
Retail Nondeposit Investment Sales

Internal Control Questionnaire

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Program Management

1. Has the bank's board of directors adopted a program management statement that addresses:
 - ! The features of the sales program?
 - ! The associated risks?
 - ! The roles of bank employees?
 - ! The roles of third party entities?
2. Do the bank's policies address the following issues:
 - ! Program objectives?
 - ! Strategies to be employed to achieve objectives?
 - ! Supervision of personnel involved in nondeposit investment sales programs?
 - ! Supervisory responsibilities of third party vendors who are selling on bank premises?
 - ! Selection of the products the bank will sell?
 - ! Permissible uses of bank customer information?
 - ! Communications with customers?
 - ! The setting and circumstances of nondeposit product sales?
 - ! Disclosures and advertising?
 - ! Suitability of recommendations?
 - ! Employee qualifications and training?
 - ! Employee compensation systems?
 - ! A compliance program?
3. Do written supervisory procedures assign a manager the responsibility for:
 - ! Reviewing and authorizing each sale?
 - ! Accepting each new account?
 - ! Reviewing and authorizing all sales- or account-related correspondence with customers?
 - ! Reviewing and authorizing all advertising and promotional materials prior to use?

4. Does the bank use written job descriptions to assign management responsibilities?
5. Do policies and procedures for personnel who are not directly involved in nondeposit investment product sales detail what the employees may say and not say about investment products?

Product Selection

6. Does the bank select the products to be offered?
7. If so, does the selection process make use of predetermined criteria that consider the customers' needs?
8. Does a qualified committee or an analyst who is independent of the sales function make the product selections?
9. If the bank uses outside consultants to help select products, does bank management determine if the consultant receives compensation from product issuers or wholesalers?
10. If the product selection analysis is performed by another party, such as a clearing broker or third party vendor, does bank management understand and agree with the analysis method?
11. Does the bank conduct continuing reviews of product offerings to assure that they remain acceptable and are such reviews done at least annually?
12. Does bank management consider, as part of the selection process, the product issuer's contingency plans for dealing with unusual surges in redemptions?

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13. Are these contingency plans based on various market scenarios? sold only at locations distinct from where deposits are accepted?
14. Do the contingency plans include:
! Emergency staffing?
! Additional communications capabilities?
! Enhanced operational support?
15. Does the analysis of fixed and variable rate annuities include a determination of the credit quality of the issuing insurance company?
16. Does the analysis of fixed and variable rate annuities include determining whether the issuing insurance company can sell or simply transfer the annuity contract to another insurance company?
20. Are sales locations distinguished by use of:
! Separate desks?
! Distinguishing partitions, railings, or planters?
! Signs?
21. If personnel both accept deposits and sell nondeposit investment products, do operating procedures address safeguards to prevent possible customer confusion?
22. Are the people who sell nondeposit investment products distinguished from people who accept deposits by such means as:
! Name tags or badges?
! Business cards?

Use of Customer Information

17. Do written policies concerning the use of information about bank customers address:
! The minimum standards or criteria for identifying a customer for solicitation?
! Acceptable calling times?
! The number of times a customer may be called?
! The steps to be taken to avoid confusing depositors about the nature of the products being offered?
23. Do operating procedures prohibit tellers from offering investment advice, making sales recommendations, or discussing the merits of any nondeposit investment product with customers?
24. Does the bank offer nondeposit investment products with product names that are *not*:
! Identical to the bank's name?
! Similar to a deposit product?
(Example: XYZ Money Market Fund vs. XYZ Money Market Account.)

Setting and Circumstances of Nondeposit Sales

18. Has a bank officer been assigned responsibility for reviewing all current and planned nondeposit investment sales locations to determine whether appropriate measures are in place to minimize customer confusion?
19. Are nondeposit investment products
25. Does the bank avoid using the words "insured," "bank," or "national" in product names?

Disclosures and Advertising

26. Has bank management designated an officer to be responsible for ensuring that bank-prepared investment advertisements and advertisements prepared by any

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- other party are accurate and include all required disclosures?
27. Is a signed statement acknowledging disclosures obtained from each customer at the time that a retail nondeposit investment account is opened?
28. For accounts established prior to the issuance of the Interagency Statement, are procedures in place to ensure that such a signed statement is obtained prior to, or at the time of, the next transaction?
29. Is there a tracking system designed to monitor and obtain missing acknowledgments?
30. Are all salespeople provided written disclosure guidelines for oral presentations?
31. Do the guidelines for oral presentations clearly direct the speaker to:
! State the required disclosures?
! Clarify the bank's role in the sales process?
32. If ratings are used in promoting certain products, does bank policy indicate whether the bank will disclose ratings changes?
33. If so, does policy indicate how such disclosures will occur?
34. If the bank is selling annuities which can be transferred to another obligor, is this possibility disclosed to prospective customers?
35. Has a bank officer been assigned responsibility for implementing and monitoring the suitability system?
36. Are systems in place to ensure that any salespeople involved in bank-related sales obtain sufficient information from customers to enable them to make a judgment about the suitability of recommendations for particular customers?
37. Do suitability inquiries include information concerning the customer's:
! Financial and tax status?
! Investment objectives?
! Other information such as date of birth, employment, net worth (net of residential real estate), income, current investments, or risk tolerance?
38. Are customer responses to suitability inquiries documented on a standard form or any other method that permits ready review?
39. Is there a tracking system designed to monitor and obtain missing suitability information?
40. Are new accounts reviewed and formally accepted by a manager before the first transfer is finalized?
41. Does the new account acceptance process include a review of the suitability inquiry and customer responses?
42. Is each sale approved in writing by a designated manager?
43. Are breakpoints considered in both the initial recommendation and in the review of the suitability of those recommendations?
44. Is suitability information for active accounts updated periodically?
45. If the bank uses software programs

Suitability

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to assist salespersons in making suitability judgments, does the program:

! Weight bank proprietary products and bank deposits similarly to other products?

! Consider breakpoints?

46. If a software program is *not* used, has management identified which products meet certain investment objectives, or has management generally categorized products as suitable for either unsophisticated, sophisticated, or risk-averse customers?
47. Does the bank use suitability guidelines that would limit certain transactions with first time or risk-averse investors, or would require a higher level of approval?
48. Is a bank officer who is independent of the sales force assigned responsibility for reviewing complaints and their resolution?

Qualifications and Training

49. Does the bank's staffing plan consider its nondeposit investment sales program?
50. Does the bank seek to employ dedicated investment specialists and not platform generalists as sales representatives?
51. Does management have written qualification requirements for outside hires of salespeople and sales program managers?
52. Is a system in place to document background inquiries made about new bank sales employees who have previous securities industry experience to check for a possible disciplinary history?

53. Has a bank officer been assigned responsibility for ensuring that adequate training is provided to bank staff?
54. Does the bank have a formal training program for individuals who:
! Make customer referrals for non-deposit products?
! Are engaged in retail sales of nondeposit investment products?
! Are responsible for supervising people who make referrals and/or who engage in selling?
55. Is this training offered as part of:
! Initial training?
! Continuing training?
56. Is there a training manual showing the objectives of each initial and subsequent training session?
57. Have lesson plans been developed for in-house programs?
58. Are tellers trained:
! To not accept orders or sell nondeposit investment products?
! To avoid offering investment advice?
! To not make recommendations?
! To not discuss the merits of any securities with customers?
59. Does the bank provide training that addresses suitability issues?
60. Does suitability training specifically address customer protection issues associated with the most vulnerable classes of investors who may actually prefer the "no investment risk" aspect of insured bank deposits?
61. Is product training provided to:
! Compliance staff?
! Audit staff?

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62. Does the bank have a formal plan to meet future retail nondeposit investment product sales training needs?

managers whose compensation is based on profits from nondeposit investment products sales?

Compensation

63. Are compensation systems set up to avoid paying the same people incentive compensation for the sale of nondeposit investment products when no incentives are paid for renewing certificates of deposit?

70. Does the compensation program reduce remuneration to sales program managers whose accounts show:

- ! Missing documents?
- ! Unreported customer complaints?
- ! Reversed or "bad" sales?
- ! Compliance problems?

64. Do supervisory policies control incentive compensation increases associated with sales contests or the introduction of new products?

Compliance Program

65. Are referral programs designed so that employees, including tellers, may receive a one-time nominal fee of a fixed dollar amount for each customer referred, without regard for whether the sale is made?

71. Do audit or compliance personnel:

- ! Determine the scope and frequency of their own nondeposit investment sales program reviews?
- ! Report their findings directly to the board of directors or an appropriate committee of the board?
- ! Have their performance evaluated by persons independent of the investment product sales function?
- ! Receive compensation that in no way is connected to the success of investment product sales?
- ! Receive training in products and customer protection issues?
- ! Keep abreast of emerging developments in banking and securities laws and regulations through ongoing training?

66. Do policies prohibit tellers from participating in contests or other promotional programs in which prizes are based on successful sales to customers referred?

67. Do policies and procedures preclude incentive compensation based on the profitability of individual trades by, or accounts subject to the review of, bank employees who:

- ! Review and approve individual sales?
- ! Accept new accounts?
- ! Review established customer accounts?

72. Does the bank's written compliance program call for periodic reviews to determine compliance with policies, procedures, applicable laws and regulations, and the Interagency Statement? Do those reviews cover:

- ! Customer complaints and their resolution?
- ! Customer correspondence?
- ! Transactions with employees and directors or their business interests?

68. Do policies and procedures preclude payment of incentive compensation to department auditors or compliance personnel?

69. Does the management structure preclude control, audit or compliance personnel from reporting to

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- ! All advertising and promotional materials?
 - ! Scripts or written guidelines for oral presentations?
 - ! Training materials?
 - ! Regular and frequent reviews of active customer accounts?
 - ! Customer responses to suitability inquiries and a periodic comparison of those responses to the type and volume of account activity, with the goal of determining whether the activity in an account is appropriate?
73. Does the compliance program call for compliance personnel to perform continuing reviews of:
- ! Changes in the system for reporting customer complaints and resolutions?
 - ! Changes in previously approved standard correspondence with customers?
 - ! New advertising and promotional materials prior to use?
 - ! Changes in existing training programs or new training programs?
 - ! Changes in incentive compensation systems?
 - ! New products under development?
74. Does the timing, scope, and frequency of compliance reviews consider factors such as:
- ! Changes or differences in incentive compensation paid on different or new products?
 - ! Sales or referral contests?
 - ! Patterns of sales for specific, especially new, products?
 - ! Patterns of sales to customers who have been identified as risk-averse investors?
 - ! New salespeople?
 - ! Customer complaints?
75. Does the bank have a system for ensuring that all complaints (written and oral) receive bank management's attention?
76. Is that system periodically tested by internal audit to determine whether bank management receives notice of all complaints?
77. Does the bank use automated exception reporting systems to flag potential compliance problems?
78. Do reports list:
- ! Sales by product?
 - ! Significant or unusual (for the customer) individual sales?
 - ! Sales of products the bank considers more volatile to customers whose suitability inquiry responses indicate an aversion to risk?
 - ! Customer complaints by product, salesperson, and reason, so that patterns can be discerned?
 - ! Unusual performance by salespersons, e.g., high or low volume or single product sales?
 - ! Significant volumes of annuity or mutual fund redemptions after short holding periods?
79. Do reports provide adequate information to conduct specific suitability reviews for customers such as:
- ! Risk-averse investors?
 - ! First-time investors?
 - ! Customers with other narrow investment objectives?
80. Does the bank employ "testers" who pose as prospective customers and test the sales presentations for adherence to customer protection standards?
81. Has the bank instituted a follow-up contact program to verify whether customers understand their invest-

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ment transactions?

82. Do inquiries in the follow-up contact program include discussion of the customer's:
- ! Understanding of what he or she has purchased?
 - ! Understanding of the investment risks and the absence of deposit insurance coverage?
 - ! Initial responses to the salesperson's suitability inquiry?
 - ! Understanding of fees?
 - ! Problems or complaints?
 - ! Understanding of the bank's role in the transaction?

83. If the bank operates a follow-up contact program, are records of customers responses maintained?

Third Party Vendors

84. Has a bank officer been assigned responsibility for ensuring that the bank adequately monitors the effectiveness of customer protection systems?
85. Has the bank developed a written oversight program to monitor the activities of outside vendors operating bank-related sales programs?
86. Does the governing agreement with third party vendors include provisions regarding:
- ! Training for bank employees?
 - ! Methods of implementing the customer protection standards contained in the bank's policy?
 - ! Permission for the OCC and the bank to have access to appropriate records involved in bank-related sales?
 - ! The scope and frequency of reports to be furnished?
87. Do reports furnished by third party

vendors include:

- ! A list of all new account openings and initial trades?
- ! A list of significant or unusual (for the customer) individual sales?
- ! A list of all written and oral customer complaints and their resolution?
- ! Sales reports by product, salesperson, and location?
- ! Internal compliance reviews of accounts originated at the bank?
- ! Copies of reports furnished to the third party vendor by their regulator?

88. Are reports furnished by a third party vendor:

- ! Prepared by someone independent of the vendor's sales force?
- ! Timely and sufficiently detailed?

89. Does bank management have procedures in place to avoid reliance on

third party audit and control systems if the vendor's control personnel receive transaction-based incentive compensation?

90. If the product selection analysis is performed by another party, such as a clearing broker or third party vendor, does bank management understand and agree with the analysis method?
91. If customer information is provided to the third party vendor, has a legal opinion concerning the bank's authority to share customer information with third parties been obtained?
92. Has a bank officer been assigned responsibility for ensuring that adequate training is provided to bank staff, and for reviewing the hiring and training practices of any third party vendor?