



Statement of Principles of Trust Management – Custodial

The board of every South Dakota-chartered trust company, both private and public, is required to adopt the Statement of Principles of Trust Management (Statement) at the first organizational meeting. The board should document a thorough review of the Statement annually to ensure ongoing compliance.

The following is an example of the Statement structure, the italicized sections provide additional detail and need not be included in the adopted resolution. The actual language adopted by the board should be revised to identify trust company-specific oversight responsibilities, taking into consideration the size, complexity, and risk profile of the trust company. However, the board cannot exclude or minimize any Statement principles.

Statement of Principles of Trust Management

The board, by proper resolution included in its minutes, should:

1. Designate an officer, qualified and competent, to be responsible for and administer the activities of the trust company. In addition, the board should define the officer's duties.
2. Name a committee consisting of at least three directors to be responsible for and supervise the activities of the trust company. If possible, the committee will include at least one director that is not an active officer of the trust company.

Nothing herein is intended to prohibit the board from acting as the trust committee, or from appointing additional committees and officers to administer the operations of the trust company. When delegating duties to subcommittees and/or officers, the board and the trust committee continue to be responsible for the oversight of all trust activities. Sufficient reporting and monitoring procedures should be established to fulfill this responsibility.

The committee should:

- a. Meet at least quarterly, and more frequently if considered necessary and prudent to fulfill supervisory responsibilities.
- b. Provide for comprehensive oversight of the account opening and account closing processes, as well as the oversight of all purchases, sales, and/or changes in account assets utilizing predefined asset review factors.

An effective asset oversight program is generally an extension of the internal account review process and can help mitigate risks associated with prohibited transactions and fraudulent activity. Examples of predefined asset review factors include, but are not limited to, asset types, surname comparison,

participant ownership interest in entities held, unsecured promissory notes exceeding a predetermined value, above average promissory note rates of return, past-due promissory notes, multiple accounts holding the same investments exceeding a predetermined aggregate value, asset increased/decreases above or below a predetermined level, undelivered assets exceeding a predetermined timeframe, and any suspicious activities. Management should assign risk levels or risk ratings to the different account, asset, and transaction types based on the risk levels. Those in the higher risk categories should be “flagged” and subject to escalated review procedures, with a focus on potential prohibited transactions and fraudulent activity.

- c. If applicable, provide for a prompt comprehensive review of all new accounts for which the trust company has investment responsibility.
- d. Provide for an adequate account review program utilizing an account sample that is commensurate with the account population and other relevant risk factors. The scope, frequency, and level of review (committee or disinterested account officer) will be addressed in appropriate written policies that give consideration to the trust company’s responsibilities, type and size of account, asset type, and other relevant factors.

Relevant risk factors may include account type and size, customer residence, administrative officers, asset classification, stale-valued assets, physical location of the asset, high asset returns/growth, new accounts, closed accounts, complaints, etc. An effective account review program generally identifies the accounts, transactions, or assets “flagged” during the asset oversight program.

- e. Keep comprehensive minutes of meetings held and actions taken.
- f. Make periodic reports to the board of its actions.

- 3. Provide comprehensive written policies which address all important areas of trust company activity.
- 4. Provide competent legal counsel to advise management on legal matters pertaining to trust company activity.
- 5. Provide for adequate internal controls including appropriate controls of account assets.
- 6. Provide for an adequate audit (by internal or external auditors or a combination thereof) of all trust company activity, annually. The findings of the audit, including actions taken as a result of the audit, should be recorded in meeting minutes.

If a trust company adopts a continuous audit process in lieu of performing an annual external audit, management must report a thorough internal review of trust company operations and administration to the board quarterly. The internal review should include, but is not limited to, documentation of trust company

assets, liabilities, and equity position; trust company financial performance; assets held in trust accounts, both discretionary and non-discretionary; and any non-ordinary transactions. Additionally, internal controls and segregation of duties must be periodically assessed if the trust company adopts a continuous audit process in lieu of annual external audits. Internal audits may be performed, on an activity-by-activity basis, at intervals commensurate with the level of risk associated with that activity. Audit intervals must be supported and reassessed regularly to ensure appropriateness given the current risk and volume of the activity. For specific activity examples, refer to the Division's Internal Audit Guidance located on our website.

7. Receive committee reports and record actions taken in its minutes.
8. Review the examination reports of the trust company by supervisory agencies and record actions taken in its minutes.