Advanced Operational Risk Group (AORG) Annual Report

Fiscal Year Ending August 31, 2026

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AORG Mission – *It's all about ADVANCED*

- The AORG was formed in 2006 at the suggestion of senior U.S. regulators. Since its inception, the Group has supported ***advanced*** operational risk management and the fundamental goals of improving operational risk management practice and ensuring capital adequacy.
- To achieve these goals AORG has promoted the view that regulatory agencies must address two broad themes as they continue to move from policy development to supervisory and examination practice, including: 1) Operational risk regulation should remain principles-based vs. prescriptive in nature; and 2) A proper balance between management and measurement should be maintained.
- **Mission**: to ***<u>advance</u>*** the disciplines of **operational risk management** and **operational risk measurement** by:
  - Conducting regular range-of-practice surveys among the member institutions;
  - Sponsoring a series of working groups on topics such as data & quantification, scenario analysis, third-party risk management, wealth management, data risk & governance, and RCSA advanced practices;
  - Conducting quarterly roundtable discussions on topics of mutual interest and concern;
  - Preparing industry position papers and providing comments to the Basel Committee and the U.S. regulators; and
  - Engaging in regular dialogue with senior U.S. regulators.
- As a member-driven group, the AORG is led by its Steering and Regulatory Committee of senior operational risk leaders at member institutions (page 6).

AORG Membership

AORG membership and engagement remains strong with 35 members this past fiscal year.

AORG Members (**New Member*)				
Ally*	American Express*	Bank of America	BMO Financial	BNP Paribas
BNY	Capital One	Charles Schwab	Citi	CLS
Deutsche Bank	Fifth Third Bank	First Citizens	Goldman Sachs	HSBC North America
Huntington	JPMorgan Chase	KeyBank	M&T Bank	Mizuho Americas
Morgan Stanley	MUFG Bank	Northern Trust	PNC Financial	Raymond James
Royal Bank of Canada	Santander	Scotiabank	Société Générale	State Street
TD Bank Financial Group	Truist	U.S. Bank	Wells Fargo	Zions Bank

AORG Steering Committee

As a member-driven group, the AORG is led by a committee of operational risk leaders at member institutions. ***Thank you to Matt Duditch for serving as Chair during the past five years, and to our new Co-Chairs.***

- Bob Cataldo (Co-Chair), BMO
- Kelli Huber, Charles Schwab
- Rick Brandt (Co-Chair), Citi
- Jack Sprague, HSBC
- Nedim Baruh, JPMorgan Chase
- Regina Desler, Northern Trust
- John Bauer, PNC
- Steve Erickson, Raymond James
- Matt Duditch, U.S. Bank

ProSight Support Team

- Ed DeMarco, Managing Director, Industry Relations & Advanced Risk Services
- Jay Newberry, AORG Facilitator
- Amanda Sito, Program Manager, Industry Relations & Advanced Risk Services

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Thank you to the Steering Committee for their leadership and continued dedication of time and expertise to drive the agenda and the continued success of the AORG.

Year in Review

- **In-Person Meetings of the Primary Members:** AORG continued peer sharing and networking events for our lead members.
  - Fall 2025 meeting was held in New York at First Citizens.
  - Spring 2026 meeting was held in New York at Morgan Stanley.
  - The next in-person meeting for fiscal year 2027 is tentatively scheduled for May.
    - AORG's Annual Meeting will be complemented this year with a series of Quarterly Primary Member/CORO Roundtable Touchpoint calls.

On behalf of AORG, ProSight would like to extend its gratitude to the teams at First Citizens and Morgan Stanley for hosting our meetings this year.

Year in Review

- **Working Groups:** Continued to facilitate 6 active Working Groups for peer sharing, collaboration, and thought leadership with well over 100 individual participants.
- **Roundtables:** Continued the "Hot-Topic" Roundtable Series to address emerging topics of member interest that are not covered by our Working Groups.
  - Completed two roundtables on Issue Management (bringing in many new participants to the AORG network).
- **Surveys:** Completed 9 recurring or one-time range-of-practice surveys, some broad and comprehensive and others more tactical/narrowly targeted, all driven by member interest.
- **First Coro Touchpoint Call:** Launched this successful new forum in 4Q 2025.
  - Eighteen participants joined from sixteen member firms, and, as envisioned, we were able to engage many members in the CORO role in an active dialogue with their peers.
  - Forum will be continued this year as a series of Quarterly Primary Member/CORO Roundtable Touchpoint calls, beginning in October, and complementing our now annual in-person meeting of the Primary members.

Member Engagement

- Fall 2025 Meeting of the Primary Members
- Spring 2026 Meeting of the Primary Members
- Working Groups
- Roundtables
- Surveys
- First CORO Touchpoint Call

Member Engagement: In-Person Meetings of the AORG Primary Members

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- The AORG convened in New York in November 2025 and May 2026 for its regular in-person, peer engagement forum, with a majority of our member firms in attendance.
  - Twenty-three member firms joined in the Fall, with 25 individual participants.
  - Twenty-two member firms joined in the Spring, with 25 individual participants.
- The participants engaged in peer sharing dialogue to identify and tackle key issues facing member institutions, demonstrating the very essence of a **member-led** industry group.
- The in-person peer networking opportunity is both invaluable and highly efficient.
- The rich and timely agendas for these two meetings follow.

Member Engagement: Fall 2025 Meeting of the Primary Members

AORG 2025 Fall Meeting	Agenda
Topic	Topic Details
Welcome Dinner	Rising Geopolitical Risk - How should we be strengthening our ORM Frameworks?
Top Priorities for ORM by Firm	Roundtable introductions (top priorities/key concerns next 12 mos.)
AI	AI regulations and AI risk management
Digital Assets	Risk management implications of recent regulatory advancements
AI (continued)	As a tool; as a risk; governance structure (balancing pace of change vs. control or strategic risk vs. governance; review and approval process burden); ORM roles; ORM skill sets; actual live use case examples, ProSight Initiative; AI enabled Fraud
Events, root cause analysis, lessons learned	Discussion on events and root cause analysis: How do we respond to events, requirements or capture, root cause, action and governance across event types. (Recent surveys or HT RT on Near Miss/Rapid Recoveries and on Root Cause Analysis and Thresholds)
Shifting Regulatory Landscape	Impact of the Joint OCC-FDIC NPRs on “safe and sound banking practices” and reputation risk (is ORM identifying rep risk?)
	The EO de-banking and subsequent agency pronouncements
	Impact (potential impact) on need for excess conservativism, e.g. in CCAR (e.g., inclusion of all vs. some material op risks) (Recap pulse survey)
Approaches to ORM practice optimization and efficiency	Approaches to ORM practice optimization and efficiency – given regulatory and administration focus on reduced regulatory burden, how are firms trying to reduce burden from ORM framework
	Evidence of effective challenge – meeting (regulatory) expectations
New RCSA Working Group	How are firms evolving and optimizing control testing and monitoring (recent pulse survey); Evidencing effective challenge; Connecting RCSA and Risk ID; Update on new WG
Global Delivery Risk Mngt.	How firms oversee offshored operations (e.g. internally offshoring processes to low cost centers - but not done by a vendor).
Third Party Risk Mngt.	TP incl critical vendor resilience – managing risks of vendor non-adherence to standards; contingency plans; optimiz. of TPRM due diligence practices
Resilience	Evolution of Oper. Resilience: Risk Mngt. oversight framework; E2E oversight (approaches to integrate legacy siloed programs); Interest in new forum in AORG on Business Continuity Planning/Disaster Recovery?
Data Risk & Governance	Discussion topic details follow
Next steps for AORG	Thoughts on future Surveys, RTs, WGs, etc.

Member Engagement:
Spring 2026 Meeting of the Primary Members

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AORG 2026 Spring Meeting	Agenda
Topic	Topic Details
Digital Assets/Stablecoin	Current digital asset risk management landscape
ORM (NFR) Framework Optimization/Simplification/Evolution	
	-How 2LOD is right-sizing ORM Frameworks in practice and navigating simultaneous pressures including: 1. Evolving U.S. supervisory posture; 2. Sustained cost pressure; 3. Strong direction to reduce duplication across three lines; 4. Expectations to use AI as efficiency tool, quickly -What has been changed (or where have firms actively chosen NOT to change)
	-Results Review: Optimization/Simplification Questionnaire
	Discuss simplification through multiple lenses
	-RCSA Simplification (Results Review: Controls Testing ROP)
	-Effective challenge
	-Reduced Duplication Across 3 LODs
	-Risk Differentiation (reduced efforts for low risk items)
	-Committees/ Reporting
AI and ORM	Current landscape of practice and opportunities
AI (continued)	-Review/ discuss AI survey results; -Governance by NFR/ORM of firm's use & related risks; -Examples of AI use in practice by NFR/ORM
Emerging Risks	-Geopolitical, Reg. Change, Other risks; -Roles for ORM/NFR; -Integration with full enterprise view across risk types
Basel III	-Member Views on proposal; -Implications of Divergence of US/Other Global Standards; -Re-deploying vs. retiring tools for AMA/Capital/Pillar II
Next steps for AORG	Top-of-mind for ORM/NFR by Firm (Roundtable)

Member Engagement: Working Groups

AORG facilitates six member led and driven Working Groups.

- **Data and Quantification Working Group**
  - ➢ Leaders: Regina Desler, Northern Trust; and Dan O’Brien, Citi
    - Meets monthly with a rich agenda and often 50+ participants.
    - Drives the popular annual CCAR Ratios Survey, and many other topical focused surveys (see page 18).
- **Scenario Analysis Working Group**
  - ➢ Leaders: Owen Bacewicz, Wells Fargo; and Melina Deleon, Bank of America
    - Meets semi-annually with 35+ participants.
    - Thank you to Mike Boyd, BofA, who transitioned from the leadership role this year.
- **Wealth Management and Retail/Online Brokerage Working Group**
  - ➢ Leader: Michelle Rawlins, Morgan Stanley
    - This Working Group by design targets a smaller subset of firms to explore LOB-specific issues and practices.
    - Meets quarterly and routinely attracts up to a dozen participants.

Member Engagement: Working Groups

- **Third Party Risk Management Working Group**
  - ➢ Leaders: Sarah Smith, U.S. Bank; and Eric Poos, Fifth Third
    - Meets monthly, and routinely attracts 25 + participants from most AORG member firms participate.
    - Like the WG below, this topic expands the scope of the AORG focus from its traditional roots and broadens the number of participating individuals at our member firms.
    - Thank you to Matt Buskard, Fifth Third, who transitioned from the leadership role this year.
- **Data Risk & Governance Working Group**
  - ➢ Leaders: John Kunkes, Northern Trust; and Sumeet Gadhoke, U.S. Bank
    - Meets bi-monthly, attracting 25+ participants from most AORG member firms participate.
    - Thank you to Paul O’Donovan, BMO, who transitioned from the leadership role this year.
- **RCSA Advanced Practices Working Group**
  - ➢ Leaders: Christina Brooks, Morgan Stanley; and (plan to announce a new co-leader for the next fiscal year)
    - Launched July 2025 this forum has often attracted 50+ participants for this topic of keen interest to our members.
    - Has driven recent surveys focused on Controls Testing.
    - Thank you to Carien Meintjes, Morgan Stanley and Ben Sagel, TD, who transitioned from the leadership role this year.

Member Engagement: Roundtables

- **Issue Management Hot-Topic Roundtable (Session One)**
  - ➢ May 2026: with 50+ participants from 30+ firms
- Agenda:
  - Metrics/Standards
  - Silos v. Integration
  - Role of 2LOD v. Other LOD
  - AI
  - Regulatory Environment
  - Simplification Initiatives

- **Issue Management Hot-Topic Roundtable (Session Two)**
  - ➢ June 2026: Also very well attended with 37 participants covering most member firms.
- Agenda
  - Simplification Initiatives
  - Cascading Metrics to Countries and Lines of Business
  - AI
    - Integration of AI Capabilities into Issue Management
    - Prevalence of use?
    - Use Cases

Member Engagement: Surveys

- **Range-of-Practice Surveys: Nine completed this past year**
  - Annual CCAR Ratios Survey (Data & Quantification Working Group)
  - AI Survey
  - Controls Testing Survey II (RCSA Working Group)
  - ORM/NFR Framework Optimization and Simplification Questionnaire
  - End User Computing Survey
  - AMA Model Elements Survey (Data & Quantification Working Group)
  - Near Miss and Rapid Recovery Incidents Survey (Data & Quantification Working Group)
  - Root Cause Thresholds Survey (Data & Quantification Working Group)
  - Controls Testing Survey I (RCSA Working Group)
- **Range-of-Practice Surveys: Underway**
  - Issue Management
  - External Loss Data (ELD)

Member Engagement: Initial CORO Touchpoint Call

- Launched a successful new forum in 4Q 2025.
- This dialogue drove a subsequent focus in our AORG forums on framework optimization/simplification.
- Agenda:
  - Shifting Bank Regulatory Environment (Opportunities for Program Change – Enhancing Efficiency & Effectiveness)
  - How are firms pivoting/tailoring their business strategy and/or risk management programs and oversight?
  - What are the highest priority areas firms see for simplification opportunities?
  - Impact of new environment on internal business expectations for sizing the second line of defense?
  - Are there headwinds from Audit (e.g., concerns with unwinding closed and validated MRA corrective actions or reducing 2LOD staffing levels)?
  - Are there specific operational risk regulatory requirements or proposals that are good candidates to influence through AORG regulatory dialogue?
- Forum will be continued this year as a series of Quarterly Primary Member/CORO Roundtable Touchpoint calls, beginning in October, complementing our now annual in-person meeting of the Primary members.

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Governance

- AORG Steering Committee
- Member-Driven Operating Model
- Role of the Primary Representative

Governance: AORG Steering Committee

- The roles and responsibilities of the AORG Steering & Regulatory Committee members are as follows:
  - AORG Steering and Regulatory Committee members are invited to serve based on a combination of their demonstrated and anticipated individual contributions to the AORG, as well as their company affiliation;
  - The AORG Steering Committee members consist of the senior-most representative of a member institution;
  - Although Steering Committee members serve on a voluntary basis, the role is much like that of a fiduciary/board member. AORG Steering Committee members do not act on behalf of themselves or their institution, but rather in the best interests of the AORG membership;
  - Steering Committee members take a leadership role in the AORG including, but not limited to, planning activities, active participation in one or more subgroups, active participation at AORG and regulatory meetings, and/or interface with other industry groups; and
  - Steering Committee members are encouraged to attend all monthly meetings. If unavailable, members should inform the AORG support team in advance of the scheduled meeting. Designating substitutes to attend Committee meetings is not deemed appropriate.

Governance: Member-Driven Operating Model

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- AORG initiatives – "Hot-Topic" roundtables, working groups, surveys, etc. – are developed at the suggestion of AORG member institutions.
- Working Groups are generally led by one or more SMEs from AORG member institutions, with support provided by ProSight.
  - Working Groups may:
    - Be "standing" working groups such as the Data & Quantification Working Group;
    - Have a limited duration such as the Basel 3 Endgame Working Group; and
    - Cover topics of interest to all members (e.g., Third Party Risk Management) or target a subset of members (e.g., Wealth Management).
  - Working Groups are open to an unlimited number of participants from AORG member institutions.
- AORG regularly conducts Range-of-Practice Surveys, some broad and comprehensive and others more tactical/narrowly targeted. Survey results are confidential and are shared with AORG members on a "give-to-get" protocol to ensure broad participation.

Governance: Role of the Primary Representative

- Each member institution designates a **“Primary Representative**,” who is responsible for:
  - Ensuring communication of AORG content to its internal constituencies;
  - Ensuring participation of relevant individuals in AORG working groups, seasonal meetings, range of practice studies, industry-regulatory communication/responses; and
  - Participating in seasonal in-person meetings of the Primary members (Fall and Spring this past year).
    - The next meeting of the Primaries is tentatively for April 2027.
- The Primary representative should be the higher-level person with responsibilities aligned with AORG’s focus.

AORG Value Proposition

AORG Value Proposition

The approach is efficient and effective:

- The members of the AORG pool their resources and draw on a robust support structure.
- The AORG delivers a coordinated, cost-effective way to tackle multiple issues simultaneously by creating workstreams that leverage the expertise of members and external subject matter experts.

The benefits are tangible:

- A cohesive Peer Community with a ***member-driven agenda*** that engages in superior peer networking and knowledge sharing – Informal, Candid, Confidential, and Educational.
- Regulatory Briefings & Dialogue
  - ➢ Facilitates dialogue and education among AORG members and the regulators;
  - ➢ Generates thoughtful responses to regulatory and legislative consultative documents/proposed rules as an industry group;
  - ➢ Range of Practice Surveys;
  - ➢ Thought Leadership – Development of consistent guidelines and common terminology; and
  - ➢ Working Groups – Inclusive: Flexible, unlimited number of individual participants per member institution.

AORG Value Proposition

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The fee structure is simple:

- A single annual fee -- $20,500 -- provides access to the AORG community and working groups, facilitated by a strong internal and external support team.
  - ➢ A material enhancement to bank-originated bi-lateral efforts; a significantly more efficient and effective approach to peer sharing, networking, and benchmarking.
  - ➢ A cost-effective supplement to each bank’s bilateral regulatory dialogue.
- The single fee for the upcoming fiscal year remains a great value, with no significant limits on participants in AORG virtual forums.

About ProSight

- ProSight Financial Association is a 501(c)(6) not-for-profit industry organization formed through the merger of The Risk Management Association (“RMA”) and Bank Administration Institute (“BAI”).
- The strategic combination brings together RMA’s expertise in serving the commercial banking and risk management functions and BAI’s knowledge in serving the retail banking and regulatory compliance functions.
- ProSight provides training, thought leadership, events, and resources to help institutions grow and innovate while ensuring a strong culture of risk, compliance, and fraud management.
- ProSight has over 1,000 institutional members and 70,000 associate members across North America.