

Introduction

The trust and asset management handbook is designed to assist examiners in planning and conducting examinations of trust and asset management products and services provided by a savings association to its customers. The handbook is also designed to aide in fulfilling OTS's responsibilities to ensure that trust and asset management activities of savings associations are conducted in a manner that determines and ensures that trust powers are exercised in a manner consistent with applicable law and OTS policies. OTS examiners carefully evaluate the capability of management, the soundness of policies and practices, the quality of service rendered to the public and the effect the offering of trust and asset management products and services has on the soundness of the institution.

In addition to containing examination and supervisory policies and procedures, the handbook includes an overview of trust and asset management products and services that can be provided by a savings association, a discussion of the component rating categories under the Uniform Interagency Trust Rating System and standards of fiduciary conduct that are applicable to a savings association.

Objectives

The objectives of the trust and asset management handbook are to provide a clear statement of OTS examination policies, standards and procedures; to promote the consistent application of those policies, standards and procedures; and to enhance the quality and effectiveness of trust and asset management examinations. The handbook can be used as a guide to OTS policy and procedure, as a reference tool and as a training aide.

Through the examination process, regulatory personnel evaluate trust and asset management activities to identify those institutions requiring special supervisory attention. The first section of the handbook contains a more detailed description of trust and asset management examination objectives. The results of the examination are highlighted in a written report and distributed by the regional offices to the board of directors of an institution. The examination report points out the strengths and weaknesses of an institution and seeks the correction of any cited violations or operational flaws.

The reader's education, experience, and judgment should supplement the use of the handbook. Updates and revisions to the handbook may be published and distributed periodically. Separate handbooks are also available covering Thrift Activities, Compliance Activities, Holding Companies, FFIEC Information Systems Examination and Application Processing.

Handbook Organization: Chapters and Sections

The handbook utilizes a topic heading system for identification, organization and referencing and is organized into six chapters. Within each chapter, materials are organized by subject matter into sections, each with its own set of identifying numbers, generally based on increments of 10. To illustrate, the first chapter is titled "000 Examination Administration," and the first section is titled "010 Using the Handbook."

The first chapter, sections 010 through 130, covers the basics of the trust and asset management examination process and provides additional resources for the examiner to use. Chapters 200 through 880 parallel the subject areas contained in the revised Uniform Interagency Trust Rating System. Each of these chapters

contains introductions and related examination programs. The introductions provide background material and guidance, while the examination program provides information regarding examination procedures.

Examination Programs Section

The examination programs highlight the objectives and examination procedures by subject matter. These sections contain several subsections: 1) examination objectives; 2) examination procedures; 3) final risk assessment; 4) overall risk assessment; 5) examiner's UITRS rating, summary, conclusions and recommendations; 6) references; and 7) workpaper attachments. Each of these subsections is described more fully below.

Examination Objectives: Examination objectives identify the goal the examiner is striving toward in conducting a review of the subject area. Identification of the objectives will assist in determining the scope of the examination for a specific area of interest and may also be germane to the overall examination process.

Examination Procedures: The examination procedures are organized in a top-down fashion and are divided into three groups, each representing a different level or depth of exam based on a risk assessment. The three groups are Levels I, II and III. With this approach, trust and asset management examiners can expeditiously assess the degree of risk in each area of a particular savings association's operations early in the examination and determine the depth of exam (Levels I, II or III) that will be needed in order to determine whether examination objectives have been met.

Final Risk Assessment: A final risk assessment for each examination procedure with respect to the examination objectives should be determined, based on the level of examination conducted. The final risk assessment is in the form of a matrix with the five types of risk being assessed against a determination of the quantity of risk (high, medium or low), the quality of controls (effective, acceptable or weak) and the direction of risk (increasing, decreasing or stable).

Overall Risk Assessment: An examiner will support the ratings given in the matrix with a concise summary explanation for each of the risk categories as to quantity, quality and direction of risk.

Examiner's UITRS Rating, Summary, Conclusion and Recommendation: The examiner should conclude each examination program with a detailed summary of findings, conclusions, and, if applicable, recommendations.

References: Pertinent legislative and regulatory citations are included throughout the narrative sections of the handbook. These references include federal laws and regulations applicable to the savings association as a corporate entity (e.g., OTS regulations relating to the exercise of fiduciary powers); federal laws and regulations applicable to specific types of activity that the department may have (e.g., provisions of the federal securities laws, the Internal Revenue Code and ERISA); recognized source materials (e.g., the AICPA's Audit Guide and The Investment Advisory Act of 1940); and references to other relevant OTS issuances such as Thrift and Regulatory Bulletins. Users of the handbook are cautioned to consult applicable state laws, which are not specifically referenced or included.

Workpaper Attachments: Examiners should identify all documents and workpapers supporting their conclusions in this section. Workpapers should be filed behind the examination program and indexed in sequential order.

Description of Items in Table of Contents**000 – General**

This chapter covers the basics of the trust and asset management examination process as detailed in the sections below.

- Section 010** *Using the Handbook:* Describes the objectives and organizational structure of the handbook.
- Section 020** *Examination Programs for Trust and Asset Management Activities:* Provides a summary of the significant features of the trust and asset management examination program.
- Section 030** *Supervision by Risk:* Describes the philosophy and methods used by the OTS to supervise the trust and asset management activities of OTS regulated institutions. It introduces the “top-down” and risk-focused approach as it applies to trust and asset management examinations; discusses that approach in relation to the examination; and discusses off-sight monitoring between examinations.
- Section 040** *Examination Planning and Control:* Covers the different types of trust and asset management examinations; discusses the preexamination planning process; provides guidelines for establishing the scope of an examination; and, provides guidelines for reaching conclusions and discussing examination findings with management.
- Section 041** *PERK:* Description of the Pre-Examination Response Kit (PERK). It identifies the examiner’s information request that is delivered to the savings association prior to the start of an examination. It is not an all-inclusive list but does detail much of the information needed during an examination.
- Section 042** *Useful Reports:* Listing of common reports generated by most trust department automated systems that may be used in connection with the trust and asset management examination.
- Section 050** *Report Preparation and Issuance:* Contains a summary of the instructions for preparing and issuing a trust and asset management examination report.
- Section 060** *Assignment of Ratings:* Contains a discussion of the Uniform Interagency Trust Rating System that is used to assign individual and composite ratings to a trust department.
- Section 070** *Post Examination Activities:* Covers the transmittal of the report of examination to the affected institution, meetings with the board of directors and follow-up monitoring activities.
- Section 080** *Enforcement Actions:* Addresses the formal and informal enforcement tools used by OTS to carry out its supervisory responsibilities.
- Section 090** *Trust and Asset Management Trust-Only Examinations:* Covers the procedures to be followed for the examinations of OTS regulated savings associations and their holding companies when the institution engages only in trust and asset management activity. These institutions are considered “special purpose” because they do not perform commercial or retail banking services by granting credit or taking deposits from the public in the ordinary course of business.

100 – Overview

This chapter presents an overview of trust and asset management activities, provides more detail regarding fiduciary duties, risks & liabilities and discusses applicable law and the trust powers of savings associations.

- Section 100** *Trust and Asset Management Activities:* Describes the typical services offered by a trust department, the reasons for establishing a trust and the objectives of OTS trust and asset management regulation.
- Section 110** *Fiduciary Duties, Risks and Liabilities:* Addresses the duties and responsibilities of a fiduciary to its customers, risks associated with the exercise of trust powers and the risk management steps each institution should take to manage fiduciary risk.
- Section 120** *Applicable Law:* Provides a summary of federal laws and regulations applicable to OTS institutions exercising trust powers.
- Section 130** *Trust Powers:* Summarizes the process for applying to the OTS for the exercise of trust powers, the criteria used in granting powers and the revocation or surrender of trust powers.

200 – Management

Addresses the overall capabilities of the board of directors and management in their respective roles, to identify, measure, monitor and control the risks of a savings association's trust and asset management activities.

- Section 200** *Introduction to Management:* Discusses management, board oversight and the organizational structure of a trust department.
- Section 210** *Management Appraisal (Narrative and Examination Program):* The narrative discusses the elements necessary to evaluate the savings association's management structure. The examination program will enable examiners to evaluate the effectiveness of the organizational structure and director supervision; performance, capabilities and adequacy in number of officers and staff; adequacy of committee minutes; responsiveness to audit and examination reports; adequacy of business plans; review of financial performance; use of legal counsel; and sufficiency of insurance coverage.
- Section 220** *Risk Management (Narrative and Examination Program):* Contains a discussion on risk management and the risk assessment process which management should implement as part of its internal controls. The examination program will enable examiners to evaluate the effectiveness of an institution's risk management responsibilities.

300 - Operations, Internal Controls, and Audit & Information Technology

Discusses the operations area that can be characterized as consisting of three primary functions: 1) its system of accounting and records; 2) its system of providing for the custody and control over trust account assets; and 3) its system of processing transactions in those assets. Even when operational functions have been outsourced, a savings association should have strong oversight over these functions and establish proper internal controls.

- Section 300** *Operations, Internal Controls, Audit & Information Technology:* Topics include: trust accounting principles; the adequacy of accounting systems and records including cash and asset ledgers; account balances, reconcilements, and suspense accounts; and records relating to the principal and income of trust accounts. Also, the effectiveness of internal controls and safeguards, including those relating to joint custody, dual control, vault procedures; pledge requirements and assets held off-premises; and the effectiveness of systems and controls over the processing of assets, including security movement and control systems; pending transactions; trading activities; and receipts and disbursements. Addresses the adequacy of records and controls over specific activities or functions, including cash management, overdrafts, consumer lending and securities lending.
- Section 310** *Operations and Internal Controls Examination Program:* Provides examiners with a program for evaluating the effectiveness of the savings association's operations and internal controls.
- Section 400** *Introduction to Audits:* Provides examiners with information necessary to evaluate the effectiveness of the savings association's audit procedures.
- Section 410** *Audit Examination Program:* Provides examiners with a program for evaluating the effectiveness of the savings association's audit procedures.
- Section 500** *Introduction to Information Technology:* Provides examiners with information that will help them evaluate management's procedures for identifying and controlling the level of risk within information technology.
- Section 510** *Information Technology Examination Program:* Provides examiners with a program evaluating management's procedures for identifying and controlling the level of risk within information technology.

600 – Earnings

Addresses the trust department's operating results and earnings trends and the probable effect on the profitability of anticipated future business.

- Section 600** *Introduction to Earnings:* Contains a discussion on the analysis and evaluation of present and past financial results, fee schedules and the effect of losses. Addresses management's responsibility to establish effective marketing plans and realistic budgets as well as measure present and project future profitability.
- Section 610** *Earnings Examination Program:* Provides examiners with a program for evaluating the impact that the trust department's financial results have on the savings association.

700 - Compliance

This chapter encompasses the trust department's policies, practices and procedures relating to its compliance with applicable law and OTS fiduciary standards. It also contains a description of the various business lines that may be found in a trust department and discusses the various conflicts as well as the applicable legal principles associated with the various business lines.

- Section 700** *Introduction to Compliance:* Discusses a trust department's account administrative procedures which includes: soundness of and compliance with policies and procedures; acceptance and termination of accounts; use of synoptic sheets and tickler systems; timeliness of administrative actions; account review process; compliance with applicable law; and conformity with account instruments and account objectives. It contains a discussion on various accounts not described in the individual examination program narratives.
- Section 710** *Introduction to Conflicts of Interest & Examination Program:* Provides examiners with information and a program to enable them to evaluate management's procedures for safeguarding against conflicts of interest.
- Section 720** *Introduction to Personal and Court Accounts & Examination Program:* Provides examiners with information and a program to enable them to evaluate management's procedures for administering personal and court accounts.
- Section 730** *Introduction to Employee Benefit Accounts & Examination Program:* Provides examiners with information and a program to enable them to evaluate management's procedures for administering employee benefit accounts.
- Section 740** *Introduction to Private Banking & Examination Program:* Provides examiners with information and a program to enable them to evaluate management's procedures for administering private banking and wealth management services.
- Section 750** *Introduction to Corporate Trust & Examination Program:* Provides examiners with information and a program to enable them to evaluate management's procedures for administering corporate trusts.

800 – Asset Management

This chapter encompasses policies, practices and procedures relating to the selection, retention and preservation of trust assets. It includes a review of the savings association's methods or processes related to the investment of all discretionary accounts.

- Section 800** *Introduction to Asset Management:* Discusses the investment constraints of a fiduciary, including the prudent person and investor rules and conformity with investment provisions of governing account instruments; investment policy, including the board of directors' responsibilities; and the adequacy of the investment selection and retention process, including the needs and objectives of accounts; review of asset holdings; and sufficiency of supporting documentation.

- Section 810** *Introduction to Portfolio Management & Examination Program:* Provides examiners with information and a program to enable them to evaluate management's process over the selection of investments for a particular account.
- Section 820** *Introduction to Marketable Securities & Examination Program:* Provides examiners with information and a program to enable them to evaluate a trust department's selection of marketable securities.
- Section 830** *Introduction to Mutual Funds & Examination Program:* Provides examiners with information and a program to enable them to evaluate a trust department's selection of mutual funds.
- Section 840** *Introduction to Closely-Held Business Interests & Examination Program:* Provides examiners with information and a program to enable them to evaluate a trust department's procedures for managing an account's closely held business interests.
- Section 850** *Introduction to Real Estate Interests & Examination Program:* Provides examiners with information and a program to enable them to evaluate a trust department's management of real estate interests held as assets of an account.
- Section 860** *Introduction to Miscellaneous Assets & Examination Program:* Provides examiners with information and a program to enable them to evaluate a trust department's management of miscellaneous assets held in accounts.
- Section 870** *Introduction to Insurance Products & Examination Program:* Provides examiners with information and a program to enable them to evaluate a trust department's procedures for managing insurance products.
- Section 880** *Introduction to Common and Collective Investment Funds & Examination Program:* Provides examiners with information and a program to enable them to evaluate a trust department's procedures for the management of any common and/or collective investment funds it administers.

Trust & Asset Management Glossary