

Federal Housing Finance Agency  
Office of Minority and Women Inclusion  
Diversity and Inclusion (D&I) Examination Module

## **I. INTRODUCTION**

The Federal Housing Finance Agency’s (FHFA) Diversity and Inclusion (D&I) examination module applies to Fannie Mae and Freddie Mac (collectively, the Enterprises), the Federal Home Loan Banks (FHLBanks), and the Office of Finance, which for purposes of this module are collectively referred to as the regulated entities and the Office of Finance.<sup>1</sup> The examination of D&I is conducted by FHFA’s Office of Minority and Women Inclusion (OMWI). FHFA’s OMWI identifies D&I as a business imperative and a regulated entity’s OMWI as a mechanism through which D&I is executed within the organization. The purpose of this module is to provide guidance to FHFA OMWI Examination staff and inform the regulated entities and the Office of Finance of the scope of the examination program.

## **II. REGULATORY ENVIRONMENT**

FHFA published the Minority and Women Inclusion final rule on December 28, 2010 (Rule), to implement Section 1116 of Housing and Economic Recovery Act of 2008 (HERA),<sup>2</sup> Section 1216 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA),<sup>3</sup> and Executive Order 11478, as amended. The Rule, located at 12 CFR Part 1223,<sup>4</sup> sets forth minimum requirements for the D&I programs of the regulated entities and the Office of Finance.

Subpart A of the Rule contains items of general applicability to FHFA, the regulated entities, and the Office of Finance. It defines terms, addresses FHFA’s general D&I policy, states the purpose of the Rule, and explains that the Rule:

establishes minimum standards and requirements for the regulated entities, and the Office of Finance to promote diversity and ensure, to the maximum extent possible in balance with financially safe and sound business practices, the inclusion and utilization of minorities, women, individuals with disabilities, and minority-, women-, and disabled-owned businesses at all levels, in management and employment, in all business and activities, and in all contracts for services of any kind, including services that require the services of investment banking, asset

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<sup>1</sup> For convenience, where this module refers to a “regulated entity” or the “regulated entities,” the analysis applies equally to the Office of Finance, unless the Office of Finance is explicitly distinguished.

<sup>2</sup> 12 U.S.C. §4520.

<sup>3</sup> 12 U.S.C. §1833e.

<sup>4</sup> FHFA published the proposed rule on January 11, 2010 and the final rule on December 28, 2010. The agency’s specific responses to comments raised during the notice and comment period can be found in the Federal Register, Volume 75, Number 248, December 28, 2010, pages 81395-81405. Examiners are encouraged to review this material.

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management entities, broker-dealers, financial services entities, underwriters, accountants, investment consultants, and providers of legal services.<sup>5</sup>

FHFA defines *business and activities* as operational, commercial, and economic endeavors of any kind, whether for profit or not-for-profit and whether regularly or irregularly engaged in by a regulated entity or the Office of Finance. The definition includes, but is not limited to:

- Managing employment, procurement, insurance, and all types of contracts, including contracts for issuing or guaranteeing any debt, equity, or mortgage-related securities;
- Managing mortgage, advances, and securities portfolios;
- Making equity investments;
- Purchasing, selling, and servicing single- and multifamily mortgage loans; and
- Implementing affordable housing or community investment programs and initiatives.<sup>6</sup>

Subpart B of the Rule is reserved for a future FHFA rulemaking on FHFA's outreach program(s).

Subpart C of the Rule requires each regulated entity to establish an OMWI office, or to designate another office responsible for fulfilling the regulated entity's OMWI responsibilities under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank).<sup>7</sup> Each such OMWI is responsible for fulfilling the requirements of the Rule.

Further, each regulated entity is required to establish an outreach program to promote the inclusion of minorities, women, and individuals with disabilities, and minority-, women-, and disabled-owned businesses in contracts entered into by the regulated entities. In addition, Subpart C sets forth minimum reporting requirements. To that end, each regulated entity is required to submit the EEO-1 Employer Information Report (Form EEO-1 used by the Equal Employment Opportunity Commission (EEOC) and the Office of Federal Contract Compliance Programs (OFCCP) to collect certain demographic information) or similar report.

The Rule states that FHFA's activity under Subpart C is regulatory and supervisory in nature and may lead to regulatory or supervisory actions, including enforcement actions.

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<sup>5</sup> 12 CFR Part 1223.2(b); see 12 CFR 1223.3(b) for exempted contracts.

<sup>6</sup> 12 CFR 1223.1.

<sup>7</sup> Pub. L. No. 111-203, 124 Stat. 1376, July 11, 2010, codified as 12 U.S.C. §5452.

**FHFA Examination and Guidance Resources Relevant to D&I Management:**

- FHFA Examination Manual-Strategic Planning Module (03/2013)
- AB-2012-03: FHFA Examination Rating System (12/19/2012)
- AB-2012-01: Categories for Examination Findings (04/02/2012)

**III. D&I STRATEGIC PLANNING**

Building organizational commitment to D&I requires that it become a normal way of doing business. Accordingly, a regulated entity may integrate D&I strategic planning into its comprehensive organizational planning process or may develop the plan on a standalone basis. Each regulated entity should focus at the outset of the process, as well as throughout the plan's implementation, on how integrating D&I impacts the organization's operations, business, and activities.

An effective strategic plan lays out a comprehensive, integrated, and deliberate path for promoting D&I throughout an organization. The strategic planning process helps an organization establish a foundation for addressing the challenges and opportunities it faces with respect to D&I. Organizational leaders set the tone in integrating D&I into the business and operations. To demonstrate their support of and commitment to D&I, senior management should participate in developing and executing the D&I strategic plan. The D&I strategic plan should be presented to the board of directors for their review, input, and approval. Oversight by the board of directors assists in creating the conditions for success by ensuring alignment with the overall strategic and operational direction of the regulated entity.

An effective D&I strategic planning process includes the following elements.

**A. MISSION, VISION, STRATEGY**

A regulated entity articulates what D&I means to the organization before developing a strategic plan. Definitions for D&I can vary due to entity size, geographic location, and scope of business activities. A regulated entity defines those terms relative to its specific environment.

A D&I strategic plan establishes a framework within which the vision, mission, and strategy are actionable and provides concrete direction for the regulated entity. A D&I strategic plan also establishes mechanisms to measure the regulated entity's activities against the vision, mission, strategy, and objectives.

## **B. NEEDS ASSESSMENT**

A regulated entity conducts a D&I needs assessment to identify any gaps or deficiencies in its diversity profile. The regulated entity's assessment will vary depending on its location, demographics, resources, and operating environment. Several resources and tools are available to help a regulated entity identify and analyze its needs with respect to D&I. For example, the U.S. Census Bureau, the U.S. Equal Employment Opportunity Commission, state demographic/population data centers, and a number of professional and trade organizations have demographic data and other information that a regulated entity may use to conduct an effective D&I assessment.

The regulated entity's D&I assessment also consists of an evaluation and/or survey of its stakeholders to identify strengths, weaknesses, critical issues, opportunities, and threats concerning or affecting the future of the organization and its business and operations as they relate to D&I. The regulated entity's stakeholders may include, but are not limited to, the community or communities it serves, its members, customers, staff, and its board of directors.

## **C. D&I STRATEGIC GOALS AND OBJECTIVES**

A regulated entity's D&I strategic plan should establish goals and objectives that demonstrate its commitment to D&I within the organization over a three-year period. A goal is defined as the desired result that the regulated entity envisions and commits to achieving. Objectives set a quantifiable standard for each goal. The goal-setting process involves establishing specific, measurable, attainable, and realistic objectives. The regulated entity also may establish specific timeframes within which to complete each objective. Goals and objectives may be prioritized as part of the strategic planning process.

## **D. ACTION PLANS**

A regulated entity develops action plans that identify measurable tasks necessary to achieve its D&I goals and objectives. Action plans integrate all of the strategies developed throughout the planning process and are used to organize and prioritize the tasks necessary to meet the goals and objectives underlying the stated mission. As a regulated entity moves to implement its D&I strategic plan, the day-to-day responsibility for implementing the plan shifts to the business functions throughout the organization. The components of an action plan necessarily will vary depending on the specific strategic goals and objectives, the size of the organization, and the availability of resources.

## **E. COMMUNICATION PLAN**

The D&I strategic goals are communicated by the senior leadership of the regulated entity, ensuring that all staff have a clear understanding of the regulated entity's D&I goals and objectives and their respective roles in achieving them. Reaching the D&I goals requires the collaboration and support of staff throughout the organization — from the board of directors and senior management to managers and employees of all business units and operational divisions and offices.

## **F. ADEQUATE RESOURCES**

The leadership and management teams should ensure that the OMWI function within the regulated entity has adequate human and capital resources to facilitate achievement of the D&I strategic goals and objectives within the timeframes established in the action plans.

## **G. OPERATIONAL PLAN FRAMEWORK**

The regulated entity's OMWI function identifies and develops the structural, functional, and procedural components essential to the effective delivery of D&I programs and services. This includes developing, implementing, and communicating clear functional definitions, defined organizational structures, documented processes and procedures, and delineated roles and responsibilities. These elements will facilitate the regulated entity's steps to meet its D&I priorities. The operational framework should also include timelines for submitting the strategic plan and for updating and revising the plan on a schedule and as developments warrant.

## **H. ACCOUNTABILITY**

The foundation for building a culture of accountability is demonstrated by having a clear statement from the board of directors or the CEO stating expectations, goals, and outcomes for the D&I strategy. A well-developed strategic plan will help advance a sustainable and successful D&I strategy by holding management accountable for integrating diversity within all business and operational functions, and for achieving D&I goals and objectives.

See the module on *Strategic Planning* for additional information relating to the business strategic planning framework and process.

#### **IV. D&I ORGANIZATIONAL DESIGN**

##### **A. D&I PROGRAM**

The D&I program should define the roles and responsibilities of key personnel and the entity-wide functions into which D&I is integrated. These roles and responsibilities should support and promote a culture across the regulated entity that effectively identifies and manages diversity. The OMWI function should be fully integrated, in balance with financially safe and sound business practices, into the regulated entity's overall governance structure. The roles and responsibilities should be designed to minimize the potential for conflicts of interest, ensuring the separation of operational and oversight responsibilities. The D&I program, at a minimum, should include the following:

- A designated OMWI Officer;
- D&I policies and procedures;
- An operational framework;
- Incorporation of D&I and its associated principles, as a business discipline, into business activities;
- Promotion/Facilitation of diversity in nominating or soliciting, and electing nominees for board positions;
- Promotion/Facilitation of diversity in workforce and supplier activities including:
  - Expectations/requirements for suppliers to commit to the best practices of D&I;
  - Identification of contract types that are considered exempt under §1223.3(b) of HERA;
- Monitoring and reporting D&I program status for the regulated entity including:
  - Identification of D&I analysis and measurement methodologies;
  - Alignment with the regulated entity's D&I policy and objectives; and
  - Communication channels among and across the board of directors, senior management, and the business units regarding D&I.

##### **B. BOARD OVERSIGHT**

The board of directors is responsible for establishing an appropriate “tone at the top” that promotes a diverse culture at the regulated entity. The board or a designated board committee is responsible for approving the D&I program, including the OMWI function and ensuring that adequate resources are available to effectively execute the D&I program. The board or a designated board committee should maintain awareness and understanding of the strategies employed across the regulated entity to manage D&I. The board or a designated board

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committee is responsible for overseeing management’s efforts to maintain diversity at all levels of the regulated entity. Specific board or designated board committee responsibilities include:

- Ensuring the OMWI Officer is at a sufficiently senior level in the organization, as contemplated by Section 1116 of HERA, to provide the appropriate stature for the position and support a strong diversity culture;
- Confirming that diversity goals align with the organization’s mission;
- Approving organization-wide diversity goals and performance measurements;
- Reviewing reports from the OMWI Officer and other sources on the overall diversity status and inclusion activities;
- Approving strategies and policies that promote D&I and support compliance with laws and regulations; and
- Holding management accountable for D&I program results or conditions under its purview.

**C. SENIOR MANAGEMENT**

Senior management is also responsible for fostering a tone that promotes diversity across the regulated entity. The highest levels of management are responsible for implementing board-approved strategies and policies and ensuring effective management of the D&I program. Senior management is responsible for: (1) ensuring that the diversity policy and standards are consistently applied across the regulated entity’s business lines, units, and operations; and (2) allocating sufficient resources for the D&I program. Specific senior management responsibilities include:

- Reviewing annually (and updating, as appropriate) D&I policies, and submitting policies to the board, or a designated committee, for approval;
- Ensuring all staff receive appropriate training and tools to implement an effective D&I program;
- Managing board-approved D&I program performance goals;
- Approving the methodologies used to identify, assess, and measure diversity performance and taking appropriate action(s) in light of the performance results;
- Reviewing reports on the level and composition of diversity for decision-making and oversight; and
- Recommending budgets that allocate adequate resources.

#### **D. OMWI OFFICER**

The OMWI Officer is responsible for the day-to-day implementation (including the operation, maintenance and continuous improvement) of the OMWI function. The OMWI Officer should be independent of the business lines and report directly to the Chief Executive Officer, Chief Operating Officer, or an equivalent. The OMWI Officer should have sufficient authority within the institution to bring critical D&I issues to the attention of the board of directors, senior management, and business line staffs, through a defined process. The OMWI Officer should report on the D&I program to the board of directors or an appropriate committee of the board of directors, periodically or as requested by the board of directors or a board committee. The OMWI Officer should be a part of the senior management team. Specific responsibilities would generally include:

- Serving as a principal contributor to the implementation of the regulated entity's D&I strategic plan;
- Facilitating the development of corporate-wide and specific business unit D&I goals;
- Implementing operational strategies for identifying, assessing, measuring, monitoring, and reporting diversity across the business units; and
- Recommending corrective actions to address issues or official complaints in the workforce and/or supplier programs and implementing corrective actions.

#### **E. BUSINESS UNIT MANAGEMENT AND STAFF ACCOUNTABILITY**

Business unit management is responsible for demonstrating a commitment to an effective D&I program by implementing D&I policies and procedures. They are responsible for:

- Taking actions that are consistent with the articulated goals;
- Producing reliable management reports; and
- Reporting D&I performance results.

#### **F. OMWI OPERATIONAL INFRASTRUCTURE**

The D&I program and the OMWI function should be supported with a sound operational environment including, but not limited to, the appropriate systems, security, and tools. The daily operations of the D&I program and the OMWI function require access to sensitive data, some of which necessitates specific data handling procedures as mandated by federal law. This places a responsibility on business unit management to develop and maintain the appropriate business processes. Business unit management also must establish a sound internal control framework

supporting the D&I program and OMWI functional processes, and any required tools including, but not limited to, end-user computing solutions, databases, and web-based applications.

### **G. SUPPLIER D&I PROGRAM**

The supplier D&I program should be responsible for supporting each business group in its effort to identify and include diverse suppliers in their purchasing activities. Supplier diversity should be of equal importance as workforce diversity, aligned with all key areas of the organization, and integrated into the overall diversity management strategy. The regulated entity should demonstrate a commitment to an effective supplier diversity program by:

- Implementing supplier diversity policies and procedures;
- Defining roles and responsibilities for carrying out the supplier D&I program;
- Executing a supplier diversity development plan;
- Producing performance measures and benchmarks; and
- Collecting performance results.

The regulated entity should maintain a supplier diversity program that is fully integrated into the entire organization. The supplier diversity program should be appropriately integrated across all levels of the organization, as well as into new business initiatives, products, activities, processes, and systems. The supplier diversity program should:

- Have sufficient authority within the institution to bring critical supplier diversity issues to the attention of the board of directors or designated board committee or senior management;
- Maintain a certification program to ensure that the bidding opportunities reach eligible minority-, women-, and disabled-owned businesses (MWDObS) including, but not limited to, law firms, underwriters, asset managers, brokers, and dealers, among other suppliers of professional and consulting services;
- Provide training and education to ensure that individuals in decision-making positions throughout the organization understand supplier diversity principles and commitment; and
- Establish measurements that are linked to strategic goals and objectives. Metrics should be included in the annual performance goals for business unit(s)/division(s) of the organization.

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*Procurement*

The regulated entity should develop a supplier diversity component as part of its procurement policies and procedures to promote opportunities for MWDOBs to compete for procurement opportunities (e.g., workforce-related services and tools; administrative and operational contracts for facilities; contracts for issuing debt, equity, or securities; selling assets; managing assets; and equity investments). Procurement policies and procedures regarding supplier diversity should, at a minimum, address:

- Definition and identification of MWDOBs that supply goods and services, which includes services of all kinds (e.g., information technology, legal, administrative services, brokers or dealers);
- Identification methods and strategies supporting diverse suppliers;
- Methodology for conducting due diligence in selecting suppliers, including consideration of, and engagement with, potential MWDOBs;
- Metrics to measure and monitor the supplier diversity levels and trends;
- Diversity training for all business unit procurement activities; and
- Management reporting on the supplier diversity components of procurement policies, including competitive bidding, contract reviews, and outreach activities.

*Development Plan*

The supplier diversity development plan for the entity should reflect the corporate-wide commitment to supplier diversity. The regulated entity should develop a plan to conduct external outreach activities seeking MWDOBs through active involvement with national and regional minority business development organizations, and participation in procurement events. Minority-, women-, and disabled-owned business opportunities should be promoted on an ongoing basis, and a method to measure results should be developed.

The supplier diversity development plan should, at a minimum:

- Incorporate mentoring; training and education; supplier development councils; networking; and capacity building activities;
- Identify the process to reach supplier diversity goals with specific timetables, establish responsibilities for achieving those goals, and monitor and track results on an ongoing basis;
- Define activities for outreach in contracting opportunities to MWDOBs including, but not limited to, information technology and administrative service providers, law firms, asset managers, underwriters, brokers, and dealers.

## **H. PERFORMANCE MEASURES AND BENCHMARKS**

Performance measures define the expectations and responsibilities of management and provide the basis for evaluating and measuring supplier D&I success. Performance goals should be reviewed and re-calibrated regularly. The supplier diversity program should:

- Develop metrics and performance measures, allowing regular benchmarking of actual performance versus planned projections;
- Evaluate supplier diversity using data on contract spending volume (number of contracts and award amounts);
- Perform ongoing monitoring and reviews of the supplier diversity program to assess program performance; and
- Require evaluations of approvals and authorizations for contract spending to confirm adherence to supplier diversity program reporting.

## **I. SUPPLIER DIVERSITY REPORTING**

The supplier diversity program should have components that:

- Provide for regular reports to the board of directors, or designated board committee, regarding the levels and trends of supplier diversity and ongoing oversight activities;
- Require reports containing timelines and milestones, as well as external market or environmental information about events and conditions that are relevant to decision-making; and report on progress toward achieving supplier diversity goals and objectives.

## **J. WORKFORCE D&I PROGRAM**

The workforce D&I program should support and encourage each business group in the effort to identify and include diverse candidates in their hiring and promotion activities. Workforce D&I should be aligned with all key areas of the organization and integrated into the overall D&I management strategy. The regulated entity should demonstrate leadership and commitment to an effective workforce D&I program by:

- Implementing D&I policies and procedures;
- Defining roles and responsibilities for carrying out the workforce D&I program;
- Establishing a workforce D&I plan;
- Producing workforce performance measures and benchmarks; and
- Reporting workforce performance results.

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The regulated entity should develop a workforce D&I program that will promote an inclusive work environment that avoids discrimination against any employee or applicant on the basis of race, color, religion, sex, national origin, disability status, genetic information, age, sexual orientation, gender identity, or status as a parent. The program should:

- Define measures of success;
- Identify key personnel dedicated to workforce diversity and their duties, responsibilities and technical expertise to ensure resources are effectively deployed to execute D&I goals;
- Establish procedures for identifying diverse candidates;
- Include procedures and metrics to measure and monitor internal D&I efforts as well as external trends in workforce D&I;
- Identify workforce D&I training for managerial staff to provide the appropriate education that enables business units to implement D&I in all recruiting, hiring and promotion activities; and
- Where applicable, establish annual performance goals for the organization and each business unit that align with the D&I strategic plan to ensure management is accountable for ensuring D&I plans are in place in their respective businesses, and for measuring progress against these plans.

*Workforce Diversity Roles and Responsibilities*

The regulated entity should develop, implement, and maintain a workforce D&I program that is fully integrated into and across all levels of the organization. The program should:

- Have sufficient stature within the organization that allows critical D&I issues to be raised by the team to the board of directors, senior management, and business line staff through a defined process;
- Have sufficient dedicated staff and resources to promote and oversee the integration of D&I in the business lines, and design activities that promote and foster D&I throughout the organization;
- Provide for training and education to ensure that business unit managers and supervisors in decision-making positions throughout the organization understand workforce D&I principles; and
- Establish measurements that are linked to departmental goals and objectives. Metrics should be included in the annual performance goals for each business unit/division of the organization.

### *Workforce D&I Plan*

The regulated entity should establish a workforce D&I plan that has documented policies and processes. The workforce diversity plan should include:

- Building partnerships or alliances with academic institutions and organizations that promote workforce D&I, including non-profit organizations and the career placement offices at select graduate, professional, and undergraduate schools.
- Participating in various conferences and recruiting fairs sponsored by associations representing diverse populations.
- Incorporating a succession planning system for critical occupations that includes an ongoing, strategic process for identifying and developing a diverse pool of talent for the organization's potential future leaders.
- Promoting formal mentoring programs for personnel at all levels with an emphasis on aspiring senior-level employees. The mentoring process should cover the tracking, monitoring and mentoring of candidates from underrepresented groups positioned for senior assignments.
- Communicating goals for the D&I recruiting programs (DRP) throughout the entire organization. Specifically, the plan should outline the strategic goals and objectives of the overall recruiting program, and design and implement the DRP to align with, and support, the strategic plan.
- Maintaining a communication strategy that reinforces the workplace D&I commitment to all employees. The communication strategy should incorporate action plans and develop organization-wide assessment and evaluation systems to monitor diversity progress throughout the regulated entity.

### **K. WORKFORCE DIVERSITY REPORTING**

Reporting should include well-defined measures to assess effectiveness and evaluate whether outcomes support organizational objectives and targets. Such measures should be straightforward, so expectations are clearly understood. Examples of reporting types include the following:

- Periodic workforce D&I reports to leadership conveying progress of organizational workforce diversity; and
- Regular reports to the board of directors, or designated board committee, reporting the level and trends of D&I and ongoing oversight activities.

## **L. ROLE OF INTERNAL AUDIT AND COMPLIANCE FUNCTION IN D&I**

A regulated entity's internal audit program and compliance function are integral components of its internal control system for the D&I program. The internal audit function provides the board and senior management independent assessments regarding the effectiveness of the OMWI program and adherence to D&I policies and operating procedures. The compliance function evaluates the regulated entity's compliance with applicable D&I-related laws and regulations, and monitors the results of compliance efforts. Both the internal audit and the compliance function should periodically report findings and conclusions to the board of directors or designated board committee.

See the module on *Board of Directors and Senior Management* and the module on *Internal and External Audit* for additional information.

## **V. WORK PROGRAM**

The work program for D&I examinations is detailed below. When included in the examination scope, the examiner must perform examination procedures sufficient in coverage to document the basis for the examiner's conclusions on the quality of the OMWI function and the D&I program. Depending on the scope of the examination, all procedures in each of the work program sections may not be required. To determine the scope, the examiner should take into account any applicable FHFA off-site monitoring or analysis reports related to the regulated entity's D&I activities.

### **A. SCOPE OF EXAMINATION WORK PERFORMED**

- 1) Review past reports of examination for outstanding issues or previous problems related to D&I and the OMWI function. Evaluate the adequacy of the regulated entity's responses.
- 2) Review applicable FHFA off-site monitoring or analysis reports relating to the D&I aspects of the regulated entity's business activities.
- 3) Review internal audit reports for outstanding issues relating to the regulated entity's D&I program and OMWI function.
- 4) Review minutes of meetings of the board of directors and relevant board and management committees for any issues with respect to D&I.
- 5) Analyze the baseline review to determine the progress of the regulated entity's D&I program and OMWI function.

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6) Review the most recent regulated entity's OMWI Annual Report submitted to FHFA.

**B. D&I STRATEGIC PLANNING**

- 1) Evaluate the components of the D&I strategic plan.
  - a) Determine the extent to which the regulated entity's D&I or OMWI strategic plan is a stand-alone document or part of the comprehensive corporate strategic plan.
  - b) Does the D&I strategic plan promote diversity and ensure inclusion at the regulated entity, including defining D&I for the regulated entity?
  - c) Did the regulated entity's OMWI perform a needs assessment prior to developing the D&I strategic plan?
  - d) Assess whether the business case included in the D&I strategic plan is sufficient to explain key assumptions included in the strategic plan. In particular, review the narrative regarding strategic initiatives or changes in strategy.
  - e) Review the adequacy of the regulated entity's budget to fund its D&I.
  - f) Does the strategic plan outline specific D&I strategic goals, objectives, and realistic projections for advancing D&I at the regulated entity?
  - g) Review the adequacy of the D&I strategic plan and consistency with the regulated entity's stated mission and goals.
  - h) Assess whether the strategic plan includes sufficient detail in depth and breadth to allow senior management and the board of directors or designated board committee to benchmark the progress of the regulated entity's OMWI function and D&I program relative to the strategic plan.
- 2) Evaluate the action plans supporting the D&I strategic plan.
  - a) Are action plans aligned with the D&I strategic plan?
  - b) Are adequate resources allocated to achieve the desired plan outcomes?
  - c) Does the regulated entity have a communication plan detailing the strategies and vehicles to be used to inform stakeholders of the regulated entity's commitment to D&I and its D&I strategic goals and objectives?
- 3) Assess accountability and the operational framework supporting the strategic plan.
  - a) Does the regulated entity have a framework to measure, monitor, and report on activities that support the D&I strategic plan?

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- b) Does the regulated entity have a policy statement or directive addressing accountability for the implementation of the D&I strategic plan?

**C. ORGANIZATIONAL FRAMEWORK**

- 1) Review the regulated entity's D&I program and embedded framework to determine if the major components of the framework have been established and implemented by the regulated entity. If major components of the framework have not been established or implemented, determine why. Major components of the D&I framework should include the following:
  - a) OMWI independence from the business units;
  - b) Adequate OMWI staffing and sufficient authority within the organization;
  - c) D&I training for the organization, including the board of directors;
  - d) Comprehensive D&I policy approved by the board or designated board committee;
  - e) Detailed operating procedures;
  - f) Metrics and performance measures;
  - g) Detailed and complete management reporting; and
  - h) Independent assessments by internal audit.
- 2) Review the current OMWI organizational chart and evaluate the effectiveness of the organization by considering the reporting lines for key OMWI personnel.
  - a) Have significant management, personnel, or organizational changes occurred within the OMWI function?
  - b) Does the OMWI Officer report to senior management?
  - c) Where applicable; is the reporting structure between the OMWI function and business units clearly described and defined?
- 3) Evaluate the resources allocated to OMWI.
  - a) Is staffing adequate? Consider staffing levels and capacity, experience, and expertise.
  - b) Are OMWI personnel qualified to effectively engage with the business lines on D&I related matters? Consider experience, seniority, and stature within the entity.
- 4) Evaluate the D&I policies and procedures.
  - a) Has the entity established adequate D&I policies that have been approved by the board of directors or relevant committee?
  - b) Do the policies require regular review and updating to reflect changes in the regulated entity's business?

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- c) Do the policies assign responsibility and authority for the D&I program and OMWI function?
  - d) Do the policies and procedures define the roles and responsibilities of key officers and employees related to D&I?
  - e) Do the policies establish communication channels between the board of directors, senior management, and the business units regarding D&I performance?
- 5) Assess board oversight of D&I.
- a) Has the board established and approved enterprise-wide diversity goals and performance measurements?
  - b) Does the board or a designated board committee review and discuss regular reports from the OMWI Officer and other sources on the overall D&I activities of the entity?
  - c) Does the board or a designated board committee review and approve D&I policies on a regular basis?
- 6) Evaluate the OMWI function's operational framework.
- a) Does the regulated entity have documented business processes for key operational D&I activities?
  - b) Does the regulated entity establish and maintain a sound internal control framework to support key D&I activities including, but not limited to, internal reporting, external reporting, and data analysis?
- 7) If applicable, assess the effectiveness of the diversity advisory council to provide support and accountability.
- 8) Assess systems, processes, and internal controls of the D&I program for adequacy and accuracy. Review business process documentation and internal control testing results.

**D. SUPPLIER D&I**

- 1) If applicable, review the regulated entity's MWDOB certification program. Assess whether the supplier diversity certification program is effective at providing opportunities for eligible MWDOBs.
- 2) Evaluate the regulated entity's periodic monitoring of the MWDOB relationship(s).
  - a) Does the periodic monitoring occur timely and on a regular basis?
  - b) Does the periodic monitoring consistently include the review of changes in risk levels?

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- c) Does the periodic monitoring include the review of conformance to the contract, including the service-level agreement, audit reports, and other required reporting addressing business continuity, security, and other facets of a MWDOB relationship?
- 3) Evaluate how supplier diversity is addressed in the procurement policy.
- a) Does the policy provide a clear definition of MWDOBs?
- b) Does the policy require procedures for managing the engagement with MWDOBs?
- c) Does the procurement policy define contract exemptions?
- d) Does the policy include a process for exemptions review and modifications?
- e) Does the policy provide an on-going process to identify new MWDOBs?
- 4) Assess procedures and practices performed to meet the supplier D&I-related policies.
- a) Does the regulated entity define processes for conducting due diligence in consideration of MWDOBs?
- b) Does the policy require metrics to measure the supplier diversity levels and trends for both internal and external suppliers?
- c) Does the policy require supplier diversity training for all business units to ensure that staff has the appropriate tools to effectively implement D&I in all procurement and contracting activities?
- 5) Assess contracting processes for the solicitation, identification, and selection of professional services and consulting firms including, but not limited to, administrative services, human resources, facilities, legal, accounting, and information technology.
- Are formal processes in place to demonstrate consideration of minority-, women-, and disabled-owned firms in procuring professional services?
- 6) Assess contracting processes for issuing debt, equity, or securities; selling and managing assets; and making equity investments.
- Are formal processes in place to demonstrate consideration of minority-, women-, and disabled-owned brokers and dealers in financial transactions?
- 7) Review supplier diversity roles and responsibilities.
- a) Does OMWI and procurement management have sufficient authority within the institution to bring critical supplier diversity issues to the attention of the board, senior management, and business line staff through a defined process?
- b) Does supplier diversity program management have appropriate resources assigned to support the program?
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- 8) Evaluate the supplier diversity development plan.
  - a) If applicable, determine whether supplier diversity development activities include goals with specific timetables, responsibilities for achieving the goals, ongoing measurement and monitoring, and supplier performance reviews.
  - b) Does the development plan include key activities such as: mentoring; training and education for MWDOBs; supplier development councils; networking; capacity building activities; and an awards and recognition program within the regulated entity?
  - c) Does the development plan identify the process to reach supplier diversity goals with specific timetables, establish responsibilities for achieving those goals, and provide a means to monitor and track results on an ongoing basis?
- 9) Assess supplier diversity performance measures and benchmarks.
  - a) Determine the adequacy of metrics used to measure and monitor supplier diversity levels and trends.
  - b) Are there goals, metrics, and performance measures that allow for regular benchmarking of actual performance versus planned projections?
  - c) Does the program evaluate and assess supplier diversity with data on contract spending, percentage spend with MWDOBs, percentage of contracts with minority-, women-, and disabled-owned subcontractors, and contractor workforce demographics?

**E. WORKFORCE D&I**

- 1) Evaluate the workforce D&I program.
  - a) Determine the adequacy of metrics to measure and monitor the regulated entity's workforce diversity levels and trends. Does the program measure and monitor workforce D&I levels and trends both internally and externally?
  - b) Evaluate the regulated entity's OMWI training programs to address the continuing professional development and competencies of OMWI personnel. Does the program define and provide for workforce diversity training for all management and staff to implement D&I in all recruiting, hiring, and promotion activities?
  - c) Does the program align with the regulated entity's D&I strategic plan? Does the program establish that management performance may be measured by the regulated entity's progress in accomplishing the workforce D&I plan objectives?
  - d) Determine the effectiveness of the regulated entity's staff recruitment program. Specifically, the program should outline the strategic goals and objectives of the overall recruitment program that are related to D&I.

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- e) Evaluate the regulated entity's identification and development of a diverse talent pool. The program should include: talent management plans, assigned mentors, an evaluation of the skills required for promotions, and rotational assignments.
- 2) Assess workforce diversity roles and responsibilities.
- a) Does OMWI have sufficient authority within the regulated entity to bring critical D&I issues to the attention of the board of directors, senior management, and business line staff through a defined process?
  - b) Does OMWI have appropriate staff and resources to promote diversity and assess the inclusion of workforce diversity in the business lines, and also design activities that promote and foster workforce diversity throughout the organization?
- 3) Review the workforce D&I plan.
- a) Does the plan address the establishment and/or maintenance of partnerships with academic institutions and organizations that promote workforce diversity?
  - b) Does the plan address a succession planning system for mission-critical positions that includes an ongoing process for identifying and developing a diverse pool of talent for the organization?
- 4) Evaluate workforce D&I program performance measures and benchmarks.
- a) Has management established measurements that are linked to organizational goals and objectives?
  - b) Does the program assess the processes used by the business units to comply with workforce D&I goals?

**F. REPORTING**

- 1) Assess the adequacy of D&I program reporting.
- a) Are executive management and the board of directors or a designated board committee provided sufficient information to understand the D&I program and OMWI function? Does the regulated entity regularly produce and provide to executive management and the board of directors D&I reporting that is accurate, effective, and relevant?
  - b) Do the regulated entity's reports meet FHFA's regulatory standards and the FHFA conservatorship requirements applicable to Fannie Mae and Freddie Mac?
  - c) Does the regulated entity maintain a process to effectively escalate D&I concerns to senior management and the board of directors?

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- d) Does D&I reporting include trend analysis? Is the reporting format consistent, and does it facilitate tracking of improving or deteriorating D&I concerns at the regulated entity?
- e) Does the reporting contain an assessment of the adequacy of D&I and identify weaknesses?

**G. INTERNAL AUDIT/COMPLIANCE**

- 1) Review and evaluate internal audit's role in D&I program assessments.
  - a) Does the regulated entity's internal audit function independently review the D&I program, including testing for adherence to policies and procedures?
  - b) Do audit procedures require, and do reports include, an evaluation of the independence and effectiveness of the OMWI function and D&I program?
  - c) Does internal audit assess the overall appropriateness and adequacy of the entity's OMWI framework?
  - d) Does internal audit review the entity's process for setting the OMWI metrics and performance measures?
  - e) Does internal audit review the process for developing and also testing the reliability of D&I oversight reports provided to executive management and the board of directors?
  - f) Are D&I-related audit findings resolved by management in a timely manner?
- 2) Assess the compliance function's process for evaluating compliance with D&I regulatory requirements.
- 3) Evaluate compliance policies and FHFA-issued regulated entity requirements for D&I compliance.
- 4) Evaluate D&I compliance reviews to ensure reporting is robust and addresses the appropriateness of the D&I activities.
- 5) Be alert to any current or potential litigation or other claims challenging the regulated entity's OMWI program that may indicate weaknesses in the institution's risk management, governance, compliance and internal control structure. Consult with the OMWI Supervisory Manager, Examiner-in-Charge (EIC), and the Office of General Counsel as appropriate.

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**H. TESTING**

- 1) Interview the regulated entity's OMWI staff and senior management to determine if they have sufficient knowledge and understanding of entity-identified D&I requirements.
- 2) Review the regulated entity's OMWI staff resumes to determine if education, experience, training, and professional certifications indicate that OMWI personnel are qualified to perform their duties and responsibilities.
- 3) Review a sample of MWDOB contracts to determine if the regulated entity followed policies for financial services industry participants, including, but not limited to, management of relationships with brokers, dealers, asset managers, and underwriters.
  - a. Does the regulated entity formally identify and adhere to requirements for a broker-dealer relationship?
  - b. Did the regulated entity conduct appropriate due diligence on potential MWDOBs?
  - c. Did the regulated entity follow established procedures and standards for selecting an MWDOB and negotiating the contract?
  - d. Did the regulated entity onboard the MWDOB in accordance with established procedures and standards?
  - e. Did the regulated entity follow established procedures and standard for terminating MWDOB relationships?
- 4) Review and assess the adequacy of the regulated entity's policies and procedures for managing relationships with financial services industry participants including, but not limited to, brokers, dealers, asset managers, and underwriters.
- 5) Review a sample of MWDOB contracts to ensure adherence to the regulated entity's policies and procedures, and determine if the contracts consider and address the following topics:
  - a. Availability and timeliness of services;
  - b. Objective measurements for each significant element;
  - c. Confidentiality and integrity of data;
  - d. Minimum performance and operating standards; and
  - e. Inadequate performance (e.g., was appropriate action taken through reduction in contract fees and business volumes or contract termination?)
- 6) If applicable, select a sample of recently terminated MWDOB contracts and determine why the regulated entity terminated the relationship and whether the cause for the termination was

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appropriate, documented, and consistent with the policies and procedures of the regulated entity.

## I. CONCLUSIONS

Summarize conclusions for all examination work performed as it relates to OMWI. For D&I examination activities at the Enterprises, analysis and conclusions will be completed quarterly in addition to an annual conclusion on the state of the D&I program and the OMWI function.

Develop a memorandum concluding on the regulated entity's D&I program. The memorandum should describe the basis of conclusions reached and summarize the analysis performed. A memorandum must be prepared irrespective of whether the examiner's assessment is positive or negative. The memorandum should articulate OMWI-related factors to assist the EIC in assigning the Management rating. Within the memorandum, discuss:

- An assessment of D&I strategic planning (strong, adequate, or weak);
- The effectiveness of OMWI's organizational framework;
- The quality of the workforce and supplier diversity programs;
- A determination of whether reporting is comprehensive; and
- Responsiveness to previous examination findings.

Examiners should reference AB-2012-01 *Categories for Examination Findings* and AB-2012-03 *FHFA Examination Rating System* for an overview of examination findings categories and the examination rating system framework. Draft a Conclusion Letter (for Enterprise examinations) and prepare findings memoranda (for FHLB or Office of Finance examinations), as appropriate. For FHLB or Office of Finance examinations, such documents should describe a remediation plan specifying the appropriate corrective action to address examination concerns and establish a reasonable deadline for the regulated entity to remediate the finding. Communicate preliminary conclusions and findings, if applicable, to the EIC and OMWI Director or their respective designees. Share draft findings with regulated entity personnel to ensure they are free of factual errors.

DER conclusion letters require the regulated entity to submit a remediation plan to the EIC within (typically) 60 days from the date of the Conclusion Letter. The remediation plan must include a description of planned corrective actions, the name of the individual responsible for the remediation, and an expected date of completion.

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Develop a list of follow-up items to evaluate during the next annual examination or during ongoing monitoring activity. In addition to any findings, include concerns noted during the examination that do not rise to the level of a finding. Potential concerns include issues the regulated entity is in the process of addressing that require follow-up work to ensure actions are completed appropriately. In addition, potential concerns should include anticipated changes to the regulated entity's practices or anticipated external changes that could affect the institution's future D&I practices.