



Administrative Account Reviews: *What is the Right Frequency*

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The Golden Rule

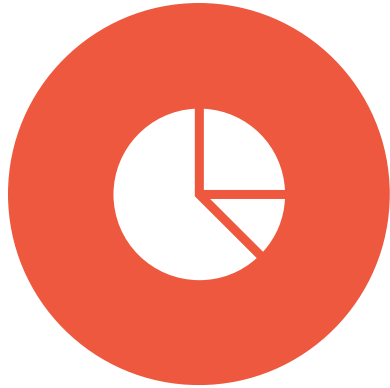
Annual Reviews of Fiduciary Accounts Pursuant to 12 CFR 9.6 (c)

Under the regulation, 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".

Annual/Periodic Administrative Account Reviews

An expected 'best practice' with room for interpretation.

How to Determine What is *Right*



DATA ANALYSIS BY RISK

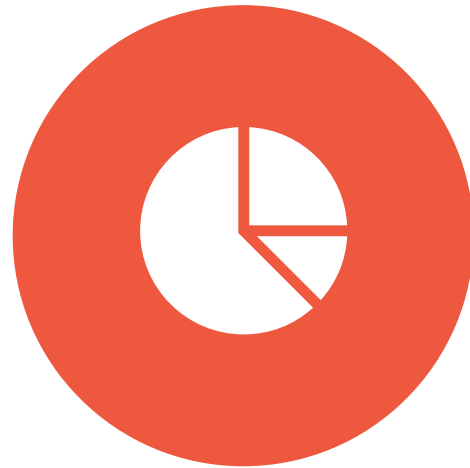


THROW A DART AND SEE
WHERE IT LANDS



SAVE TIME @ ALL COSTS

Data Analysis – Determine Your Risk



Data Analysis – What do YOU believe defines risk

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

Account's BSA Risk Rating

Data Analysis – What do YOU believe defines risk (Continued)

- 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 – You've determined your possible risk topics, now what

- 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.

Bulls Eye – Requires Practice



THROW A DART AND SEE
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Bulls Eye – If only.....

- 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 periodically (Avoid that silo)

Save Time – Yet Allocate Where Warranted



Save Time – Fewer periodic admin/acct reviews per year, means.....

- Administration has additional time to dedicate to a more thorough review as the periodic reviews cycle through their queue
- 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

Save Time – It can be a good thing

- Key: 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
- Take the win: Instead of placing more work due to regulatory requirements on the front line, this effort has the potential to free up some of their time (or at least the perception)

Risk Rule, Risk Score, Risk Rating, and Reporting

- 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 Score

Risk Category	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

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

Things to Consider:

- 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

Things to Consider (Continued):

- 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? It is up to YOU!!

