



PRESS RELEASE

Federal Deposit Insurance Corporation

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**Banks, Regulators Should Reassess Operational Planning,
FDIC's *Supervisory Insights* Reports**
**"Operational risk management" increasingly viewed as distinct discipline due to
growing complexity of the industry, recent large operational losses**

. The increasing importance of banks' "operational risk management" (ORM) processes and how ORM is evolving as a distinct discipline are highlighted in the FDIC's summer 2006 issue of *Supervisory Insights* released today. Other topics covered include disaster planning for banks, with a look back at some of the challenges banks faced during the hurricane seasons of 2004 and 2005, and enforcement actions taken against individuals in 2005, with a particular focus on bank losses resulting from insider misconduct or fraud.

"This edition of *Supervisory Insights* emphasizes the need for increased operational risk awareness in bank planning processes," said Sandra Thompson, Acting Director of the FDIC's Division of Supervision and Consumer Protection. "Through our publication, we are continuing to keep the industry and our own examiners informed about emerging practices and developments in regulatory policy."

The banking industry's growing complexity, several large and widely publicized operational losses in recent years, and a changing regulatory capital regime have prompted both banks and banking supervisors to increasingly view operational risk management as a distinct discipline, much the way management of credit and market risk is viewed. "Operational Risk Management: An Evolving Discipline" provides an introduction to operational risk, outlines the current state of ORM, and describes different quantification approaches in this emerging and critically important field.

Supervisory Insights also takes a look at some of the challenges bankers faced – and how they met those challenges – during the storms of the last two hurricane seasons in "Banks and Hurricanes: A Look Back at the Storms of 2004–2005." The article may



Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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provide a context for bankers when they review their plans for maintaining operations in the event of a disaster.

In the third article in a series about the enforcement action process, "Enforcement Actions Against Individuals: 2005 – A Year in Review" summarizes enforcement actions brought against individuals during 2005, focusing on losses to banks from insider misconduct or fraud. The article highlights the importance of strong oversight of operating management and reemphasizes the need for strong internal controls and audit programs.

Other articles of relevance to the bank regulatory community and the banking industry include "From the Examiner's Desk," which takes a look at the impact of the 2004 HMDA (Home Mortgage Disclosure Act) reporting requirements on the examination process, and "Accounting for Employee Stock Options," a discussion of the key provisions of Financial Accounting Standards No. 123 (Revised), implemented on January 1, 2006, and its effect on banks' reported earnings and capital levels.

Supervisory Insights provides a forum for discussing how bank regulation and policy are put into practice in the field, sharing best practices and communicating about the emerging issues that bank supervisors face. The journal is available on the FDIC's Web site at <http://www.fdic.gov/regulations/examinations/supervisory/insights/index.html>. Suggestions for topics for future issues and requests for permission to reprint articles should be e-mailed to supervisoryjournal@fdic.gov. Requests for print copies should be e-mailed to publicinfo@fdic.gov.
