Introduction

The Uniform Interagency Trust Rating System (UITRS) is an internal supervisory examination rating system used by the federal banking agencies for evaluating the administration of trust and asset management activities of financial institutions and uninsured trust companies on a uniform basis and for identifying those institutions requiring special supervisory attention. The UITRS was revised and updated by the Federal Financial Institutions Examination Council. All the federal banking agencies adopted the new rating system that became effective on October 13, 1998. The OTS, in Transmittal TR-215, December 29, 1998 gave notice of its adoption of the updated rating system for all trust and asset management examinations commencing after January 1, 1999.

Under the UITRS, each institution is assigned a composite rating based on an evaluation and rating of the essential components of an institution's trust and asset management activities. The composite rating reflects the overall condition of an institution's trust and asset management activities and is used by the federal banking agencies to monitor aggregate trends. Each individual component rating, particularly the management component, emphasizes the quality of the institution's risk management and oversight system.
The UITRS considers certain managerial, operational, financial and compliance factors that are common to all institutions with trust and asset management activities. Under this system, the supervisory agencies endeavor to ensure that all institutions are evaluated in a comprehensive and uniform manner and that supervisory attention is appropriately focused on those institutions exhibiting weaknesses in their trust and asset management operations. Each rating area explicitly identifies the risk types that are considered in assigning ratings.

The UITRS requires trust and asset management earnings to be evaluated at all institutions. However, OTS will assign a rating for the earnings component only for those institutions that, at the time of the examination, have total trust department assets of more than $100 million or are a trust-only institution.

Overview of Trust Rating System

Under the UITRS, financial institutions are assigned a composite rating based on an evaluation and rating of five essential components of an institution's trust and asset management activities. These components address the following: the capability of management; the adequacy of operations, controls and audits; the quality and level of earnings; compliance with applicable law and fiduciary principles; and the management of trust department assets. Composite and component ratings are assigned based on a 1 to 5 numerical scale. A "1" is the highest rating and indicates strong performance, good risk management practices and the least degree of supervisory concern. A "5" is the lowest rating and indicates weak performance, poor risk management practices and, therefore, the highest degree of supervisory concern.

Evaluation of the composite and components considers the size and sophistication, the nature and complexity and the risk profile of the institution's trust and asset management activities. The composite rating generally bears a close relationship to the component ratings assigned. However, computing an arithmetic average of the component ratings does not derive the composite rating. Each component rating is based on a qualitative analysis of the factors comprising that component and its interrelationship with the other components. When assigning a composite rating, some components may be given more weight than others. In general, assignment of a composite rating may incorporate any factor that bears significantly on the overall administration of the financial institution's trust and asset management activities. Assigned composite and component ratings are disclosed to the institution's board of directors and senior management, typically in the trust and asset management examination report.

The ability of management to respond to changing circumstances and to address the risks that may arise from changing business conditions, or the initiation of new trust and asset management activities or products, is an important factor in establishing an institution's overall risk profile and the level of supervisory attention warranted. For this reason, the management component is given special consideration when assigning a composite rating. The ability of management to identify, measure, monitor and control the risks of its trust and asset management operations is also taken into account when assigning each component rating. It is recognized, however, that appropriate management practices may vary considerably among financial institutions, depending on the size, complexity and risk profiles of their trust and asset management activities. For less complex institutions engaged solely in traditional fiduciary activities and whose directors and senior managers are actively involved in the oversight and management of day-to-day operations, relatively basic management systems and controls may be adequate. On the other hand, at more complex institutions, detailed and formal management systems and controls are needed to address a broader range of activities and to provide senior managers and directors with the information they need to supervise day-to-day activities.

All institutions are expected to properly manage their risks. For less complex institutions engaging in less risky activities, detailed or highly formalized management systems and controls are not required to receive strong or satisfactory component or composite ratings.

Composite Ratings

The five composite ratings are defined as follows:

Composite 1

Trust and asset management activities are sound in every respect. Generally, all components are rated 1 or 2. Any weaknesses are minor and can be handled in a routine manner by management. The institution is in substantial compliance with applicable law. Risk management practices are strong relative to the size, complexity and risk profile of the institution's trust and asset management activities. Fiduciary activities are conducted in accordance with applicable law and fiduciary principles and give no cause for supervisory concern.

Composite 2

Trust and asset management activities are fundamentally sound. Generally, no component rating should be more severe than 3. Only moderate weaknesses are present and are well within management's capabilities and willingness to correct. Trust and asset management activities are conducted in substantial compliance with applicable law. Overall risk management practices are satisfactory relative to the institution's size, complexity and risk profile. There are no material supervisory concerns and, as a result, the supervisory oversight is informal and limited.

Composite 3

Trust and asset management activities exhibit some degree of supervisory concern in one or more of the component areas. A combination of weaknesses exists that may range from moderate to severe; however, the magnitude of the deficiencies generally does not cause a component to be rated more severely than 4. Management may lack the ability or willingness to effectively address weaknesses within appropriate timeframes. Additionally, there is significant noncompliance with applicable law. Risk management practices may be less than satisfactory relative to the institution's size, complexity and risk profile. While problems of relative significance may exist, they are not of such importance as to pose a threat to trust accounts generally or to the soundness of the institution. The institution's trust and asset management activities require more than normal supervision and may include formal or informal enforcement actions.

Composite 4

Trust and asset management activities generally exhibit unsafe and unsound practices or conditions, resulting in unsatisfactory performance. The problems range from severe to critically deficient and may be centered on inexperienced or inattentive management, weak or dangerous operating practices or an accumulation of unsatisfactory features of lesser importance. The weaknesses and problems are not being satisfactorily addressed or resolved by the board of directors and management. There may be significant noncompliance with applicable law. Risk management practices are generally unacceptable relative to the size, complexity, and risk profile of the trust and asset management activities. These problems pose a threat to trust accounts generally and, if left unchecked, could evolve into conditions that could cause significant losses to the institution and ultimately undermine the public confidence in the institution. Close supervisory attention is required, which means, in most cases, formal enforcement action is necessary to address the problems.

Composite 5

Trust and asset management activities are being conducted in an extremely unsafe and unsound manner and are critically deficient in numerous major respects. Problems result from incompetent or neglectful administration, flagrant and/ or repeated disregard for applicable law or a willful departure from fiduciary principles and practices. The volume and severity of problems are beyond management's ability or willingness to control or correct. Such conditions pose a serious threat to the trust and asset management accounts and may pose a serious threat to the soundness of the institution. Continuous close supervisory attention is warranted and may include termination of the institution's trust powers.

Component Ratings

Each of the component rating descriptions is divided into three sections: a narrative description of the component; a list of the principal factors used to evaluate that component; and a description of each numerical rating for that component. Some of the evaluation factors are reiterated under one or more of the other components to reinforce the interrelationship among components. The listing of evaluation factors is in no particular order of importance.

Management

This rating reflects the capability of the board of directors and management, in their respective roles, to identify and control the risks of an institution's trust and asset management activities. It also reflects their ability to ensure that the institution's trust and asset management activities are conducted in a safe and sound manner and in compliance with applicable law. Directors should provide clear guidance regarding acceptable risk exposure levels and ensure that appropriate policies, procedures and practices are established and followed. Senior management is responsible for developing and implementing policies, procedures and practices that translate the board's objectives and risk limits into prudent operating standards. Depending on the nature and scope of an institution's trust and asset management activities, management practices may need to address some or all of the following risks: reputation, operating or transaction, strategic, compliance, credit, market, liquidity and other risks. Sound management practices are demonstrated by: active oversight by the board of directors and management; hiring competent personnel; adopting and implementing adequate policies, processes and controls that consider the size and complexity of the institution's trust and asset management activities; and establishing effective risk monitoring and management information systems. This rating should reflect the board and management's ability as it applies to all aspects of trust and asset management activities in which the institution is involved. The management rating is based upon an assessment of the capability and performance of management and the board of directors, including, but not limited to, the following evaluation factors:

- the level and quality of oversight and support of trust and asset management activities by the board of directors and management, including committee structure and adequate documentation of committee actions;
- the ability of the board of directors and management, in their respective roles, to plan for, and respond to, risks that may arise from changing business conditions or the introduction of new activities or products;
- the adequacies of, and conformance with, appropriate internal policies, practices and controls that address the risks associated with trust and asset management activities;
- the accuracy, timeliness and effectiveness of management information and risk monitoring systems appropriate for the institution's size, complexity, and trust and asset management risk profile;
- the overall level of compliance with applicable law and fiduciary principles;
- responsiveness to recommendations from auditors and regulatory authorities;
- strategic planning for trust and asset management products and services;
- the level of experience and competence of management and staff, including issues relating to turnover and succession planning;
- the adequacy of insurance coverage;
- the availability of competent legal counsel;
- the extent and nature of pending litigation associated with trust and asset management activities and its potential impact on earnings, capital and the institution's reputation; and
- the process for identifying and responding to customer complaints.

A *rating of 1* indicates strong performance by management and the board of directors and strong risk management practices relative to the size, complexity and risk profile of the institution's trust and asset management activities. All significant risks are consistently and effectively identified and controlled. Management and the board are proactive, and have demonstrated the ability to promptly and successfully address existing and potential problems and risks.

A *rating of 2* indicates satisfactory management and board performance as well as risk management practices relative to the size, complexity and risk profile of the institution's trust and asset management activities. Moderate weaknesses may exist but are not material to the sound administration of trust and asset management activities and are being addressed. In general, significant risks and problems are effectively identified, measured, monitored and controlled.

A *rating of 3* indicates management and board performance that needs improvement or risk management practices that are less than satisfactory given the nature of the institution's trust and asset management activities. The capabilities of management or the board of directors may be insufficient for the size, complexity and risk profile of the institution's trust and asset management activities. Problems and significant risks may be inadequately identified, measured, monitored and/or controlled.

A *rating of 4* indicates deficient management and board performance or risk management practices that are inadequate considering the size, complexity and risk profile of the institution's trust and asset management activities. The level of problems and risk exposure is excessive. Problems and significant risks are inadequately identified, measured, monitored and/or controlled and require immediate action by the board and management to protect the assets of trust accounts and to prevent erosion of public confidence in the institution. Replacing or strengthening management or the board may be necessary.

A *rating of 5* indicates critically deficient management and board performance or risk management practices. Management and the board of directors have not demonstrated the ability to correct problems and implement appropriate risk management practices. Problems and significant risks are inadequately identified, measured, monitored and/or controlled and now pose a threat to the safety of the trust and asset management account assets and ultimately may threaten the continued viability of the institution. Replacing or strengthening management or the board of directors is necessary.

Operations, Internal Controls & Auditing

This rating reflects the adequacy of the institution's trust and asset management operating systems and internal controls in relation to the volume and nature of the trust and asset management activities conducted. Audit coverage must assure the integrity of the financial records, the sufficiency of internal controls and the adequacy of the compliance process. The institution's trust and asset management operating systems, internal controls and audit function subject it primarily to transaction and compliance risk. Other risks may also be present, including reputation, strategic and financial risk. The ability of management to identify and control these risks is reflected in this rating. The operations, internal controls and auditing rating is based upon, but not limited to, an assessment of the following evaluation factors:

- Operations and internal controls, including the adequacy of: staff, facilities and operating systems; record, accounting and data processing systems (including controls over system access and accounting procedures such as aging, investigation and disposition of items in suspense accounts); trading functions and securities lending activities; vault controls and securities movement; segregation of duties; controls over disbursements (checks or electronic); controls over unissued checks; controls over income processing activities; reconciliation processes (depository, cash, vault, subcustodians, suspense accounts, etc.); disaster and/or business recovery programs; hold-mail procedures and controls over returned mail; and proper escheatment of funds.
- Auditing, including: the independence, frequency, quality and scope of the internal and external audit function relative to the volume, character and risk profile of the institution's activities; the volume and/or severity of internal control and audit exceptions and the extent to which these issues are tracked and resolved; and the experience and competence of the audit staff.

A *rating of 1* indicates that operations, internal controls and auditing are strong in relation to the volume and character of the institution's trust and asset management activities. All significant risks are consistently and effectively identified, measured, monitored and controlled.

A *rating of 2* indicates that operations, internal controls and auditing are satisfactory in relation to the volume and character of the institution's trust and asset management activities. Moderate weaknesses may exist, but are not material. Significant risks, in general, are effectively identified, measured, monitored and controlled.

A *rating of 3* indicates that operations, internal controls or auditing need improvement in relation to the volume and character of the institution's trust and asset management activities. One or more of these areas are less than satisfactory. Problems and significant risks may be inadequately identified, measured, monitored and/or controlled.

A *rating of 4* indicates deficient operations, internal controls or audits. One or more of these areas are inadequate or the level of problems and risk exposure is excessive in relation to the volume and character of the institution's trust and asset management activities. Problems and significant risks are inadequately identified, measured, monitored and/or controlled and require immediate action. Institutions with this level of deficiencies may make little provision for audits or may evidence weak or potentially dangerous operating practices in combination with infrequent or inadequate audits.

A *rating of 5* indicates critically deficient operations, internal controls or audits. Operating practices, with or without audits, pose a serious threat to the safety of trust and asset management accounts. Problems and significant risks are inadequately identified, measured, monitored and/or controlled and now threaten the ability of the institution to continue engaging in trust and asset management activities.

Earnings

This rating reflects the profitability of an institution's trust and asset management activities and its effect on the financial condition of the institution. The use and adequacy of budget and earning projections by function, product lines and clients are reviewed and evaluated. Risk exposure that may lead to negative earnings is also evaluated. An evaluation of earnings is required for all institutions with trust and asset management activities. An assignment of an earnings rating, however, is required only for institutions that, at the time of the examination, have total trust department assets of more than $100 million or are a trust-only institution. For institutions where the assignment of an earnings rating is not required by the UITRS, each federal banking agency has the option to assign an alternative earnings rating. It is OTS's policy to assign a rating to only those trust department with more than $100 million or are a trust-only institution. The definitions for the alternate ratings are included in the revised UITRS.

The evaluation of earnings is based upon, but not limited to, an assessment of the following factors:

- the profitability of trust and asset management activities in relation to the size and scope of these activities and to the overall business of the institution;
- the overall importance to the institution of offering trust and asset management services to its customers and local community; and
- the effectiveness of the institution's procedures for monitoring trust and asset management activity's income and expenses relative to the size and scope of the activities and their relative importance to the institution, including the frequency and scope of profitability reviews and planning by the institution's board of directors or a committee thereof.

For those institutions for which a rating of earnings is mandatory, additional factors should include the following:

- the level and consistency of profitability, or the lack thereof, generated by the institution's trust and asset management activities in relation to the volume and character of the institution's business and the impact on the institution's level of capital;
- dependence upon nonrecurring fees and commissions, such as fees for court accounts;

- the effects of charge-offs or compromise actions;
- unusual features regarding the composition of business and fee schedules;
- accounting practices that contain practices such as (1) unusual methods of allocating direct and indirect expenses and overhead or (2) unusual methods of allocating trust and asset management income and expense where two or more institutions within the same holding company share services and/or processing functions;
- the extent of management's use of budgets, projections and other cost analysis procedures;
- methods used for directors' approval of financial budgets and/or projections;
- management's attitude toward growth and new business development; and
- new business development efforts, including types of business solicited, market potential, advertising, competition, relationships with local organizations and an evaluation by management of risk potential inherent in new business areas.

A *rating of 1* indicates strong earnings. The institution consistently earns a rate of return on its trust and asset management activities that is commensurate with the risk of those activities. This rating would normally be supported by a history of consistent profitability over time and a judgment that future earnings prospects are favorable. In addition, management techniques for evaluating and monitoring earnings performance are fully adequate and there is appropriate oversight by the institution's board of directors or a committee thereof. Management makes effective use of budgets and cost analysis procedures. Methods used for reporting earnings information to the board of directors, or a committee thereof, is comprehensive.

A *rating of 2* indicates satisfactory earnings. Although the earnings record may exhibit some weaknesses, earnings performance does not pose a risk to the overall institution nor to its ability to meet its obligations. Generally, trust and asset management earnings meet management targets and appear to be sustainable. Management processes for evaluating and monitoring earnings are generally sufficient in relationship to the size and risk of trust and asset management activities that exist and any deficiencies can be addressed in the normal course of business. A rating of 2 may also be assigned to institutions with a history of profitable operations if there are indications that management is engaging in activities with which it is not familiar or where there may be inordinately high levels of risk present that have not been adequately evaluated. Alternatively, an institution with an otherwise strong earnings performance may also be assigned a 2 rating if there are significant deficiencies in its methods used to monitor and evaluate earnings.

A *rating of 3* indicates less than satisfactory earnings. Earnings are not commensurate with the risk associated with trust and asset management activities. Earnings may be erratic or exhibit downward trends and future prospects are unfavorable. This rating may also be assigned if the processes management uses for evaluating and monitoring earnings exhibit serious deficiencies. However, the deficiencies identified must not pose an immediate danger to either the overall financial condition of the institution or its ability to meet its trust and asset management obligations.

A *rating of 4* indicates earnings that are seriously deficient. Trust and asset management activities have a significant adverse effect on the overall income of the institution and its ability to generate adequate capital to support the continued operation of these activities. Trust and asset management earnings that are poor historically or face the prospect of significant losses in the future characterize the institution. Management processes for monitoring and evaluating earnings are poor. The board of directors has not adopted appropriate measures to address significant deficiencies.

A *rating of 5* indicates critically deficient earnings. In general, an institution with this rating is experiencing losses from trust and asset management activities that have a significant negative impact on the overall institution, representing a distinct threat to its viability through the erosion of its capital. The board of directors has not implemented effective actions to address the situation.

Alternate Rating of Earnings

Alternate ratings are assigned based on the level of implementation of four minimum standards by the board of directors and management. These standards are:

- *Standard No. 1* - The institution has reasonable methods for measuring income and expense commensurate with the volume and nature of trust and asset management activities.
- *Standard No. 2* - The level of profitability is reported to the board of directors, or a committee thereof, at least annually.
- *Standard No. 3* - The board of directors periodically determines that the continued offering of trust and asset management activities being offered provide an essential service to the institution's customers or to the local community.
- *Standard No. 4* - The board of directors, or a committee thereof, reviews the justification for the institution to continue to engage in trust and asset management activities even if the institution does not earn sufficient income to cover the expenses of providing those services.

A *rating of 1* may be assigned where an institution has implemented all four minimum standards. If trust and asset management earnings are lacking, management views this as a cost of doing business as a full service institution and believes that the negative effects of not offering trust and asset management activities are more significant than the net loss experienced by engaging in these activities.

A *rating of 2* may be assigned where an institution has implemented, at a minimum, at least three of the four standards. This rating may be assigned if the institution has not yet begun generating positive earnings or where formal earnings information may not be available.

A *rating of 3* may be assigned if the institution has implemented at least two of the four standards. While management may have attempted to identify and quantify other revenue to be earned by offering trust and asset management services, it has decided that these services should continue to be offered, even if they cannot be operated profitably.

A *rating of 4* may be assigned if the institution has implemented only one of the four standards. Management has undertaken little or no effort to identify or quantify the advantages, if any, to the institution from engaging in trust and asset management activities.

A *rating of 5* may be assigned if the institution has implemented none of the standards.

Compliance

This rating reflects an institution's overall compliance with applicable law, accepted standards of fiduciary conduct, duties associated with account administration, internally established policies and procedures, as well as OTS policies. This component specifically incorporates an assessment of a fiduciary's compliance with applicable law and accepted standards of fiduciary conduct related to self-dealing and other conflicts of interest. The compliance component includes reviewing and evaluating the adequacy and soundness of adopted policies, procedures and practices generally, and as they relate to specific transactions and accounts. It also includes reviewing policies, procedures and practices to evaluate the sensitivity of management and the board of directors to identify and manage conflicts of interest. Risks associated with account administration are potentially unlimited because each account is a separate contractual relationship that contains specific obligations. Risks associated with account administration include: failure to comply with applicable law; inadequate account administration practices; inexperienced management; or inadequately trained staff. Risks associated with a fiduciary's duty of undivided loyalty generally stem from engaging in self-dealing or other conflict of interest transactions. An institution may be exposed to compliance, strategic, financial or reputation risk related to account administration and conflicts of interest activities. The ability of management to identify and control these risks is reflected in this rating. Policies, procedures and practices pertaining to account administration are evaluated in light of the size and character of an institution's trust and asset management business. The compliance rating is based upon, but not limited to, an assessment of the following evaluation factors:

- compliance with applicable federal and state statutes and regulations, including, but not limited to, federal and state trust and fiduciary laws; the Employee Retirement Income Security Act of 1974; federal and state securities laws; the Internal Revenue Code of 1986 and OTS policies;
- compliance with the terms of governing instruments;
- the adequacy of overall policies, practices and procedures governing compliance, considering the size, complexity and risk profile of the institution's trust and asset management activities;
- the adequacy of policies and procedures addressing account administration;
- the adequacy of policies and procedures addressing conflicts of interest;
- the adequacy of policies and procedures designed to prevent the improper use of ‘‘material inside information’’;
- the adequacy of securities trading policies and practices relating to the allocation of brokerage business, the payment of services with ‘‘soft dollars’’ and the combining, crossing and timing of trades;
- the decision making process used to accept, review and terminate accounts; and
- the decision making process related to account administration duties, including cash balances, overdrafts and discretionary distributions.

A *rating of 1* indicates strong compliance policies, procedures and practices. Policies and procedures covering conflicts of interest and account administration are appropriate in relation to the size and complexity of the institution's trust and asset management activities. Accounts are administered in accordance with applicable law, fiduciary principles and internal policies and procedures. Any violations are isolated, technical in nature and easily correctable. All significant risks are consistently and effectively identified, measured, monitored and controlled.

A *rating of 2* indicates fundamentally sound compliance policies, procedures and practices in relation to the size and complexity of the institution's trust and asset management activities. Account administration may be flawed by moderate weaknesses in policies, procedures and/or practices. Management's practices indicate a determination to identify and manage conflicts of interest. Trust and asset management activities are conducted in substantial compliance with applicable law and fiduciary principles and any violations are generally technical in nature. Management corrects violations in a timely manner and without loss to trust and asset management accounts. Significant risks are effectively identified, measured, monitored and controlled.

A *rating of 3* indicates compliance practices that are less than satisfactory in relation to the size and complexity of the institution's trust and asset management activities. Policies, procedures and practices have not proven effective and require strengthening. Trust and asset management activities may be in substantial noncompliance with applicable law and fiduciary principles but losses are no worse than minimal. While management may have the ability to achieve compliance, the number of violations that exist and/or the failure to correct prior violations, are indications that management has not devoted sufficient time and attention to its compliance responsibilities. Risk management practices generally need improvement.

A *rating of 4* indicates an institution with deficient compliance practices in relation to the size and complexity of its trust and asset management activities. Account administration is notably deficient. The institution makes little or no effort to minimize potential conflicts or refrain from self-dealing and is confronted with a considerable number of potential or actual conflicts. Numerous substantive and technical violations of applicable law and fiduciary principles exist and many may remain uncorrected from previous examinations. Management has not exerted sufficient effort to effect compliance and may lack the ability to effectively engage in trust and asset management activities. The level of compliance problems is significant and, if left unchecked, may subject the institution to monetary losses or reputation risk. Risks are inadequately identified, measured, monitored and controlled.

A *rating of 5* indicates critically deficient compliance practices. Account administration is critically deficient or incompetent. There are repeated violations of applicable law and significant departures from fiduciary principles. Management is unwilling or unable to operate in accordance with its responsibilities and efforts to obtain voluntary compliance have been unsuccessful. The severity of noncompliance presents an imminent monetary threat to trust and asset management accounts and creates significant legal and financial exposure to the institution. Problems and significant risks are inadequately identified, measured, monitored and/or controlled and now threaten the ability of management to continue engaging in trust and asset management activities.

Asset Management

This rating reflects the risks associated with managing the assets (including cash) of others. Prudent portfolio management is based on an assessment of the needs and objectives of each account for which the institution has investment discretion. An evaluation of asset management should consider the adequacy of processes related to the investment of all discretionary accounts, common and collective investment funds, proprietary mutual funds and other investment vehicles. The institution's asset management duties in regards to its trust and asset management accounts subject it to reputation, compliance and strategic risks. In addition, each individual account or portfolio managed by the institution is subject to financial risks such as market, credit, liquidity and interest rate risk, as well as transaction and compliance risk. The ability of management to identify and control these risks is reflected in this rating. The asset management rating is based upon, but not limited to, an assessment of the following evaluation factors:

- the adequacy of overall policies, practices and procedures governing asset management, considering the size, complexity and risk profile of the institution's discretionary accounts;
- the decision-making processes used for selection, retention and preservation of discretionary account investments including adequacy of documentation, committee review and approval, and a system to review and approve exceptions;
- the use of quantitative tools to measure the various financial risks in investment account portfolios;
- the existence of policies and procedures addressing the use of derivatives or other complex investment products;
- the adequacy of procedures related to the purchase and retention of miscellaneous assets including real estate, closely held companies, limited partnerships, mineral interests and other unique assets;
- the extent and adequacy of periodic reviews of investment performance, taking into consideration the needs and objectives of each account;
- the monitoring of changes in the composition of discretionary fiduciary assets for trends and related risk exposure;
- the quality of investment research used in the decision-making process and documentation of the research;
- the due diligence process for evaluating investment advice received from vendors and/or brokers (including approved or focus lists of securities); and
- the due diligence process for reviewing and approving brokers and/or counter parties used by the institution.

This rating may not be applicable for some institutions because their operations do not include activities involving the management of any discretionary assets. Activities of this type would include, but not necessarily be limited to, directed agency relationships, securities clearing, transfer agent or securities registrar activities. In institutions that do not have any discretionary assets, the examiner in charge may omit the rating for asset management. However, this component should be assigned when the institution provides investment advice, even though it does not have discretion over the account assets.

A *rating of 1* indicates strong asset management practices. Identified weaknesses are minor in nature. Risk exposure is modest in relation to management's abilities and the size and complexity of the assets managed.

A *rating of 2* indicates satisfactory asset management practices. Moderate weaknesses are present and are well within management's ability and willingness to correct. Risk exposure is commensurate with management's abilities and the size and complexity of the assets managed.

A *rating of 3* indicates that asset management practices are less than satisfactory in relation to the size and complexity of the assets managed. Weaknesses may range from moderate to severe; however, they are not of such significance as to generally pose a threat to the interests of the trust and asset management accounts. Asset management and risk management practices generally need to be improved. An elevated level of supervision is normally required.

A *rating of 4* indicates deficient asset management practices in relation to the size and complexity of the assets managed. The levels of risk are significant and inadequately controlled. The problems pose a threat to the trust and asset management accounts generally, and if left unchecked, may subject the institution to losses and could undermine the reputation of the institution.

A *rating of 5* represents critically deficient asset management practices. These practices jeopardize the interests of the trust and asset management accounts, subject the institution to losses and may pose a threat to the soundness of the institution.