

**Federal Reserve Board of Governors**

# **Course Description for Principles of Fiduciary Supervision**

**Last Revised: January 11, 2013**

## PRINCIPLES OF FIDUCIARY SUPERVISION

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### Type of Participant Targeted

Principles of Fiduciary Supervision (“PFS”) is designed for assistant or commissioned examiners with limited to no fiduciary examination experience. It is expected that attendees will participate in fiduciary examinations upon completion of the course. This course may also be useful for Central Points of Contact and other examiners that need a general understanding of the asset/wealth management and fiduciary business. Following the completion of the course, participants should be able to identify significant fiduciary risks and related supervisory issues.

### Prerequisites

*Please review the following SR Letters prior to Class. SR Letters can be obtained at:*  
<http://www.federalreserve.gov/bankinfoeq/srletters/srletters.htm>

- ✓ SR 01-05 - Examination of Fiduciary Activities
- ✓ SR 98-37 - Uniform Interagency Trust Rating System
- ✓ SR 96-10 - Risk Focused Fiduciary Examinations
- ✓ SR 97-24 - Risk Focused Framework for Supervision of Large Complex Institutions
- ✓ SR 95-51 - Rating the Adequacy of Risk Management Processes and Internal Controls  
At State Member Banks and Bank Holding Companies

### Course Overview

PFS will introduce asset/wealth management and fiduciary concepts and risk management practices common to the fiduciary industry by focusing on holding company corporate and legal framework and on particular fiduciary business lines. Areas that will be discussed include: BHC/FHC asset and wealth management activities; and bank fiduciary and trust product lines including: personal; employee benefit; corporate trust; and asset management.

### Course Objectives

After completing this 4½-day course, the participant, at a minimum, will be able to complete the following objectives for BHC/FHC legal and regulatory framework, and bank fiduciary activities.

- ✓ Define asset/wealth management and fiduciary activities
- ✓ Understand regulatory and supervisory framework for BHC/FHC, bank trust departments/trust companies, registered broker/dealers, and registered investment advisors
- ✓ Evaluate compliance with governing laws and fiduciary principles, including conflicts of interest.
- ✓ Appraise capability of management to identify, measure, and control risks of fiduciary activities.

- ✓ Analyze operations and internal controls and assess adequacy of audit coverage.
- ✓ Appraise the adequacy of processes related to investment of funds, including unique asset holdings and non-traditional investment products and services.
- ✓ Identify risks in fiduciary activities and assess the adequacy of risk management practices.
- ✓ Assess the impact of fiduciary activities on the banking organization and apply the uniform interagency trust rating system. <sup>1</sup>

## Post-Course Intervention

After completing PFS, the participant should be given on-the-job assignments that will increase the retention of the competencies presented during class. Examples of such on-the-job assignments include assisting in the review of the following areas.

- ✓ BHC/FHC Asset & Wealth Management Activities
- ✓ Bank Trust Department:
  - Personal Trust
  - Corporate Trust
  - Employee Benefit Trust
  - Trust Compliance, Internal Controls and Audit
  - Trust Operations
  - Asset Management

## Overview of PFS Curriculum

Subject	Approximate Class Hours	Approximate Homework Hours
Structure of Fiduciary business <sup>2</sup>	1.0	
Fiduciary Concepts	2.0	--
Operations	2.0	--
Asset Management	2.5	--
Personal Trusts and Agencies	7.5	--
Corporate Trusts and Agencies	3.5	--
Employee Benefit Trusts and Agencies	7.5	--
Fiduciary Risk Management and Examinations	7.0	1.5
<b>Totals</b>	<b>33.0</b>	<b>1.5</b>

## Learning Objectives

After completing each section, the participant, at a minimum, will be able to demonstrate the following skills:

## Asset/Wealth Management and Fiduciary Concepts

- ✓ Understand Securities Regulatory Framework for BHCs, Bank, Registered Broker/Dealers and Registered Investment Advisors
- ✓ Identify sources of fiduciary law.
- ✓ Distinguish delivery/capacity concepts and difference between trust and agency relationships.
- ✓ Discuss the duties, responsibilities, and powers of a fiduciary.
- ✓ Analyze actual and potential conflict of interest situations and recommend ways to properly handle them.

## Operations

- ✓ Analyze the effectiveness of operations, internal controls, and audit of a fiduciary business.
- ✓ Assess policies and procedures to ensure data integrity and accuracy of MIS.
- ✓ Evaluate the benefits, risks, and risk mitigation systems inherent in outsourcing arrangements.

## Asset Management

- ✓ Identify major classes of investments, including unique assets (e.g., real estate, closely held companies, mineral interests), their related risks, and the fiduciary's responsibilities in each.
- ✓ Determine the appropriateness of investment policies and procedures for the types of accounts under administration.
- ✓ Assess whether the trustee's portfolio management practices are in compliance with established policies and procedures and are suitable for the accounts under administration.
- ✓ Discuss the application of the Prudent Investor Rule.
- ✓ Evaluate an institution's risk management practices and MIS in relation to size, complexity, and level of risk.

## Personal, Corporate, and Employee Benefit Trusts and Agencies

For each business line the participant should be able to:

- ✓ Describe the business line and the types and uses of accounts commonly found in it.
- ✓ Identify the inherent risks involved with the administration of trust and agency accounts.
- ✓ Analyze the trustee's processes for monitoring for compliance with governing documents, fiduciary principles, and applicable laws and regulations.
- ✓ Evaluate an institution's risk management practices and MIS in relation to its size, complexity, and level of risk.

## Fiduciary Risk Management and Examinations

- ✓ Assess fiduciary risk in an institution.
- ✓ Appraise the capability of management to identify, measure, and control identified fiduciary risks.

- ✓ Apply the Uniform Interagency Trust Rating System.
- ✓ Articulate the significance of fiduciary risk in an integrated supervisory context.

## **Class Size**

The optimal class size for the Principles of Fiduciary course offerings is approximately 25 participants. To provide sufficient variety of interaction among class participants, the minimum class size should be 10 participants.

## **Instructors**

PFS includes one or more instructor(s) from the Federal Reserve System and one or two instructors from an external consultant. Federal Reserve instructors will present materials related to System structure of the fiduciary industry, examination techniques and application of the Uniform Interagency Trust Rating System. The remaining materials will be presented by outside instructors. At least one System instructor should attend sessions presented by the outside consultant to provide examiner perspective, System positions, and minimize repetition of materials.

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1 This course objective will be addressed in modules developed and presented by staff of the Federal Reserve System. All other course objectives will be addressed in modules developed and presented by an outside consultant.

2 This subject and Fiduciary Risk Management and Examinations will be addressed in modules developed and presented by staff of the Federal Reserve System. All other course subjects will be addressed in modules developed and presented by an outside consultant.