

SUGGESTED TRANSMITTAL LETTER

**TO THE CHIEF EXECUTIVE OFFICER OF EACH STATE MEMBER BANK AND
EACH NON-DEPOSIT TRUST COMPANY**

Since 1978, state member banks, as well as certain subsidiary non-deposit trust companies, have been rated using the Uniform Interagency Trust Rating System (UITRS). This rating was recommended by the Federal Financial Institutions Examination Council (FFIEC) and adopted by the Federal Reserve, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency. In 1988, the Federal Home Loan Bank Board, predecessor agency to the Office of Thrift Supervision, also adopted the rating. Over the years, the UITRS has proven to be an effective internal supervisory tool for evaluating the fiduciary activities of financial institutions on a uniform basis and for identifying those institutions requiring special attention.

The rating was recently revised because of the number of changes that have occurred in both the banking industry and the Federal supervisory agencies' policies and procedures. The revisions to the UITRS:

- Realign the UITRS rating definitions to bring them in line with the Uniform Financial Institutions Rating System (UFIRS).
- Reduce the component rating categories from six to five, combining the Account Administration and Conflicts of Interest components into a new Compliance component.
- Require Earnings to be rated only in institutions with more than \$100 million in total trust assets, and in all non-deposit trust companies. An earnings rating is not required for the remaining institutions (those institutions not required to file FFIEC 001 Schedule E ¹).
- Explicitly refer to the quality of risk management processes in the management component, and the identification of risk elements within the composite and component rating definitions.

These revisions are intended to promote and complement efficient examination processes. The revisions update the rating system but retain its basic framework. Consequently, the revised rating system will not result in additional regulatory burden to institutions or require additional policies or

¹ Schedule E is the Trust Income Statement of the FFIEC Annual Report of Trust Assets (FFIEC 001). Schedule E is required to be filed by each financial institution with total trust assets of more than \$100 million as reported on line 18, column F of Schedule A, and by all non-deposit trust companies, whether or not they report any assets on Schedule A.

processes. The revised UITRS is to be used in examinations of all institutions that have been granted and exercise fiduciary powers commencing on or after January 1, 1999.

A copy of the revised rating system is enclosed for your bank management and directorate. Any questions your institution may have on UITRS should be directed to (insert contact name) at the Reserve Bank.

Enclosure