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Re: **Examination Advice from the New York Department of Financial Services**

Regina Stone from the New York Department of Financial Services gave a presentation yesterday where she outlined the items that the Department would be focusing on during the upcoming examination cycle.

The two items that will be of particular concern are: Business Continuity and Disaster Recovery and Resolution Planning. She also outlined specific items that will be reviewed during examinations.

**Business Continuity and Disaster Recovery**

The Department will expect a written plan, with a bank officer appointed to manage disaster recovery, ongoing training of staff, extensive testing and certification by internal audit. The officer in charge can expect to be interviewed by the Department as part of the examination.

The plan must account for: safety of personnel, management during the crisis, protection of banking records and the physical operations center during a crisis.

The plan has to have various layers to anticipate various degrees of disaster.

Particular attention needs to be paid to record protection and the Department will focus on whether the back-up records are readily accessible and the bank has tested this accessibility for all potential users.

Every bank should have a report that discusses the lessons that the bank learned during the Hurricane Sandy experience in New York and the steps taken to be ready for a similar event.

**Resolution Planning**

The Department is expecting all banks to focus on a resolution plan. The department recognizes that certain banks are also engaged in a federal resolution planning process.

The key issues are a focus on risks resulting from interconnectedness and interdependence. The department will expect a review of each business unit with a view to determining whether each unit can be “unplugged” from the bank as part of a resolution experience.

Questions that should have answers are:

How does the branch fit into the parent bank’s resolution plan?

What are the key interdependencies and interconnections?

What are the branch critical functions? (the state definition is broader than the Fed’s)

The Plan should have a focus on managing due to/due from and have a plan to address changes in this balance as well as a contingency funding plan.

### **Other Examination Issues**

**Independent Credit Review**—the Department is going to insure that banks have a truly independent function in this regard

**Quality Assurance Reviews**—the Department will be looking at Compliance and Internal Audit

**Collateral Management**—the Department will be examining how collateral is preserved and monitored

**Local Risk Management**—the Department wants to insure that all functions that affect the NY branch have input from the Branch, are accessible to Branch management and are regularly reviewed from a risk perspective by the Branch. A specific example was given where criterion for determining whether SARs were

Warranted was done at the Head Office and the Department wanted the Branch to be involved with selecting and monitoring these criteria.

**Audit Matters**—the Department will be reviewing key risk assessments to insure they have been properly vetted by appropriate management; the Department will be reviewing audit sampling rationales; the Department will review whether audit reports have been done in a timely fashion and been circulated and reviewed as required and will review the audits of the disaster recovery plans.

R.C.A.