Freddie Mac
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By email to *RegComments@FHFA.gov*

Mr. Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
Constitution Center
Eighth Floor (OGC)
400 7th Street, SW
Washington, DC 20219

Attention: Responsibilities of Boards of Directors, Corporate Practices and Corporate Governance; Public Comment – RIN 2590-AA90

Dear Mr. Pollard:

Freddie Mac is pleased to comment on the proposed rule ("Proposed Rule") published by the Federal Housing Finance Agency ("FHFA") on April 5, 2018[1] that would amend its current corporate governance rule[2] to expand the current requirement for the Federal Home Loan Banks (the "Banks") to have a board-approved strategic business plan to include Freddie Mac and Fannie Mae (the "Enterprises", and collectively with the Banks, the "regulated entities"). The Proposed Rule also would make some revisions to those current requirements for the Banks.

Summary of Our Comments

- **Supportive of Strategic Plan Requirement**. We generally support having a regulatory requirement for a multi-year board-approved strategic plan with oversight by the Board of Directors (the "Board").

- **Minimum Requirements Should Be Tailored for the Enterprises.** However, we would request that the proposed minimum requirements in the Proposed Rule, which are patterned after those applicable to the Banks, be tailored for Freddie Mac and its Board for the following reasons:

  - **Strategies are Appropriate for Strategic Plans; Activities Are Too Granular.** We believe that FHFA should strike a balance in its regulatory requirements for the strategic

[1] 83 Fed. Reg. 14781 (April 6, 2018).
[2] Responsibilities of Boards of Directors, Corporate Practices and Corporate Governance Matters, 12 CFR Part 1239; 80 Fed. Reg. 72327 (November 19, 2015) ("FHFA's Corporate Governance Rule").

plan, with the focus on strategies rather than more granular "activities". A company of Freddie Mac's size would have dozens of such activities – depending exactly upon how it was defined in practice by FHFA – under way at any one time. In addition, it would not be possible to know many of these activities ahead of time to include in a multi-year strategic plan.

- "Activities" are more appropriate for annual business plans, management-level operating plans, or even divisional plans.
- Requiring that level of detail in a board-level plan could be construed as potentially blurring the lines between management and the Board.
- The Board's role, instead, would be to oversee that management has established the appropriate processes so that "activities" are properly researched, developed, designed and implemented, including evaluating risk and mission impacts, as is consistent with the principles-based approach proposed below.

- **Other Requirements Are Appropriate to Occur at the Management Level.** Other proposed requirements such as mandating the consulting of stakeholders and market research by the Board are appropriate roles for management, not for our Board. That requirement, in particular, may be more appropriate for a Bank Board given that they are member-owned cooperatives, in contrast to the Boards of the Enterprises being composed (other than the CEO) of independent fiduciaries.

- **Principles-Based Approach.** Instead, we would recommend that FHFA adopt a more principles-based approach for the final rule, rather than be prescriptive, for the following reasons:
  - **Imposing the detailed Bank requirements on the Enterprises would not be necessary given the differences in governance structures.**
    - Freddie Mac is a Securities and Exchange Commission ("SEC")-registered, publicly traded company with an almost fully independent Board that is composed of qualified individuals responsible for overseeing the company with fiduciary duties to shareholders, as well as being subject to various SEC requirements. We are also required under FHFA's Corporate Governance Rule to act in accordance with New York Stock Exchange ("NYSE") corporate governance requirements, including with respect to independence.

  - The Banks, by contrast, are member-owned cooperatives. A majority of their Boards are comprised of directors or officers of member institutions, and all directors are elected by member institutions.

  - Consequently, FHFA should consider taking the differences in governance structure and legal obligations into account in deciding the minimum requirements that should be applicable to the Enterprises in the final rule. Given these differences, we believe that it is not necessary to require the Enterprises to comply with the same detailed requirements as currently apply to the Banks.

- **A principles-based approach is consistent with regulation of comparable financial institutions.** We would recommend that FHFA consider the more principles-based approach of the federal banking regulators, namely the Office of the Comptroller of the Currency ("OCC") and the Federal Reserve ("Fed"), for strategic planning as the appropriate regulatory approach for the Enterprises.[3] We believe that adopting a rule based upon similar principles should meet all the regulatory needs of FHFA and be more workable and implementable for the Enterprises.

Summary of the Proposed Rule

Under the Proposed Rule, Freddie Mac's Board will be required to adopt and have in effect at all times a strategic business plan that describes, at a minimum, how the company's business activities will achieve its mission and public purposes consistent with its Charter[4] and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992.[5] Specifically, the strategic business plan for the Enterprises[6] must, at a minimum:

- Articulate measurable operating goals and objectives for each significant existing activity and for all authorized new activities;

- Discuss how the Enterprise will address credit needs and market opportunities identified through ongoing market research and stakeholder consultations;

- Describe any significant activities in which the Enterprise is planning to be engaged, including any changes to business strategy or approach that the Enterprise is planning to undertake, and discuss how such activities would further its mission and public purposes;

[3] See Appendix A for a comparison of the minimum requirements of the Proposed Rule to OCC and Fed guidance. See also n. 9.
[4] 12 U.S.C. 1451 *et seq.*
[5] 12 U.S.C. 4501 *et seq.*
[6] Some of the requirements under the Proposed Rule are different for the Enterprises than for the Banks.

- Be supported by appropriate and timely research and analysis of relevant market developments; and

- Identify current and emerging risks, including those associated with the Enterprise's existing activities or new activities, and discuss how the Enterprise plans to address emerging risks while furthering its public purposes and mission in a safe and sound manner.

The Board also must:

- Review the strategic business plan at least annually;

- Re-adopt the strategic business plan at least every three years; and

- Establish management reporting requirements and monitor implementation of the strategic business plan and the operating goals and objectives contained therein.

General Comments on the Proposed Rule

We believe that oversight over strategic planning is an important responsibility of the Board and support a regulatory requirement to have a board-approved strategic business plan, with the following requirements:

- a three- to five-year timeframe;

- Board review at least annually; and

- Board re-adoption at least once every three years.

We also support the regulation setting forth some requirements for the plan, but would recommend that FHFA take a more principles-based approach rather than granular detailed minimum requirements. For example, we support that the plan:

- set forth the company's long-term business strategies for the next three to five years;

- have measurable goals and objectives; and

- have appropriate management implementation, reporting and monitoring.

We think that this approach would strike the appropriate balance for long-term strategic planning by a board of a public company of the size and complexity of Freddie Mac for the following reasons:

The proposed requirements regarding activities are more granular than you would expect in a board-approved strategic plan. A board-approved strategic business plan should be high level in nature, setting forth specific strategic goals to be achieved over a multi-year period. Management would then be charged with implementing the plan by developing specific business objectives to be reflected in annual business plans, and then further in operating plans and divisional plans. This approach both reflects the appropriate roles and responsibilities of the Board and management, and provides for the flexibility to modify more detailed business objectives over a multi-year period to meet the goals of the strategic business plan. As discussed in more detail under our Specific Comments below, we believe that the proposed detailed requirements around "activities" are more granular than you would ordinarily expect to see in a board-level strategic plan.

The proposed requirements could be seen as imposing management-like duties on the Board. Requiring the Board to conduct market research and stakeholder consultations blurs the lines between management and the Board, which we do not believe is consistent with the Board's fiduciary duty to oversee management. Imposing management-like responsibilities on the Board could compromise the Board's independence in its oversight of management.[7]

Bank requirements do not seem to be appropriate for the Enterprises given differences in business models, governance structure and size. The Banks and Freddie Mac differ in the following ways:

- Freddie Mac is a publicly traded company with common stock and other securities registered with the SEC. The Banks, by contrast, are member-owned cooperatives, with a class of equity securities registered with the SEC, but not publicly traded. The equity securities of the Banks are owned by its member institutions.

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[7] *See* A Financial System That Creates Economic Opportunities – Banks and Credit Unions, U.S. Department of the Treasury Report to President Donald J. Trump (June 2017), at 61, which stated "[o]ne of the most fundamental elements of the governance framework is the separation of duties between management, responsible for day-to-day operations of the business, and the Board, responsible for oversight of the business and affairs of the organization." That report recommended that the federal banking regulators review their regulations and guidance to make sure they do not impose prescriptive requirements on boards. The Federal Reserve is in the midst of such a review process.

- Our Board is composed of qualified individuals responsible for overseeing the company under the corporate governance requirements as specified by state corporation law (Virginia in our case), with fiduciary duties to provide oversight. We are also required by FHFA's Corporate Governance Rule to comply with certain corporate governance requirements (including independence) issued by the NYSE.[8] All but one member of our Board (the CEO) is independent. The Banks, by contrast, are member-owned cooperatives and a majority of their Boards are comprised of directors or officers of member institutions, and all directors are elected by member institutions. While the Bank Boards are subject to state corporate governance law, they are not subject to the NYSE requirements.

- Freddie Mac is much larger in size than the average Bank, roughly twenty times larger. In addition, our core business model – securitizing mortgages with credit guarantees – is not only different from the core business model of the Banks, which is to make advances (i.e., loans) to members secured by collateral, but more complex.

Given the differences between Freddie Mac and the Banks, a high-level principles-based regulation regarding board-approved strategic plans that focuses more on business strategies, as is found in the requirements promulgated by other financial regulators, may be more workable and more implementable by both types of entities. We defer to FHFA whether there is a need for more substantive regulatory direction relative to a strategic plan for the Banks than for the Enterprises, to which we express no opinion.

A principles-based approach is consistent with regulation of comparable financial institutions. We believe that taking a more principles-based approach would be not only more consistent with the general business practice of what is included in a strategic plan that is approved by the board of a large public company, but also consistent with the current practice of other federal financial regulators for comparably sized financial institutions.[9] As described in

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[8] 12 CFR Section 1239.5(b).

[9] *See*, for example, Proposed Supervisory Guidance on Board of Directors' Effectiveness for Domestic Banks and Savings and Loan Holding Companies with Total Consolidated Assets of $50 Billion or More (Excluding Intermediate Holding Companies of Foreign Banking Organizations Established Pursuant to the Federal Reserve's Regulation YY), and Systemically Important Nonbank Financial Companies Designated by the Financial Stability Oversight Council for Supervision by the Federal Reserve, 82 Fed. Reg. 37219, 37224-25 (August 9, 2017) ("Fed Proposed Supervisory Guidance for Boards of Directors"); OCC Guidelines Establishing Heightened Standards For Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches of Foreign Banks, 12 CFR Part 30, Appendix D; 79 Fed. Reg. 54518, 54548 (September 11, 2014) ("OCC Heightened Standards"); OCC Corporate and Risk Governance Handbook (July 2016) at 35-37 (substantially similar language in OCC

more detail below, and as set forth in Appendix A, we would recommend that FHFA consider the more principles-based approach of the OCC and the Fed instead of mandating more granular requirements.

Freddie Mac's mission largely dictates its strategic direction. We also note that a strategic plan for an Enterprise is highly prescribed already, as many key features of it are promulgated in our Charter, other regulations and, while in conservatorship, directives received from FHFA as Conservator. Thus, an Enterprise strategic plan will largely consist of presenting those requirements in a strategic planning-type format, plus adding some additional requirements upon the initiative of the company, as well as giving the path chosen to execute on many of those strategies. In more technical terms, Freddie Mac's "degrees of freedom" in establishing its goals and methods to achieve them in a strategic plan are already more limited by comparison to a typical regulated bank or bank holding company.

Specific Comments on the Proposed Minimum Requirements.

We support the following high-level principles for a board-approved strategic plan:

- Set forth the company's long-term business strategies for the next three to five years;
- Have measurable goals and objectives for each significant business strategy;
- Identify any significant changes in business strategies, versus the prior approved multi-year plan, and how such strategies would further the company's mission and public purposes;
- Identify any significant new or substantially changed risk that will be addressed by the plan;
- Require management to establish management-level reporting and monitor implementation of the plan and its strategic goals and objectives.

We are recommending changes to the proposed minimum requirements in the Proposed Rule to reflect our proposed high-level principles, as follows:

The Directors Book – Role of Directors for National Banks and Federal Savings Associations (July 2016) at 42-44). Relevant language for strategic planning is excerpted in Appendix A.

Section 1239.14(a)(1)(ii) - In the case of an Enterprise, articulate measurable operating goals and objectives for each significant existing activity and for all authorized new activities

As set forth above, we believe that it is appropriate to have measurable goals and objectives for the plan as a whole, or perhaps for each major and significant business strategy. We believe that focusing more on strategies rather than more granular activities would strike the appropriate balance for a board-approved strategic plan. Depending on how "activity" is defined, Freddie Mac could have dozens of "activities" going on at any one time, and potentially a hundred or more over a several year planning horizon, many of which would not be known at the beginning of the planning. We believe that level of granularity is more appropriate for a management-level operating plan, or even divisional operating plans, not board-approved strategic plans. In addition, there is already sufficient board oversight over more granular business activities through the Board's Risk Committee and, at the management level, through the three lines of defense risk management framework.

Regarding the intended scope of "activity", we note that the Proposed Rule does not define any of the terms related to "activity" other than the Preamble reference to FHFA's Interim Final Rule - Prior Approval for Enterprise Products[10] (the "Interim Final Rule") for defining "new activities".

As stated in the Interim Final Rule, "new activity" means, with respect to an Enterprise, any business line, business practice, or service, including guarantee, financial instrument, consulting, or marketing, that is proposed to be undertaken by the Enterprise either on a standalone basis or as an incident to providing one or more Enterprise products to the market, and which was

(a) Not initially engaged in prior to July 30, 2008;

(b) Commenced by the Enterprise prior to July 30, 2008, but which, after July 30, 2008, the Enterprise ceased to engage in, and presently intends to resume; or

(c) Offered or engaged in by the Enterprise after July 30, 2008, at a significantly different level, or in a significantly different manner, in terms of the activity's effect on public interest or risk to the Enterprise or the mortgage finance or financial system.

The term "new activity" does not include:

[10] 12 CFR part 1253; 74 Fed. Reg. 31602 (July 2, 2009).

> (1) Any Enterprise business practice, transactions, or conduct performed solely as an incident to the administration of the Enterprise's internal affairs to conduct its business; or
>
> (2) Any business practice or service undertaken by an Enterprise that is *de minimis* in scope, volume, risk, or duration.

In our joint comment letter with Fannie Mae on the Interim Final Rule dated August 31, 2009, we expressed concerns about the scope of the definition of a "new activity" and proposed an alternative definition that we believed was more in alignment with the statutory purposes of the Housing and Economic Recovery Act, under which the Interim Final Rule was promulgated.

We also note that the related requirement for the Banks references "new business activities", which is defined for them as:

> Any business activity undertaken, transacted, conducted, or engaged in by a Bank that entails material risks not previously managed by the Bank.[11]

We believe that the definition of "new business activity" applicable to the Banks is much narrower than the definition of "new activity" applicable to the Enterprises under the Interim Final Rule; it is unclear whether FHFA intended that the Enterprises be subject to more detailed requirements than the Banks.

Regardless of the scope of the definition of "activity", as stated above, we would recommend that board-approved strategic business plans focus on high level business strategies rather than activities. More granular business activities then would be appropriate for management-level operating or divisional plans. This approach is consistent with the OCC Heightened Standards, which requires a strategic plan to "articulate an overall mission statement and strategic objectives for the covered bank, and include an explanation of how the covered bank will achieve those objectives".[12] It also is consistent with Freddie Mac's current Strategic Plan approved by the Board in December 2015.

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[11] 12 CFR Part 1272; 81 Fed. Reg. 91690 (December 19, 2016).
[12] 12 CFR Part 30, Appendix D.II.D; 79 Fed. Reg. 54518, 54548. It is also consistent with the Fed Proposed Supervisory Guidance for Board of Directors, which states:

> A clear strategy includes sufficient detail to **enable senior management** to:
> - Identify the firm's strategic objectives;
> - Create an effective management structure, implementation strategies, plans and budgets for each business line; and
> - Establish effective audit, compliance and risk management and control functions.

Consequently, we propose revising Section 1239.14(a)(1)(ii) as follows:

> (a)(1)(ii) In the case of an Enterprise, articulate measurable ~~operating~~ goals and objectives for each significant ~~existing activity and for all authorized new activities~~ **business strategy in the strategic business plan**

Section 1239.14(a)(2) - Discuss how the regulated entity will address credit needs and market opportunities identified through ongoing market research and stakeholder consultations

For this provision, the Preamble states that, for the Enterprises, "stakeholders" would include mortgage market participants and public and private organizations, including those that advocate for access to credit.[13] The Preamble also states that the purpose of this provision "is similar to that currently in effect for the Banks, that is, to **require** regulated entity board engagement with market research and stakeholder consultations to identify areas of credit needs and market opportunities to further the regulated entity's public purposes" (emphasis added).[14]

We would recommend that there not be a mandatory requirement for the Board of an Enterprise to conduct market research and consult with stakeholders, which does not appear to be consistent with the role for the board of a public company. Rather, management should use its business judgment to decide whether and when to consult with outside stakeholders in developing the strategic business plan. Management would then inform the Board regarding those efforts when proposing the strategic business plan for Board approval. The Board also would be overseeing that management has established the appropriate processes so that "activities" are properly researched, developed, designed and implemented, including evaluating risk.

This may also be an instance where it may be more appropriate for a board of a membership cooperative such as the Banks to consult with stakeholders. However, the roles and composition of the boards of the Banks and the Enterprises are different, and we believe that imposing an obligation on the Enterprises' Boards to conduct market research and stakeholder consultations would be not consistent with the traditional oversight responsibilities of the Enterprises' Boards.

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82 Fed. Reg. 37219, 37224 (emphasis added).

[13] 83 Fed. Reg. at 14783.
[14] *Id.*

Therefore, we would request that this provision not apply to the Enterprises, particularly as proposed Section 1239.14(a)(4) already requires that the strategic business plan be supported by research and analysis. If retained, we would propose revising Section 1239.14(a)(2) to add a new subsection (ii) as follows:

> (a)(2)(ii) In the case of an Enterprise, be supported by any credit needs and market opportunities that management has identified, including through market research and stakeholder consultations as management deems appropriate

We also would request that the Preamble to the final rule clarify expressly that the rule does not "require regulated entity board engagement with market research and stakeholder consultations" with respect to the Enterprises.

Section 1239.14(a)(3) - Describe any significant activities in which the regulated entity is planning to be engaged, including any changes to business strategy or approach that the regulated entity is planning to undertake, and discuss how such activities would further the regulated entity's mission and public purposes

Please see our discussion above regarding references to "activities". We propose revising Section 1239.14(a)(3) as follows:

> (a)(3) Describe ~~any significant activities in which the regulated entity is planning to be engaged, including~~ any **significant** changes ~~to~~ **in** business strateg**ies**~~y~~ ~~or approach~~ that the regulated entity is planning to undertake, and discuss how such ~~activities~~ **strategies** would further the regulated entity's mission and public purposes

This revision could be applicable to all regulated entities, or just the Enterprises.

Section 1239.14(a)(4)(ii) – In the case of the Enterprise, be supported by appropriate and timely research and analysis of relevant market developments

While in general, we agree that management should conduct appropriate research and analysis prior to proposing a strategic plan for board approval, we would recommend not being prescriptive regarding what type of analysis is required. Therefore, we recommend removing this requirement. If retained, we propose revising Section 1239.14(a)(4) as follows:

> (a)(4) In the case of the Enterprise, be supported by ~~appropriate and timely~~ research and analysis ~~of relevant market developments~~ **as management deems appropriate**

Section 1239.14(a)(5) - Identify current and emerging risks, including those associated with the regulated entity's existing activities or new activities, and discuss how the regulated entity plans to address emerging risks while furthering its public purposes and mission in a safe and sound manner

We have already discussed above our recommendation that FHFA balance the requirements in the final rule to focus more on overall strategies rather than more granular activities. We also would recommend that the strategic plan focus more on the current risks facing the company rather than seeking to address emerging risks. Emerging risks, by definition, may not be knowable at the beginning of a multi-year planning process. Instead, the Board would be overseeing emerging risks during the normal course of board operations under existing oversight by the Board's Risk Committee. We would request that this provision be revised to focus on how the strategic business plan will address any significant new or substantially changed risks, as follows:

> (a)(5) Identify **any significant new or substantially changed** ~~current and emerging~~ risks~~, including those associated with the regulated entity's existing activities or new activities, and discuss how the regulated entity plans to address emerging risks~~ **that will be addressed by the strategic business plan** while furthering ~~its~~ **regulated entity's** public purposes and mission in a safe and sound manner

Freddie Mac appreciates the opportunity to provide our views in response to the Proposed Rule. Please contact me if you have questions or require further information.

Sincerely,

William H McDavid

William H. McDavid
Executive Vice President, General Counsel and Corporate Secretary

FHFA Proposed Rule – Responsibilities of Boards of Directors, Corporate Practices and Corporate Governance
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Freddie Mac Comment Letter dated June 5, 2018
Appendix A

FHFA Proposed Rule	**OCC Heightened Standards**	**Excerpts From Fed Proposed Supervisory Guidance for Boards of Directors**
Under the Proposed Rule, each board of directors shall adopt and have in effect at all times a strategic business plan for the regulated entity that describes, at a minimum, how the business activities of the regulated entity will achieve its mission and public purposes consistent with its authorizing statute and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. Specifically, each regulated entity's strategic business plan [for the Enterprises][1] shall, at a minimum: • Articulate measurable operating goals and objectives for each significant existing activity and for all authorized new activities; • Discuss how the regulated entity will address credit needs and market opportunities identified through ongoing market research and stakeholder consultations; • Describe any significant activities in which the regulated entity is planning to be engaged, including any changes to business strategy or approach that	D. Strategic Plan. The Chief Executive Officer should be responsible for the development of a written strategic plan with input from front line units, independent risk management, and internal audit. The board of directors should evaluate and approve the strategic plan and monitor management's efforts to implement the strategic plan at least annually. The strategic plan should cover, at a minimum, a three-year period and: 1. Contain a comprehensive assessment of risks that currently have an impact on the covered bank or that could have an impact on the covered bank during the period covered by the strategic plan; 2. Articulate an overall mission statement and strategic objectives for the covered bank, and include an explanation of how the covered bank will achieve those objectives; 3. Include an explanation of how the covered bank will update, as necessary, the risk governance framework to account for changes in the covered bank's risk profile projected under the strategic plan; and	A. Set, Clear, Aligned, and Consistent Direction An effective board of directors guides the development of and approves the firm's strategy and sets the types and levels of risk it is willing to take. The strategy and tolerance of risk should be clear and aligned, and should also include a long-term perspective on risks and rewards that is consistent with the capacity of the firm's risk management framework. A clear strategy includes sufficient detail to enable senior management to: • Identify the firm's strategic objectives; • Create an effective management structure, implementation strategies, plans and budgets for each business line; and • Establish effective audit, compliance and risk management and control functions. A clear strategy also allows senior management to discern which opportunities the firm should pursue or avoid and determine the resources and controls necessary to implement the strategy. A clear risk tolerance includes sufficient detail to enable the firm's Chief Risk Officer (CRO) and its independent risk management function to set firm-wide risk limits. Risk limits should be set in

[1] Some of the requirements under the Proposed Rule are different for the Enterprises than for the Banks.

the regulated entity is planning to undertake, and discuss how such activities would further the regulated entity's mission and public purposes; • Be supported by appropriate and timely research and analysis of relevant market developments; and • Identify current and emerging risks, including those associated with the regulated entity's existing activities or new activities, and discuss how the regulated entity plans to address emerging risks while furthering its public purposes and mission in a safe and sound manner.	4. Be reviewed, updated, and approved, as necessary, due to changes in the covered bank's risk profile or operating environment that were not contemplated when the strategic plan was developed.	aggregate by concentration and risk type, as well as at more granular levels as appropriate. A clear risk tolerance also allows senior management to establish risk management expectations and monitor risk-taking for the level and types of risk assumed by the firm. A firm's strategy and risk tolerance are aligned when they are consistent, developed, considered, and approved together. For instance, the firm's strategy should clearly articulate objectives consistent with the firm's risk tolerance, and the risk tolerance should clearly specify the aggregate level and types of risks the board is willing to assume to achieve the firm's strategic objectives. An effective board considers the capacity of the firm's risk management framework when approving the firm's strategy and risk tolerance. This practice helps ensure that strategic plans are commensurate with the firm's ability to identify and manage its risk. For example, if a strategy calls for expansion into a new line of business or a new jurisdiction, the board should consider the increased level of risk or expanded control requirements for consistency with the risk management framework. The same evaluation could also be conducted on a regular basis to assess growth strategies within current businesses and products....

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Appendix A

OCC Corporate and Risk Governance Handbook (July 2016) at 35-37 (substantially similar language in OCC The Directors Book – Role of Directors for National Banks and Federal Savings Associations (July 2016) at 42-44))

Board and Management's Roles in Planning

The board is responsible for establishing the bank's goals and for overseeing that the bank has the personnel as well as the financial, technological, and organizational capabilities to achieve those goals. Ongoing changes in the banking industry make it essential for the bank to have a clear strategic plan as well as operational plans.

Strategic Planning

A strategic plan defines the bank's long-term goals and its strategy for achieving those goals. The bank should have a strategic planning process that results in a board-approved, written strategic plan. The strategic plan should be consistent with the bank's risk appetite, capital plan, and liquidity requirements.

The bank's strategic planning process should answer the following four questions for the board and senior management:

1. Where are we now? Senior management should evaluate the bank's internal and external environment and its strengths, weaknesses, opportunities, and threats. The internal review identifies the bank's strengths and weaknesses. The external analysis helps to recognize threats and opportunities including regulatory, economic, competitive, and technological matters.

2. Where do we want to be? Senior management should establish or confirm the bank's missions, goals, and objectives. A mission statement should reflect the bank's purpose and values. Goals are general statements about what must be achieved and stem from the mission and the board's vision. Objectives are statements of specific, measurable tasks that the bank, board, management, or staff needs to perform to reach its goals.

3. How do we get there? Senior management should design the bank's strategic plan to achieve the bank's goals and objectives. The plan should be tailored to fit the bank's internal capabilities and business environment. An effective plan should be based on realistic assumptions, consider the associated risks, and be aligned with the bank's risk appetite. The plan should take into account the resources needed to reach the bank's goals and objectives, as well as potential effect on earnings, capital, and liquidity. Technology requirements and constraints also should be considered.

4. How do we measure our progress? Regular measurement and reporting on the bank's objectives keep the board and senior management focused on whether the bank is achieving established goals in the strategic plan. A periodic progress report or scorecard should indicate whether timelines and objectives are being met and if additional or alternative actions need to be implemented.

As the bank grows in size and complexity and its risk profile increases, the process should become more formalized. A formalized process should define the board's and management's roles and responsibilities, indicate timing and frequency of activities, and establish monitoring activities.

Typically, the strategic plan spans a three- to five-year period and includes the bank's goals and the objectives to achieve those goals. Strategic planning should be linked to the bank's risk management and capital planning processes. The strategic plan should be consistent with the board's articulated risk appetite and liquidity requirements as well as the bank's capital base. The strategic plan should be dynamic; as changes occur, planning and implementation should be adjusted to reflect current conditions. If the bank is a subsidiary of a holding company, the board may consider developing one consolidated strategic plan. Continuous monitoring of activities should allow the board and management to measure the actual and potential risks associated with achieving the bank's strategic goals and objectives. This monitoring includes whenever the bank introduces new, expanded, or modified products and services. When the bank engages in merger or acquisition activities, it should perform a retrospective review of the merger's or acquisition's success. The retrospective review should consider the impact on financial performance, information technology (IT) infrastructure, system integration, and human resources.

The board is responsible for overseeing the bank's strategic planning process and management's implementation of the resulting strategic plan. During the planning phase, the board should provide a credible challenge to management's assumptions and recommendations. The board should understand the risks associated with the success and failure of the plan. With the help of progress reports, the board should carefully monitor and assess the strategic plan. The board should ensure that management actions and decisions remain consistent with the bank's strategic plan. In addition, the board should recognize whether the bank has a reasonable strategy and, if not, challenge management's decisions, drive sustainable corrective actions, or change the strategic direction, as appropriate. The board should require management to have a contingency plan if the original plan fails to achieve its objectives.

Senior management, in consultation with the board and business line managers, should develop a strategic planning process that results in a board-approved, written strategic plan. Management is responsible for implementing the bank's strategic plan and developing policies and processes to guide the plan's execution. Management also should develop monitoring systems to report actual outcomes, report key performance indicators and key risk indicators, and ensure that the bank's objectives and risks remain aligned with the risk appetite.

Heightened Standards

The CEO should be responsible for developing a written strategic plan with input from frontline units, IRM, and internal audit. The board should evaluate and approve the strategic plan and monitor management's efforts to implement the strategic plan at least annually.

The strategic plan should cover, at a minimum, a three-year period and

- contain a comprehensive assessment of risks that have an impact on the covered bank or that could have an impact on the covered bank during the period covered by the strategic plan.
- articulate an overall mission statement and strategic objectives for the covered bank, and include an explanation of how the covered bank will achieve those objectives.
- explain how the covered bank will update, as necessary, the risk governance framework to account for changes in the covered bank's risk profile projected under the strategic plan.
- be reviewed, updated, and approved, as necessary, due to changes in the covered bank's risk profile or operating environment that were not contemplated when the strategic plan was developed.