events

FHFA expects the Enterprises and CSS to appropriately prioritize responding to and taking corrective action for operational loss events. Additionally, FHFA expects each Enterprise and CSS to notify and provide a description of any high-severity operational loss event within 24 hours of determination to FHFA's Examiner-in-Charge (EIC) for the Enterprise and FHFA's Deputy Director for the Division of Enterprise Regulation. The notification can occur via email, telephone, or in person. If the initial notification occurs verbally, the Enterprise or CSS should follow up with written documentation of the verbal notification within 24 hours. In addition to contacting the EIC and Deputy Director, the Enterprise should send a report describing the high-severity event to FHFA through secure methods established by FHFA. The Enterprise or CSS should report high-severity event data per a template provided by FHFA. The Enterprise or CSS should continue to provide periodic updates on any high-severity event throughout the response and remediation to the EIC and Deputy Director or their designee(s).

Related Guidance and Regulations

12 CFR part 1236 (Prudential Management and Operations Standards, Appendix).

12 CFR part 1240 ([Enterprise Regulatory Capital Framework](#)).

Data Management and Usage, Federal Housing Finance Agency Advisory Bulletin 2016-04, September 29, 2016.

Operational Risk Management, Federal Housing Finance Agency Advisory Bulletin 2014-02, February 18, 2014. (June 28, 2024)

FHFA has statutory responsibility to ensure the safe and sound operations of the regulated entities and the Office of Finance. Advisory bulletins describe FHFA supervisory expectations for safe and sound operations in particular areas and are used in FHFA examinations of the regulated entities and the Office of Finance. Questions about this advisory bulletin should be directed to: SupervisionPolicy@fhfa.gov.