

# Beyond the Basics:

## Administrative & Investment Reviews

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# Beyond the Basics: Administrative & Investment Reviews

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- Regulation and Guidance Highlights
- Account Risk Rating Concepts
- Review Rules and Questions – Benefits of Standardization
- Oversight/Committee Reporting



# The OCC *Golden Rule*

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## *Annual Reviews of Fiduciary Accounts Pursuant to 12 CFR 9.6 (c)*

At least once during every calendar year, a national bank is required to conduct a review of **all assets** of each fiduciary account for which the bank has investment discretion to evaluate whether they are appropriate, individually and collectively, for the account. These annual reviews are commonly referred to as "annual **investment reviews**".

# OCC Guidance

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*OCC Bulletin 2008-10 | March 27, 2008*

The annual investment review process has evolved over time.

Many banks use hybrid processes that encompass features of both automated and traditional manual investment reviews.

While automation can provide efficient identification, reporting, escalation, and ongoing monitoring of many types of exceptions, an automated investment review is not a substitute for good portfolio management or committee oversight and accountability.

Banks may use manual, automated, or a combination of tools to facilitate a review process that complies with the requirements of 12 CFR 9.6(c).

# FDIC – Account Reviews

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## *FDIC Trust Examination Manual – Section 1.C.2(e)*

Regular review of accounts is an important part of an effective fiduciary risk management process. Account reviews facilitate identification of weaknesses in *account administration* **or** *investment management* that could result in a higher risk profile of the department or cause financial harm to the bank if left unaddressed. Reviewing accounts at least once during each calendar year thereafter helps to ensure timely identification of weaknesses. Annual reviews typically incorporate an administrative review, along with a review of investments when the department exercises investment discretion.

# FDIC – Scope of Annual Account Reviews

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## *FDIC Trust Examination Manual – Section 1.F.2*

The scope of the account review primarily depends on the department's fiduciary responsibilities and the type of account under review. An account review generally covers the administration of the account (administrative review) and the suitability of the account's assets (investment review). The scope of an account review is dependent upon the nature of fiduciary responsibilities and type of account. Such as:

- Discretionary Personal and Employee Benefit Accounts
- Nondiscretionary Personal Accounts or Custody Accounts
- Investment Management Agency Accounts

# FDIC – Frequency & Authority Level of Account Reviews

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## *FDIC Trust Examination Manual – Section 1.F.3*

Certain accounts may warrant a more frequent review or a review at a higher level in the organization than other accounts due to potential risk. For example, those accounts where the department has investment discretion are generally reviewed more frequently than accounts where no investment discretion is exercised. Other accounts that typically warrant more frequent and senior-level reviews may include accounts that: possess unique or unusual characteristics or circumstances; involve substantive complaints from grantors or beneficiaries; involve substantive or repeated criticism by regulatory authorities; involve pending litigation; or contain instruments with complex structures.

# FDIC – Review Content

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## *FDIC Trust Examination Manual – Section 1.F.4*

A comprehensive account review includes an administrative and an investment review. Management may choose to address both aspects in one review or in two separate reviews. Both methods are suitable as long as each review, by itself, is complete in nature. Whether performed separately or together, comprehensive reviews consider the governing instruments, applicable laws and regulations, fiduciary responsibilities, needs of the beneficiaries, investment objectives, and the presence of unique or hard-to-value assets.

An account review will vary, based on the department's fiduciary responsibilities, type of account, assets held, and other circumstances.

An investment review is an evaluation of an account's assets and objectives at a point in time. An effective review process supports a trust department's ability to meet its fiduciary responsibilities and to properly administer customers' accounts

# FDIC – Automated & Manual Review Processes

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## *FDIC Trust Examination Manual – Section 1.F.5*

A *manual system* involves a more direct approach to account reviews. On accounts in which the trust department exercises investment discretion, administration and investment management are typically reviewed simultaneously. This can promote communication among administrators and portfolio managers. Additionally, manual reviews may allow a more detailed focus on complex accounts, those with unique assets, or those that reflect higher risk.

*Automated reviews* can also be useful during the account review process, particularly on lower-risk accounts such as those invested solely in mutual funds on an approved list or in model portfolios. An automated system can easily identify accounts, often as frequently as daily, with investments that may not conform to investment objectives or approved allocations that may result in concentrations, or may contain conflicts of interest.



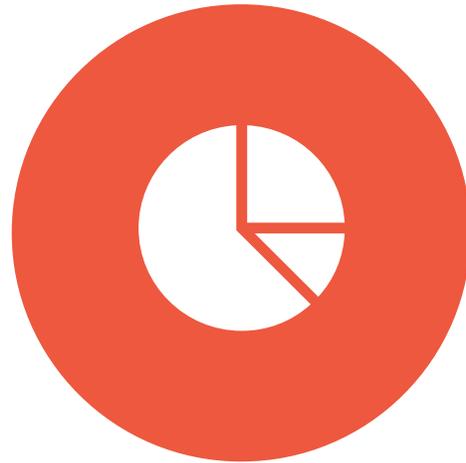
# Annual/Periodic Administrative Account Reviews

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An industry wide expectation/‘best practice’ - with room for interpretation.

# Data Analysis – Determine Your Risk

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# Data Analysis – What do YOU Believe Defines Risk

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Account Type:

- Consider: Is an Irrevocable Trust equal to an IRA or Custody in terms of perceived risk
- Court created trusts – special needs (SNT vs. Medicaid Recipient only)

Account Holds Unique Assets:

- Consider: Are managed unique assets equal to customer directed or outside managed unique assets
- Does the percentage of the unique held compared to the overall MV of the account make a difference
- Do the managed assets include in-house managed Real Estate or Oil & Gas

# Data Analysis – What do YOU Believe Defines Risk (Continued)

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- Account is subject to a delegated outside investment manager
- Account is subject to threatened or pending litigation
- Account's capacity is that of successor trustee or co-trustee
- Account's inception date is older than 10 or 20 years
- Is an IRA in RMD status or not
- Etc., Etc., Etc.....

# Data Analysis – Possible Trust Accounting System Scorable Values

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Investment Authority	Account Type
Capacity (i.e. Successor Trustee)	Market Value
Unique Assets (Value, Type, etc.)	Situs
Potential Conflict of Interest	Litigation or Complaints
BSA Risk	Account Age (New, Old)
Foreign (NRA)	Acquired via Acquisition
Noted Audit Issues	Trust Decanted

# Data Analysis – Potential Risk Category Identified – What's Next

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- Document why a topic is a perceived risk. As you work through this process you may determine the risk is satisfied via the annual investment review or somehow else that would negate the need to require an increased frequency in processing an admin/periodic review.
- Determine how you will identify the 'condition'. Items that can be extrapolated from your trust accounting system is key.
- Most importantly, don't do this in a vacuum. Work with knowledgeable people from other lines of business within your trust division. Much of this is subjective and other perspectives will add value to the final analysis.

# Not a Bulls Eye

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PROGRAM LOGIC REQUIRES PERIODIC VALIDATION WITH  
APPROPRIATE APPROVAL AND SIGN OFF

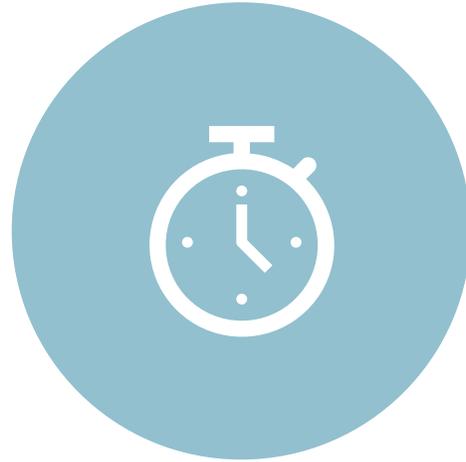
# Periodic Account Risk Rating Logic Review is Essential

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- This is not a stagnant process
- What may have seemed just perfect in concept, may not have hit the mark once applied
- Be open to the ebb and flow of what was perceived as a risk in the past, may not still be one 'today'.
- Evaluate your rules with knowledgeable representation from other areas within Trust. (*Avoid operating in a silo!!*)

# Allocate Review Resources Where Most Warranted

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# Benefits of Less Frequently Cycled Periodic/Annual Admin Reviews

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- A redistribution of periodic administrative account review due dates allows the focus to be concentrated where it is most warranted – based on where the risk resides
- Administration is less likely to rush through a heavy load of reviews each month
- The quality of the review traditionally improves when the workload is not so oppressive

# Risk Rule, Score, Rating, and Reporting

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- Risk Rule – a measurable risk that can be assigned a numeric value (positive or negative)
- Risk Score – the cumulative value derived from the various risk rules that are defined by your organization.
- Risk Rating – the overall risk value assigned to an account that will drive the periodic administrative account review frequency
- Reporting – system derived analysis that takes into consideration the various risk rules and tallies the results into a Risk Score, per account, that is ultimately assigned to the account within your trust accounting platform or review system

# Sample: Risk Rule and Associated Risk Score

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Risk Rule	Description	Risk Score	
R1	The account holds unique assets. (Score based on account type. Refer to supplemental Account Risk Rating Matrix (version 2) 'Accts Holding Unique Assets' tab.)	1-3	
R5	The account has a BSA rating of 3.	1	
R6	The account has an outside third-party money manager/advisor.	1	
R10	Managed accounts holding unique assets with a concentration of 0 to 10%	-1	

# Sample: Risk Rating and Score Definitions (Sample)

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Risk Rate Determines Review Cycle	Risk Score Definition	Risk Score
Risk Rate 5 Review Twice a Year Requires 2nd Approval	High - Significant impact. Present mitigation is inadequate and may allow existing risks to damage reputation, market share and revenue. There could be an impact to shareholders.	>= 7
Risk Rate 4 Review Twice a Year Requires 2nd Approval	Elevated - Raised potential to negatively impact reputation, market share and revenue without an effective hands-on mitigation process in place and continuous execution of that process on a routine basis.	5-6
Risk Rate 3 Review Annually Requires One Approval	Medium - Marginal potential to impact reputation, revenue or market share, but mitigation procedures are in place to effectively mitigate risk. Effective mitigation requires some "hands-on" involvement by administrators.	3-4
Risk Rate 2 Review Every Two Years Requires One Approval	Acceptable - Limited but acceptable risk of damage to reputation, revenue or market share exists, but is effectively mitigated by policies and procedures and automated controls.	2
Risk Rate 1 Review Every Three Years Requires One Approval	Low - Potential for risk for damage to reputation, revenue or market share is small. Minimal mitigation is required beyond policies and procedures.	1

# Sample: Risk Reporting

Acct #	Name	Admin Name	Branch Name	Acct Type #	Acct Sub-Type	Unique Asset	Foreign Bene	Authority	TOT MV	TOT UA MV	% of Unique Assets	Acct Type	R5 BSA Rating	R6 Outside Manager	R9 Litigation	Translate	Total Risk
1	A Smith	Admin A	Branch 1	15 = IRREVOCABLE TRUST	14 = IRREV-OTHER	Y		S = SOLE				3	1	0	6	5	10
2	B Smith	Admin A	Branch 1	15 = IRREVOCABLE TRUST	19 = RABBI TRUST	N		J = JOINT WITH INSTITUTION				3	1	0	0	3	4
3	C Smith	Admin A	Branch 1	15 = IRREVOCABLE TRUST	18 = LIFE INSURANCE TRUST	N		S = SOLE				3	0	0	0	3	3
4	D Smith	Admin A	Branch 1	15 = IRREVOCABLE TRUST	18 = LIFE INSURANCE TRUST	Y		S = SOLE	\$18.06	\$1.00	5.54 %	3	0	0	0	3	3
5	E Smith	Admin B	Branch 2	91 = INVESTMENT MANAGEMENT	43 = AGENCY-FOUNDATION	N		S = SOLE				2	0	0	0	2	2
6	F Smith	Admin B	Branch 2	35 = AGENCY	45 = AGENCY-PERSONAL	N		J = JOINT WITH INSTITUTION				2	0	0	0	2	2
7	G Smith	Admin B	Branch 2	60 = IRA	80 = IRA-CUSTODY	N		N = NONE				1	0	0	0	1	1
8	H Smith	Admin B	Branch 2	40 = CUSTODY	56 = CUSTODY-ENDOWMENT	N		N = NONE				1	0	0	0	1	1

# Risk Rating Analysis - What to Consider for YOU

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- Who and how often should your program be reviewed
- If changes are made to program, who approves or authorizes change
- How weighted are your Low, Med, and High results
- How often will you run and recalculate the account's risk score
- Should you lockdown who can manipulate an account's risk score coding at the account level

# Risk Rating Analysis - What to Consider for YOU

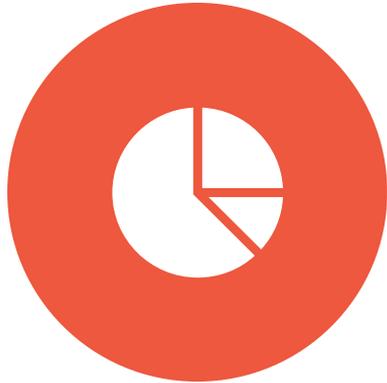
## (Continued)

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- Will highest risk reviews require additional levels of review or approval
- How will your review platform support the scheduling of future due dates and changing risk scores
- Meet with your examiners and share your proposed program logic and methodology before implementing the process

# What Is Right- *Is Up To YOU!!*

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# Review Rules and Questions – Benefits of Standardization

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*A predefined bank of canned responses to questions or rules within a review, where appropriate, has benefits:*

- Consistent language will assist those who approve or close reviews (reducing the need to evaluate the appropriateness of each response).*
- Will aid in exception reporting (to be discussed a bit later).*

# Review Rules and Questions – Things to Consider

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- *Style a response option that encourages the person processing the review to act and clear the 'issue', prior to submitting the review (reducing the number of open exceptions).*
- *Sort 'non-conforming' response to the top of the queue to reduce the likelihood of the operator from just 'clicking' through the review.*
- *Provide for a free form response opportunity where appropriate, specifically if a non-conforming response was selected.*

# Review Rules and Questions – Inv. Rvw Examples

Rule	Status
ASSET CONCENTRATION (Policy K.11: retention documented with LOD or written Plan of Action)	Passed
BONDS BELOW INV GRADE (Policy K.08: retention documented in TIC minutes or written action plan)	Passed
MISSING INVESTMENT OBJECTIVE	Passed
UNAPPROVED HOLDINGS (Policy K.03, K.09: discretionary accts invested in TIC approved securities)	Passed
VARIANCE TO THE OBJECTIVE (Policy K.09)	Passed

1. INV-INT-OIM: Confirm existing investment objective and investment authority fields are accurately coded. *(Required)*

Coding is current.

*\* A comment is required if answered "Coding not current. Request submitted to Administrator to make necessary change(s). Provide name of Administrator and date of request:"*

2. INV-INT: Is the current portfolio adequately diversified based on investment objectives and investment plan? *(Required)*

Yes

*\* A comment is required if answered "No. Please explain:"*

3. INV-INT-OIM: Is there an Outside Investment Manager (OIM) involved? *(Required)*

No OIM involved.

*\* A comment is required if answered "OIM has not yet been approved. Please explain:" or "Yes. OIM has been approved by TIC and is on the Outside Managers Report, and the User-Defined Attribute field 'Remarks (BI/99-18) reflects OUT, as displayed on this review's Review Tab.'" or "Yes. OIM has been approved by TIC and is on the Outside Managers Report, yet the User-Defined Attribute field 'Remarks (BI/99-18) does NOT reflect OUT, as displayed on this review's Review Tab. I have requested the Administrator to update AddVantage BI/99-18 to reflect the OIM relationship."*

4. INV-INT-OIM: Based on the returns shown in the Account Performance section of this review, is there a variance of more than 200 bps +/- the benchmark for any of the time periods reflected? *(Required)*

Deviation less than 200bps.

*\* A comment is required if answered "Yes. Please provide the deviation amount and document the reason for the variance:"*

# Review Rules and Questions – Inv Rvw Examples (Continued)

UNAPPROVED  
HOLDINGS (Policy  
K.03, K.09:  
discretionary accts  
invested in TIC  
approved securities)

**IQ HEDGE MULTI-STRATEGY TRACKER ETF (MKT) (QAI-CUSIP- 45409B107) is not in security group:  
Approved List**  
**ISHARES IBONDS DEC 2026 TERM MUNI BD ETF (IBMO-CUSIP- 46435U259) is not in security group:  
Approved List**

AccountEvaluator Note    Standard Comments

Note:

- Client instructions or communications on file.
- Asset retention is due to low cost basis or similar concern. TIC approval of unapproved asset retention in this account is on file and documented in TIC minutes dated:
- Asset has been confirmed to be on the 'Approved List' for the month in which the review is being processed.
- Asset is ETF w/fee below 50bps, tracks widely accepted index, and does not use leverage.
- This is a unique asset(s).
- Preferred stock. Underlying company is NOT on approved list.
- Preferred stock. Underlying company is on approved list.
- Asset is managed externally and is appropriate for the OIM

Note

AccountEvaluator Note    Standard Comments

Note:

- Asset is ETF w/fee below 50bps, tracks widely accepted index, and does not use leverage.
- This is a unique asset(s).
- Preferred stock. Underlying company is NOT on approved list.
- Preferred stock. Underlying company is on approved list.
- Asset is managed externally and is appropriate for the OIM investment strategy.
- Other. Please explain condition and/or provide proposed resolution and estimated date of resolve:
- Resolution in process. Please explain and provide estimated date of resolve:
- Asset sold.

# Review Rules and Questions – Inv Rvw Examples

## (Continued)

VARIANCE TO THE  
OBJECTIVE (Policy K.09)

No Investment Objective for an Account defined or Allocation defined as per Rule is not comparable. – *or* –  
FIXED INCOME is 24.94%, which is 0.06% below its range of 25% - 45% in allocation: GROWTH WITH INCOME  
(Investment Objective)

Note

AccountEvaluator Note    Standard Comments

Note:

- Variance is due to unique asset(s) and/or is an ILIT account.
- Variance is due to client instructions or communications to hold asset, which are on file. Please identify asset(s) that apply:
- Variance is due to anticipated cash needs and/or cash holdings as directed by client.
- Variance is due to outdated Investment Objectives. I have notified Administrator to obtain updated investment objective and/or update value in Trust Accounting System.
- Investment Objective recalculated and Compliance notified to update InvView's Master Acct record via online service ticket. No variance exists now.
- Variance is due to blended and/or alternative investments.

Note

AccountEvaluator Note    Standard Comments

Note:

- Investment Objective recalculated and Compliance notified to update InvView's Master Acct record via online service ticket. No variance exists now.
- Variance is due to blended and/or alternative investments.
- Inv Obj is Safety of Principal based on the intent the account is to remain 100% in cash.
- Account(s) have an outside manager.
- Other. Please explain condition and/or provide proposed resolution and estimated date of resolve:
- Resolution in process. Please explain and provide estimated date of resolve:
- Accounts(s) rebalanced and below the 10% variance threshold as of the date of this review.

# Review Rules and Questions – Inv Rvw Examples

## (Continued)

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*Confirm existing investment objective and investment authority fields are accurately coded.*

- Coding not current. Request submitted to Administrator to make necessary change(s). Provide name and of Admin and date of request.
- Coding is current.

*Is the current portfolio adequately diversified based on investment objectives and investment plan?*

- No, please explain.
- Yes

# Review Rules and Questions – Admin Rvw Examples

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3. CIB: Does the account hold a Cash Intensive Business (CIB), such as a convenience store, check cashing business, etc., as an asset of the account? *(Required)*

No CIB held in account.

*\* A comment is required if answered "Yes - please provide type of business:"*

4. AML: Have you observed any activity since the account's last review that is questionable? Such as cash contributions, questionable new foreign bank wire requests, etc. *(Required)*

No unusual activity observed.

5. BSA: Is there a BSA Risk Assessment Form saved in the client file? *(Required)*

BSA Risk Assessment Form previously completed and saved in client file.

*\* A comment is required if answered "BSA Risk Assessment Form NOT located in client file but this has been completed and placed in client file. Please provide date completed:"*

6. BSA: I have reviewed the account's BSA risk rating, and it is still appropriate for the account. (BSA Risk Score can be viewed on the Review tab under User-Defined Attributes.) *(Required)*

Current BSA Risk Rating is still appropriate.

7. KYC: Is there a Trusted Contact Authorization Form on file? (Note: This is not a required form and the customer can choose whether to name someone or not.) *(Required)*

No - (If No - it is prudent when appropriate to provide the client with the opportunity to designate a trusted contact, with the understanding the customer may or may not opt to designate.)

# Review Rules and Questions – Non-Conforming Response Evaluation and Action

CIB (provide name of business)	AML (there is questionable activity)	BSA (no form in client file)
<p><b>** CONFIRM w/A.Rhodes she has this information **</b></p> <p>NO TASK &gt; if business name is providedd            if TYPE of BUSINESS is NOT identified:</p>		
<p><b>SUBJECT LINE:</b> (add acct number where =a/c#) <b>due: 1 week</b>            a/c# - ADMIN REVIEW TASK ASSIGNMENT ** FOLLOW-UP NECESSARY **</p>	NO TASK	NO TASK > RESPONSES WILL BE RETRIEVED FOR TESTING AT A LATER DATE
<p><b>DESCRIPTION FIELD:</b> (add free-form response where = **xxxx**)</p> <p>QUESTION: Does the account hold a Cash Intensive Business (CIB), such as a convenience store, check cashing business, etc., as an asset of the account?</p> <p>RESPONSE: Yes - please provide type of business:  <b>** xxxxxx **</b></p> <p>TASK ASSIGNMENT: Please provide type of business.</p> <p>FOLLOW-UP DOCUMENTATION &gt; ADD TO NOTE TAB</p>	<p>NO TASK</p> <p><b>** CONFIRM w/A.Rhodes she has this information &gt; call **</b></p>	NO TASK

# Review Rules and Questions – Non-Conforming Response Evaluation and Action (Continued)

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**NO TASK > if responded to #2 - Inv Obj has been updated**

***Task for response #1 (need to obtain from client)***

**SUBJECT LINE: (add acct number where=a/c#) due: 1 month**

**a/c# - ADMIN REVIEW TASK ASSIGNMENT \*\* FOLLOW-UP NECESSARY \*\***

**DESCRIPTION FIELD: (add free-form response where = \*\*xxxx\*\*)**

QUESTION: The account's Investment Objective has been reviewed and is accurately reflected in AddVantage.

RESPONSE: Current Inv Obj is not appropriate. Updated Inv Obj will be obtained from client and AddVantage updated. Approx ETA is:

**\*\* xxxxxx \*\***

TASK ASSIGNMENT: Obtain updated IPS/IO from client, update AddVantage and store in client file.

FOLLOW-UP DOCUMENTATION > ADD TO NOTE TAB



# Oversight/Committee Reporting: Unique to You

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- *Exceptions/Non-Conforming Review Response(s)*
- *Aged Reports*
- *Trend Analysis*
- *Follow-up*
- *Escalation Process*
- *Committee Reporting*



# Group Discussion

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Time to share:

- What are your pain points?
- What are you doing today that works well?
- What are you doing today that you'd like to improve - either in quality or efficiencies.

# Recommended Reference Materials

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<https://www.occ.gov/publications-and-resources/publications/comptrollers-handbook/files/personal-fiduciary-activities/pub-ch-personal-fiduciary.pdf>

<https://www.occ.treas.gov/news-issuances/bulletins/2008/bulletin-2008-10.html>

<https://www.fdic.gov/regulations/examinations/trustmanual/section-01/section-01.pdf>



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