



Due Diligence Review Guidance

Prior to designating a servicing agent for trust company/department activities, the serviced institution should document its efforts to exercise reasonable caution in selecting agents. Compatibility and performance should be considered in conjunction with the cost of the services to be provided. The scope of the due diligence may depend upon the type and significance of outsourcing activity. However, detailed below are some of the most common considerations in any due diligence review. The listing does not supersede provisions of law or regulation, nor does it preclude additional concerns that may occur in some situations:

- An assessment should be made of the servicing organization's ability to handle the volume and nature of trust accounts and assets to be serviced. Obtaining a list of servicer references and contact names is common practice.
- The financial strength and viability of the servicing organization should be considered. In this regard, the strength provided by a parent holding company or similar organization may also be considered. This would entail a review of financial statements and audit reports, and a search of pending or threatened financial or legal claims.
- If investment management is being outsourced, then a review of the servicer's investment performance (over a minimum of five to ten years, or several investment cycles) should be reviewed. In addition, management should review the SEC and FINRA online search tools for pertinent information with respect to investment adviser and broker-dealer service providers.
- Audit or supervisory evaluations of the servicing organization, if available. Depending upon the outsourced function, management may obtain AICPA Statement on Standards for Attestation Engagements (SSAE) 16 Reports if conducted, or other available reports.
- A review of certain policies, procedures, and controls of the servicing organization should be made. Knowledge of a service provider's business strategies, privacy policies, service philosophies, and quality control initiatives may be beneficial in choosing a firm whose standards correspond to department/company standards.
- Evidence supporting the maintenance of fidelity insurance coverage by the servicing organization should be obtained.

In addition to performing an initial review of the servicing agent, management has a responsibility to monitor and periodically update the above-referenced documentation on the condition and activities of the servicing organization, while ensuring that the provisions of the agreement are being met. In addition to updating the above review criteria, the institution's ongoing monitoring program should incorporate the following guidance:

- Results of subsequent independent audits of the service provider's operations.

- Verification of the adequacy of the service provider's contingency planning.
- Contingency plans developed for the potential of deteriorating performance or other problems encountered with the service provider.

While the above guidance is applicable to all service providers, it is important to note that affiliated service providers warrant heightened attention to mitigate any potential conflict of interest and self-dealing risks.

The review of the criteria above should be thoroughly documented and maintained for review by auditors and regulatory authorities.