cid:image001.png@01CF5E47.C76DBB20

Enterprise PMO Scope Document

Strategic Initiatives Office

SBNA Heightened Expectations

|  |  |  |
| --- | --- | --- |
| **Department:** |  | Risk |
| **Prepared By:** | Roger Neath |
| **Document Version:** | 2.1 |
| **Published Date:** | August 2014 |

**Revision History**

|  |  |  |  |
| --- | --- | --- | --- |
| **Version Number** | **Revision Date** | **Summary of Changes** | **Modified by** |
| 1.0 | August 1st ‘14 | First draft of Heightened Expectations scope | R Neath |
| 1.1 | 11 August 2014 | Updated version | G. Timmons |
| 2.0 | August 15th ‘14 | Incorporating comments from C Hunley and F Johnston | R Neath |
| 2.1 | 18 Aug 2014 | Edits | G. Timmons |

**Contributors**

| **Name** | **Title** | **Segment / LOB** |
| --- | --- | --- |
|  |  |  |
|  |  |  |

**Approvals**

|  |  |
| --- | --- |
| SBNA Risk Directors | *19 August (PENDING)* |
|  |  |

**Distribution**

| **Name** | **Title** | **Segment / LOB** |
| --- | --- | --- |
|  |  |  |
|  |  |  |

**Referenced Documents**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Version number** | **Title** | **Author** | **Date** | **Source / Location** |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Contents

[1 Introduction 4](#_Toc396114953)

[1.1 Project Summary 4](#_Toc396114954)

[1.2 Problem Statement 4](#_Toc396114955)

[1.3 Project Objectives 5](#_Toc396114956)

[1.4 Proposed Solution 5](#_Toc396114957)

[2 Project Description 8](#_Toc396114958)

[2.1 Scope Definition 8](#_Toc396114959)

[2.2 Business Scope (BS) 8](#_Toc396114960)

[2.3 Technology Scope (TS) 8](#_Toc396114961)

[2.4 Impacted Business Processes 9](#_Toc396114962)

[2.5 Impacted Business Areas 9](#_Toc396114963)

[2.6 Completion Criteria 9](#_Toc396114964)

[2.7 Constraints 9](#_Toc396114965)

[2.8 Assumptions 9](#_Toc396114966)

[2.9 Dependencies Linkages 9](#_Toc396114967)

[2.10 Measures of Success 9](#_Toc396114968)

[2.11 Critical Success Factors 10](#_Toc396114969)

[3 Project Controls 10](#_Toc396114970)

[3.1 Governance 10](#_Toc396114971)

[3.2 Risk Management 11](#_Toc396114972)

[3.2.1 Constraint/Dependencies/Assumptions 11](#_Toc396114973)

[3.3 Change Management 12](#_Toc396114974)

[3.4 Communication Management 12](#_Toc396114975)

[4 Roles and Project Stakeholders 13](#_Toc396114976)

[4.1 Roles 13](#_Toc396114977)

[4.2 Stakeholders 13](#_Toc396114978)

[5 Appendices 14](#_Toc396114979)

[Appendix 1 – The 3 Lines of Defense Risk Model 14](#_Toc396114980)

[Appendix 2 – Scoreboard – Example Pages from SBNA HE to illustrate project reporting 15](#_Toc396114981)

# Introduction

## Project Summary

Heightened Expectations is a program of projects to ensure Santander Bank, N.A. (SBNA) meets the Office of the Comptroller of Currency’s (OCC) enhanced standards for Certain Large Insured National Banks (12 CFR Parts 30 and 170 Docket ID OCC – 2014- 0001).

## Problem Statement

The OCC developed a set of “heightened expectations” (OCC – 12 CFR parts 30 and 170 - Heightened Standards for Large Insured National Banks) to enhance their supervision and strengthen the governance and risk management practices of large national banks. The expectations are as follows:

* Board Challenge – Directors willingness to provide a credible challenge to the bank’s management decision making
* Sanctity of the Charter – the Board to ensure the institution operates in a safe and sound manner
* Talent Management and Compensation – requires a well-defined personnel management program (appropriate staffing levels, succession planning, compensation tools that appropriately motivate and retain talent without encouraging imprudent risk)
* Risk Tolerance – defining and communicating an acceptable risk appetite across the organization.
* Strong Internal Audit
* Strong Risk Management – meeting OCC standards and industry best practice and taking appropriate action to address material gaps.

In response, SBNAs management has created a program to review the enhanced requirements and remediate gaps. Board Challenge and Sanctity of the Charter are managed by the bank’s Legal Department, Talent Management and Compensation by HR and a Strong Internal Audit by Audit. The requirement for Strong Risk Management is the responsibility of the SBNA CRO with individual workstreams created for each risk type (e.g. Credit Risk, Market Risk, Operational Risk, Compliance Risk, etc.), who are mandated to identify gaps and create and implement remediation plans to meet the new standards.

Failure to meet the new requirements will result in restrictions on the bank’s business plans and the potential of regulatory censure that could impact revenues and reputation.

## Project Objectives

|  |  |  |  |
| --- | --- | --- | --- |
| **(Project Objective)**  **PO #** | **Objective** | **Value Statement** | **Priority**  **(H / M / L)** |
| PO1 | Board Challenge | Meet the OCCs expectation to ensure that the board of directors’ has a willingness to provide a credible challenge to bank management’s decision-making and thus requests independent directors to acquire a thorough understanding of an institution’s risk profile and to use this information to ask probing questions of management and to ensure that senior management prudently addresses risks. | H |
| PO2 | Sanctity of the Charter | Meet the OCC’s expectation to preserve the sanctity of the charter that maintains that one of the primary fiduciary duties of an institution’s board of directors is to ensure that the institution operates in a safe and sound manner. Since large banks are often one of several legal entities under a complex parent company, each bank’s board must ensure that the bank does not function simply as a booking entity for its parent and that parent company decisions do not jeopardize the safety and soundness of the bank. This often requires separate and focused governance and risk management practices. | H |
| PO3 | Talent Management and Compensation | Meet the OCCs expectation for large institutions to have a well-defined personnel management program that ensures appropriate staffing levels, provides for orderly succession, and provides for compensation tools to appropriately motivate and retain talent that does not encourage imprudent risk taking. | H |
| PO4 | Risk Tolerance Statement | Meet the OCCs expectation for defining a risk appetite (or tolerance) and involves institutions defining and communicating an acceptable risk appetite across the organization, including measures that address the amount of capital, earnings, or liquidity that may be at risk on a firm-wide basis, the amount of risk that may be taken in each line of business, and the amount of risk that may be taken in each key risk category monitored by the institution. | H |
| PO5 | Strong Internal Audit | Meet the OCCs expectation for institutions comparing the performance of their audit functions to the OCC’s standards and leading industry practices and taking appropriate action to address material gaps | H |
| PO6 | Strong Risk Management | Meet the OCCs expectation for institutions comparing the performance of their risk functions to the OCC’s standards and leading industry practices and taking appropriate action to address material gaps, In the case of Risk the requirements are further broken down by Risk type with gaps specific to that risk type identified and remediation plans created. | H |

## Proposed Solution

As previously stated, this is a program to enhance governance and risk management in SBNA and, as such the remediation plans are unique for each of the expectations and for Risk, for each risk type, depending on the gap to heightened expectations.

For Risk it will mean:

* Developing or aligning governance (committees, etc.) to the ERM framework.

The Enterprise Risk Management Framework (“ERM Framework” or “Framework”) establishes a framework by which Banco Santander, S.A. (“Santander”) will oversee and govern the risks arising from its business activities and operations in the United States (Santander US or SAN US). This ERM Framework is consistent with Santander’s global risk framework and has been adapted to US market conditions, practices and rules and regulations.

The goal of enterprise risk management is to manage risks across the organization in a comprehensive, consistent and effective fashion, enabling the firm to achieve its strategic priorities consistent with its expressed risk tolerance. This Framework is composed of four key components that address the approach to comprehensive and consistent risk management:

* ERM Governance Structure – The governance principles and oversight structure around risk management within SAN US
* ERM Methodology and Internal Controls – The operationalization of core risk management processes and the risk management internal control structure
* Roles and Responsibilities – The three lines of defense model
* Risk Organization – The structure and components of the risk management organization

Together, these components describe how the bank will consistently manage the risks associated with its activities throughout its operations and will require:

* + Creating or aligning policies to the ERM framework
  + Developing procedures
  + Developing an organizational structure in line with the framework
  + Developing and implementing a Risk Tolerance statement in line with the US framework
  + Developing and implementing a Risk identification and assessment process in line with the US framework
  + Implementing Risk Measurement process in line with the US framework
  + Developing/enhancing and implementing Risk Controls in line with the US framework
  + Developing and implementing Risk Monitoring and Reporting in line with the US framework
  + Implementing the 3 lines of defense model in line with regulators expectations

The programs will create a strong risk management organization and culture for the organization that will become a competitive advantage. The regulators expect Santander to meet these Heightened Expectations, i.e. the programs is not an MRA/MRIA remediation plan, but uses the OCC guidance to enhance risk management and governance to build a robust structure that enhances the bank’s risk management.

Additionally, improving regulatory ratings will work towards removing restrictions on the Group’s strategic plans in the US.

Note – the need to meet enhanced regulatory standards is managed in two areas. Heightened Expectations concentrates on SBNA and the need to meet the exact terms of the OCC’s Heightened Expectations and the ERM (Enterprise Risk Management) program which applies the principles of the Federal Reserve’s Enhanced Prudential Standards and other guidance to the other US Business Units. The first diagram below illustrates the two programs and the specific regulatory guidance that dictates their agenda and the second identifies the scope of the plans required to manage the program.

**Diagram 1**



**Diagram 2**



# Project Description

## Scope Definition

The scope of the Program covers the Strong Risk Management and Risk Tolerance Statement managed by the Risk areas in SBNA plus the Heightened Expectation requirements for Board Challenge and Sanctity of the Charter (managed by Legal Dep’t.), Talent Management and Compensation (managed by HR) and Strong Internal Audit (managed By Audit).

## Business Scope (BS)

The scope of the Heightened Expectations program is SBNA and is composed of four key components that address the approach to comprehensive and consistent risk management:

1. Governance Structure – The governance principles and oversight structure around risk management
2. Methodology and Internal Controls – The operationalization of core risk management processes and the risk management internal control structure
3. Roles and Responsibilities – The Risk Framework three lines of defense model
4. Risk Organization – The structure and components of the risk management organization.

The following table identifies the Business Units and their priority.

|  |  |  |  |
| --- | --- | --- | --- |
| **Scope ID #** | **BO#** | **Business In Scope** | **Priority**  **(H / M / L)** |
| BS1 |  | Santander Bank., N.A. | H |

*.*

| **Scope ID** | **Business Out of Scope** |
| --- | --- |
| BOS 1 | Other SAN US Affiliates – BSI Miami, NY Branch, SIS NY, SCUSA, Santander Bancorp, Puerto Rico |
| BOS 2 | Type C affiliates US offices - Produban, ISBAN, Geoban, Santander Global Facilities (SGF), Aquanima, Gesban, Universia |
| BOS 3 | Non US affiliates |

## Technology Scope (TS)

Many of the technology requirements for Risk Data Aggregation and the Risk Reporting Framework are being fulfilled in the RDA/RRF project with interdependencies/ deliverables are managed in the Heightened Expectations /Risk Organization plans.

The scope also includes:

* GRC system development and implementation
* Collateral Management
* Vendor Management and BCP support applications

## Impacted Business Processes

Business processes in all business Lines and, Audit and Risk areas will be impacted by the drive to meet the regulators heightened or enhanced standards, i.e. business lines and their support areas by the introduction of the 1st Line of Defense role, risk areas with the requirements of Strong Risk Management and Audit with the requirements of a Strong Internal Audit. These changes will be identified as part of this program and revised processes documented and changed where necessary.

## Impacted Business Areas

SBNA, its business lines and support areas, risk areas and Audit will be impacted by this program.

## Completion Criteria

The completion criteria for the program will be sign off of the remediation plans as complete by the CRO and appropriate Risk Committee(s).

## Constraints

The principle constraint is attracting and retaining resources with the required skill set. This resource group is in high demand and the talent pool in our foot print is restricted.

## Assumptions

* Adequate headcount (and associated budget) will be authorized.
* The required talent can be attracted to the bank to build the enhanced organization.
* Staff turnover will not be excessive and impact the build program.
* The CRO will get support and authorization from the Board and each Business Unit executive to make the changes necessary to meet the requirements for strong risk management.
* The 3 lines of defense model can be effectively implemented.
* Regulatory requirements will not materially change
* Data quality standards will meet user demands
* Other identified technology needs will be met

## Dependencies Linkages

Interdependencies are in the process of being analyzed. The following provides an indication of the other projects that have Risk involvement:

* RDA/RRF
* IT Credit remediation plans
* CCAR
* IHC (including the EPS requirements)
* HR hiring plans
* GRC project
* AML Transformation Plan Phase 3

## Measures of Success

The Bank meeting the OCC’s heightened expectations and improving its regulatory rating.

## Critical Success Factors

* The establishment of the 3 lines of defense model (described in Appendix 1) in SBNA
  + The establishment of a resourced and effective first line of defense
  + The establishment of a fully resourced second line of defense organization
  + The establishment of a fully resourced and strong third line of defense
* The creation, approval and implementation of an Enterprise Risk framework
* The development, approval and implementation of policies for each risk type plus meeting the other Heightened Expectations, including an approved Risk Tolerance Statement and its adoption by all Business Lines.

# Project Controls

## Governance

Considering the complexity of the Program scope, a multi-dimensional approach has been used to define the Governance Structure and Organization. According to this, the following Committees and Workshops will be implemented, for example for SBNA the governance is as follows

Project Steering Committee: the Heightened Expectations PMO will report the evolution of the Program together with escalated risks and issues to the Steering Committee. The Committee will set the strategy of the Program, providing overall guidance, challenge and oversight. This committee is held on a monthly basis. The Heightened Expectations PMO will provide information concerning status of the initiatives and major deviations within certain work streams.

* + When required escalation will be to the Enterprise Risk Management Committee
* Chief Risk Officer Executive Committees: the CRO, as the sponsor of the Program, will monitor the status of the Program, as reported by the Heightened Expectations PMO, at the CRO´s Risk Executive meeting. This meeeting will oversee the implementation of the different initiatives by addressing major deviations in any of the work streams, and providing expert advice and challenge. The members will also help the PMO in overseeing Risk areas, and addressing any escalated risks and issues. This meeting is held on a weekly basis.
  + When required escalation will be to the Steering Committee
* Working Group Meetings: these will be led by the PMO and targeted to key risks and issues requiring attention each week. Risk Managers and Workstream leads will be invited based on status for a given week to ensure alignment prior to submission of the Scoreboards/cards each week
* Heightened Expectations PMO Working Sessions: these are meetings chaired by the PMO to manage the implementation of the different work streams, track and monitor the execution of the plans. The Heightened Expectations PMO will regularly meet the areas responsible for each of the work streams, so that they can provide an updated view on their progress. Moreover, any delay in the execution of the plan will be escalated at the workshops, so that proper remediation plans can be defined if needed. Ad hoc meetings will be held as necessary to resolve issues and further progress on the program.

## Risk Management

As described in the Governance section issues are managed and escalated at each stage of the Governance process. The following is a summary of the major business risks for the program:

|  |  |  |  |
| --- | --- | --- | --- |
| Risk | Probability | Impact | Mitigation |
| Business Units capability to fulfill requirements of the program | M | H | Engage CRO and CEO to promote program and escalate if progress is not being made |
| Insufficient resources to complete project tasks | H | H | Escalate to Senior Management for authorization to use third party resources |
| Delays in the creation of the 1st line of defense | H | H | Establish standards and work with business lines to define roles and create implementation plans |
| Insufficient resources/budget to staff the new 1st, 2nd and 3rd line roles | H | H | Escalate to Senior Management for headcount authorization and engage HR at US level to prioritize and implement recruitment program. |
| Delivery of IT enhancements | M | H | Ensure plans have appropriate milestones to monitor progress and Monitor RDA plan milestones and escalate as required. |
| GRC implementation | H | M | Monitor progress on GRC application and escalate as required. |
| Changes to regulatory guidance and or deadlines | M | M | Maintain liaison with 4R team to understand changes and review plans with work stream owners as required. |

### Constraint/Dependencies/Assumptions

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **#** | **Constraints / Dependencies/ Assumptions** | **Description** | **Associated Risk** | **Mitigation Strategy / Plan** | **Likelihood**  **(H / M /L)** |
| **1** | Lack of resources (project execution and PMO) | Inadequate resource/budget or availability of resource in the market place will prevent the Group being able to manage risk in the manner required by the regulator | Insufficient resource or budget for resource will not allow an effective rollout of the 3 lines of defense model. | Senior Management have committed to the program and HR have recruitment as a priority | H |
| **2** | Non or late delivery of IT requirements | Several areas of the program have dependencies on IT to deliver new functionality or clean data. | Non delivery will delay the program | All dependencies are being identified and will be monitored on plans to allow for early escalation. | H |

## Change Management

Change control of plans is currently maintained via weekly distribution of plans and requests for updates, however, this process, but not its intent, will be redefined with introduction of MS Project at an enterprise level. The copy of the plan provided only allows selective change and all change is monitored and challenged as necessary. Formal request for plan change are reviewed and escalated as required. The following is an extract from the email sent every-other-week to all work streams.

## Communication Management

The Heightened Expectations PMO will use a Scoreboard (see appendix for an indicative example) to report the status of the Program. The Heightened Expectations PMO will closely work with all Workstream Leads, gathering all relevant information to ensure the contents of the Scoreboard are timely and accurately updated. The Workstream Leads and the Heightened Expectations PMO will use the Program´s Communication Plan as a guideline in their contacts.

The Scoreboard has been defined by the PMO team, and will be used as a template for the control and monitoring of each of the work streams within the Program scope. The information contained in the Scoreboard summarizes the status of the different work streams, indicating the main risks associated, remediation plans in place and the principal Matters that Require Attention (MRAs). Each Scoreboard will also contain a set of Scorecards, which include detailed information for every work stream. The corresponding Workstream Leads will prepare the updates to each Scorecard. The Heightened Expectations PMO will reconcile these updates into the Scorecards. The Scorecards show the evolution of each work stream, including the Workstream Lead, an Executive Summary of the work stream and the status of any related deliverables/milestones. Both Scoreboards and Scorecards will use the RAG status methodology as described in the previous section (examples of the Scoreboard and the Scorecard have been included in the Appendix).

*Note – The roll out of MS Project as a SAN US standard tool for project management may impact the format of the scorecard as advantage is taken of enhanced reporting capabilities and standardization.*

# Roles and Project Stakeholders

## Roles

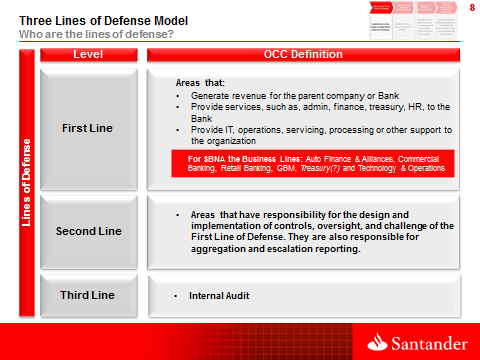
|  |  |
| --- | --- |
| **Role** | **Role Description** |
| **Project Sponsor** | Provides executive team approval and sponsorship for the project. Has budget ownership for the project and is the major stakeholder and recipient for the project deliverables. |
| **CRO Staff Member** | Provides overall management to the project. Accountable for developing and managing the work plan, securing appropriate resources and delegating the work and insuring successful completion of the project. All project team members report (functionally) to the project manager. Handles all project administrative duties, interfaces to project sponsors and owners and has overall accountability for the project. |
| **RM PMO** | Provide assistance in resolving issues that arise beyond the project manager’s jurisdiction. Monitor project progress and provide necessary tools and support when milestones are in jeopardy. Provide PMO Support |
| **Stakeholder** | Key provider of requirements. May also be considered Subject Matter Experts. Deliverable may directly or indirectly impact or enhance the stakeholders’ business processes and environment. |
| **Team Member** | An individual who is formally allocated the project and has accountability to tasks, activities, and/or deliverables. |

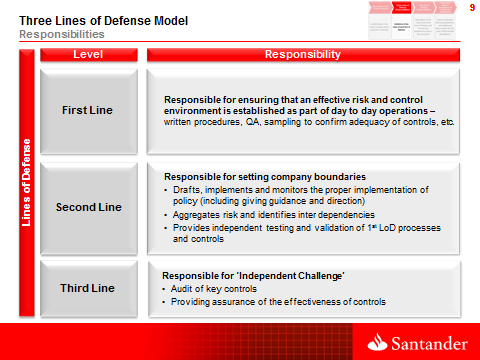
## Stakeholders

|  |  |
| --- | --- |
| **Name** | **Role** |
| M Brutti | CRO, Project Sponsor - SBNA |
| G. Timmons | Head of US RM PMO |
| H Eugene | RM PMO |
| R Neath | RM PMO |
| F Johnson - Credit | CRO Staff Member |
| M Carbone– Governance and Aggregation | CRO Staff Member |
| J McClernan – Market Risk and Liquidity | CRO Staff Member |
| C. Hunley - Compliance | CRO Staff Member |
| M. Lima – Operational Risk | CRO Staff Member |
| I. Garijo – RDA/RRF | CRO Staff Member |

# Appendices

# Appendix 1 – The 3 Lines of Defense Risk Model





# Appendix 2 – Scoreboard – Example Pages from SBNA HE to illustrate project reporting



