Uniform Interagency Trust Rating System

Federal Reserve Implementing Guidelines

December 1998

General Guidelines

The revised Uniform Interagency Trust Rating System (UITRS), adopted in October 1998 by the Federal Financial Institutions Examination Council (FFIEC), is effective for examinations commencing on or after January 1, 1999.[1] Federal Reserve examiners should assign UITRS ratings in conformance with the definitions adopted by the FFIEC, as augmented by the guidance provided below.

A full composite UITRS rating is **required** to be assigned as a result of all trust examinations, except in the case of targeted examinations, where component ratings need only be assigned for those areas included within the examination's scope. In those cases, component ratings should be assigned as the targeted examinations are completed. In instances where an institution's trust activities are examined as a series of limited reviews over a period of time, the full UITRS rating should be assigned when the examination is considered complete, or at least as often as required under SR Letter 86-39 for full-scope examinations of trust activities.

Additional Considerations for Specific UITRS Components

Management

The revised UITRS includes greater emphasis on assessing the quality of an institution's risk management, consistent with guidance previously provided to Federal Reserve examiners in SR Letter 96-10. Examiners should continue to include in risk profiles and risk management assessments the key risks outlined in SR Letter 95-51, including reputation risk, operational risk, legal risk, credit risk, market risk, and liquidity risk. Whether or not all of these risks, or a subset, are relevant to the assessment of risk management and thus to the Management rating depends on the scope of the particular institution's fiduciary activities. Note that the other four UITRS rating components may also include consideration of the institution's ability to manage some or all of these risks.

Earnings

Examiners must **evaluate** earnings for all institutions that exercise fiduciary powers. In addition, an earnings **rating** must be assigned for institutions that, at the time of the examination, have total fiduciary assets of more than $100 million, as well as for all non-deposit trust companies.[2] For all other institutions, examiners are not required to assign a rating and should only do so in cases where fiduciary activities are significant and the earnings rating would be meaningful to the overall rating. In these cases, examiners should use the standard earnings rating definition, rather than the "alternate" rating

[1] See 63 Federal Register 54,704 (October 13, 1998).
[2] Fiduciary assets are defined as reported on Schedule A, FFIEC 001.

definitions provided in the UITRS. For examinations where no earnings rating is assigned, a rating of “0” should be entered in the National Examination Database (NED) for the earnings component, and this component should be excluded from consideration in the composite rating.

Earnings ratings of “3” or worse should be reserved for institutions whose earnings performance is indicative of a supervisory problem requiring corrective action, which, if left unaddressed, may pose a risk to the institution. Federal Reserve examiners may, therefore, assign an earnings rating of “2” for an institution where losses have been experienced in its fiduciary activities, provided that (1) management has determined that there are benefits to the overall institution or its community from offering fiduciary services, (2) losses from fiduciary activities are stable and consistent with management expectations, and (3) such losses do not have a significant adverse affect on the profitability of the institution as a whole.

Asset Management

As noted in the UITRS, the Asset Management component may not be applicable for some institutions because their activities do not involve the management of discretionary assets. A rating for asset management may, therefore, be omitted for examinations of institutions whose operations are limited to those such as directed agency relationships, securities clearing, non-fiduciary custody relationships, or transfer agent or registrar activities. However, this component rating should be assigned for an institution that provides investment advice, even though it does not have discretion over the account assets. Where an asset management rating is not assigned for a particular examination, a rating of “0” should be entered in the NED, and this component should, of course, be excluded from the consideration in the composite rating.

Examination Reports

SR Letter 96-26 requires that the UITRS rating be disclosed to the institution in the summary section of each examination report. In addition, the individual numerical component ratings, which should also be disclosed in the open section of the report, may be included in the summary section. If the component ratings are included in the summary section, they should also be included in the open section pages of the report where trust findings are presented. If the Reserve Bank prefers not to disclose the examiner’s evaluation of the component ratings to the institution, this information may be included in the confidential section of the report. Regardless of where in the report it appears, the evaluation must include sufficient detail to justify the rating assigned.