
Miscellaneous Assets Examination Program

Examination Objectives

To determine the adequacy and/or effectiveness of the trust department's administration of miscellaneous assets. Consider whether:

- management has a full understanding of the risks and responsibilities associated with miscellaneous assets;
- management has adopted policies and procedures and effected sound internal controls for the acceptance, acquisition, maintenance, disposal and administration of miscellaneous assets;
- adequate expertise is available to administer miscellaneous assets;
- policies and procedures are in place to ensure compliance with governing instruments, applicable law and accepted fiduciary principles; and
- deficiencies are identified and corrective action is promptly initiated.

Examination Procedures

Wkp. Ref.

Level I

Level I procedures first focus on a review of the examination scoping materials. The next step consists of interviews with trust department personnel to confirm their qualifications and levels of expertise; to determine if the trust department's practices conform to written guidelines; to establish whether any significant changes in personnel, operations or business practices have occurred; or whether the new products and/or services have been introduced. If items of concern are uncovered during Level I procedures or if problems are identified during the preexamination monitoring and scoping; the examiner may need to perform particular Level II procedures.

1. Review examination scoping materials related to the selection and oversight process for miscellaneous assets. Scoping material should include:
 - Risk profile
 - Relevant PERK documents
 - Previous trust and asset management examination report

Exam Date: _____
Prepared By: _____
Reviewed By: _____
Docket #: _____

Page 1 of 10

Miscellaneous Assets Examination Program

Wkp. Ref.

- Workpapers from the previous examination
- Previous safety and soundness examination report
- Examination reports of subordinate, functionally regulated entities
- Board and other appropriate committee minutes

2. Evaluate the policies, procedures and practices related to miscellaneous assets. Note any significant changes. Consider:

- how compliance with applicable law, accepted fiduciary principles, governing instruments and policy is ensured;
- the process and criteria, by which miscellaneous assets are accepted, selected and approved;
- the documentation required to support the administration of each type of miscellaneous asset, including valuation;
- the use of outsourcing arrangements to manage or administer miscellaneous assets;
- the use of custodial arrangements and access controls; and
- how exceptions to policy and defined authority levels are handled.

3. Evaluate whether management and staff have the knowledge and expertise to administer miscellaneous assets. Note any personnel and/or organizational changes.

4. If miscellaneous asset administration is outsourced to third parties, assess the selection and oversight process.

Exam Date: _____
Prepared By: _____
Reviewed By: _____
Docket #: _____

Miscellaneous Assets Examination Program

Wkp. Ref.

5. Review custodial arrangements and access controls for miscellaneous assets. Assess if they are adequate. Confirm that the assets, custodial arrangements and access controls are subject to audit.

-
6. Consider whether the following risk contributors (if applicable) have been addressed:
- Does management anticipate and respond well to market and technological changes?
 - Are management information reports comprehensive and credible?
 - Does management satisfactorily review and assess exceptions to policy?
 - Does management quickly identify weaknesses and take appropriate action?
 - The correction of material issues noted in audit, compliance or examination reports.

7. Are there adequate acceptance policies and procedures for determining if new accounts contain securities that are worthless? Do the policies and procedures detail how that determination is to be made?

The completion of the Level I procedures may provide sufficient information to make a determination that no further examination procedures are necessary. If no determination can be made, proceed to Level II.

Level II

Level II procedures focus on an analysis of trust department documents such as reports and outsourcing contracts. The examiner should complete the appropriate Level II procedures when the completion of the Level I procedures does not reveal adequate information on which to base a conclusion that the trust department meets the examination objectives. Neither the Level I nor the Level II procedures include any significant verification procedures.

Exam Date: _____
Prepared By: _____
Reviewed By: _____
Docket #: _____

Page 3 of 10

Miscellaneous Assets Examination Program

Wkp. Ref.

1. If miscellaneous asset administration is outsourced to third parties:
 - Review management's due diligence documentation for the selection process.
 - Review the duties and responsibilities of the respective parties as set forth in a written agreement. Is the third party performing according to the agreement?
 - Is the cost appropriate considering the third parties performance?

2. If there are unresolved exceptions from internal or external audit reports, compliance reports or examination reports, determine why. Evaluate management's plan for correction.

3. Review and verify the accuracy of any applicable management exception report.

4. Review the miscellaneous asset holding list and note if the trust department, through all of its accounts, tends to have concentrations of any particular type of miscellaneous asset. Determine if this presents a risk to the savings association.

5. Note if any trust department accounts contain unsecured loans. Did management consider the creditworthiness of the borrower?

6. Evaluate management's controls for accepting unsecured loans. Are the tickler systems adequate to monitor payments, appraisals, inspections and insurance?

Exam Date: _____
Prepared By: _____
Reviewed By: _____
Docket #: _____

Page 4 of 10

Miscellaneous Assets Examination Program

Wkp. Ref.

7. Does the trust department accept tangible assets, such as art, coins, stamps, precious stones, etc.? Is there proper storage space to maintain these assets?

8. Does the trust department accept partnerships? If so, what type? If limited partnerships are accepted, determine how and how often they are valued.

9. If accepted, how does management handle restricted securities, private placements, options, futures, forwards or repurchase agreements?

10. If necessary to validate an assertion, finding or concern arising from the completion of the Level I and II procedures, judgmentally select a limited number of accounts for review considering the degree of risk to the institution. Not all types of accounts need to be reviewed to arrive at a well-founded conclusion.

If the examiner cannot rely on the trust and asset management Level I or Level II procedures, or data contained in department records or internal or external audit reports; proceed to Level III.

Level III

Level III procedures include verification procedures that auditors usually perform. Although certain situations may require that Level III procedures be completed, it is not the standard practice of Office of Thrift Supervision (OTS) examination staff to duplicate or substitute for the testing performed by auditors.

1. Select a sample of discretionary accounts containing different types of miscellaneous assets for review. Determine the reason for holding and whether the assets are suitable for the accounts. Consider the following:

Exam Date: _____
Prepared By: _____
Reviewed By: _____
Docket #: _____

Page 5 of 10

Miscellaneous Assets Examination Program

Wkp. Ref.

- documentation to support the acceptance, purchase, ongoing analysis and retention of miscellaneous assets considering the accounts' investment objective, risk tolerance, liquidity needs and tax implications;
- management and staff are qualified to monitor and evaluate miscellaneous assets;
- the purchase or retention of miscellaneous assets is in compliance with the governing instrument and applicable law;
- management information systems have adequate tickler systems;
- all income, expenses and other activities associated with miscellaneous assets are promptly and accurately recorded; and
- whether controls and safeguards over miscellaneous assets (i.e., works of art or antiques) are adequate.

2. Select a sample of directed accounts to review. Determine that current directions and authorizations are on file.

3. Compare the results or deficiencies noted with the findings of the audit/compliance reviews. Determine the reasons for any inconsistencies or discrepancy.

4. Determine if restricted securities are administered in accordance with SEC Rule 144. Test accounts for compliance.

5. Determine if any options, repurchase agreements or similar assets are subject to trading restrictions. If so, are they earmarked and properly controlled on ledgers for identification and monitoring? Determine if particular accounts have any dollar volume, position limits or other restrictions and limitations.

Exam Date: _____

Prepared By: _____

Reviewed By: _____

Docket #: _____

Page 6 of 10

**Miscellaneous Assets Examination
Program**

Examiner's UITRS Rating, Summary, Conclusions and Recommendations:

References - 860P

Laws

ERISA
Securities Act of 1933 Section 4(2)

Code of Federal Regulations

12 CFR 550.240 Trust Powers
12 CFR 550.260 Investment of Funds Held as Fiduciary

Office of Thrift Supervision Publications

Other

Scott on Trusts, 3rd Edition
Bogert and Bogert, Trust and Trustees, 2nd Ed.
Restatement (Second and Third) of Trusts

Workpaper Attachments - 860P

Exam Date: _____
Prepared By: _____
Reviewed By: _____
Docket #: _____

Miscellaneous Assets Examination Program

Optional Topic Questions

The following list of questions is offered merely as a tool and reference for the examiner and is not a required part of the examination process.

<i>Policies and Procedures</i>
<ul style="list-style-type: none">• Are the policies reviewed and approved by the board of directors?
<ul style="list-style-type: none">• Is there sufficient knowledge and expertise available to properly and prudently administer these assets?
<ul style="list-style-type: none">• Do the policies address the purchase, sale and retention of the following types of miscellaneous assets:<ul style="list-style-type: none">• Loans• Tangible assets• Partnership interests• Worthless securities• Restricted securities• Private placements• Options, futures, repurchase agreements and other similar assets• Any other miscellaneous assets held

Acceptance and/or Purchase

<ul style="list-style-type: none">• Are prospective acquisitions reviewed to determine the nature of the responsibilities to be performed and if sufficient administrative and operational expertise exists or is available?
<ul style="list-style-type: none">• When these assets are received (either in kind or by purchase), does the department take such steps as are necessary to establish ownership?
<ul style="list-style-type: none">• Is the decision to purchase, retain or sell consistent with the needs and objectives of the individual account?
<ul style="list-style-type: none">• Is the purchase, retention or sale clearly authorized by the governing instrument, applicable law or written authorization?

Loans secured by assets other than real estate

Ensure appropriate factors are considered in making an investment decision. Do they include:
<ul style="list-style-type: none">• Provisions of the governing instruments?
<ul style="list-style-type: none">• Acceptability and marketability of collateral?

Exam Date: _____
Prepared By: _____
Reviewed By: _____
Docket #: _____

Miscellaneous Assets Examination Program

- | |
|--|
| <ul style="list-style-type: none">• Collateral value to loan ratio? |
| <ul style="list-style-type: none">• Credit worthiness of the borrower? |

Administration of loans

Are the following practices and procedures in place:

- | |
|---|
| <ul style="list-style-type: none">• Tickler systems adequate to assure prompt payment. |
| <ul style="list-style-type: none">• Procedures adequate to address the handling of delinquent loans. Are they followed? |
| <ul style="list-style-type: none">• Is collateral subject to periodic valuation, appraisal or inspection? |
| <ul style="list-style-type: none">• Is there sufficient collateral value to protect the savings association's interest? |
| <ul style="list-style-type: none">• Necessary steps are taken to comply with any UCC or state law requirements regarding the filing and perfection of security interests? |

Administration of tangible assets

Are the following practices and procedures in place:

- | |
|--|
| <ul style="list-style-type: none">• Proper control, storage, authentication and insurance? |
| <ul style="list-style-type: none">• Appraisals or valuations conducted periodically or when necessary? |

Management of worthless securities

Are the following practices and procedures in place:

- | |
|---|
| <ul style="list-style-type: none">• The savings association has taken reasonable steps to ascertain the value of such securities? |
| <ul style="list-style-type: none">• The securities are identified and maintained under proper accounting controls? |

Options, futures, repurchase agreements

Are they subject to written policies and procedures which address the following:

- | |
|---|
| <ul style="list-style-type: none">• Steps for determining whether the investment is in accordance with applicable law? |
| <ul style="list-style-type: none">• Dollar volume, position limits or other restrictions and limitations of the investment for particular accounts? |
| <ul style="list-style-type: none">• Methods of reporting and approving the transaction? |
| <ul style="list-style-type: none">• Accounting and record keeping practices? |
| <ul style="list-style-type: none">• Auditing and other internal control safeguards? |

Other

- | |
|---|
| <ul style="list-style-type: none">• Are any restricted securities administered in accordance with SEC Rule 144? |
|---|

Exam Date: _____

Prepared By: _____

Reviewed By: _____

Docket #: _____

Page 9 of 10

Miscellaneous Assets Examination Program

Wkp. Ref.

- | |
|---|
| <ul style="list-style-type: none">• Are investments in private placements analyzed and evaluated in accordance with the given restrictions? |
| <ul style="list-style-type: none">• Are options, repurchase agreements or similar assets subject to any trading restrictions, specifically identified and properly controlled on the savings association's ledgers? |

Exam Date: _____
Prepared By: _____
Reviewed By: _____
Docket #: _____

Page 10 of 10