

STATE OF NEVADA



DEPARTMENT OF BUSINESS AND INDUSTRY

FINANCIAL INSTITUTIONS DIVISION

**EXAMINATION GUIDELINES FOR NEVADA LICENSED FAMILY TRUST COMPANIES
UNDER NRS CHAPTER 669A & NAC 669A**

Introduction

Examination of Nevada Licensed Family Trust Companies (LFTC) will be conducted in accordance with NRS 669A and NAC 669A. There are two (2) examination protocols for LFTCs depending on each LFTC's circumstances:

1. LFTC with Audited Financial Statement

A. May elect an Independent Review examination conducted by a Qualified Firm; or

B. May elect to have the Nevada Financial Institutions Division conduct the examination.

2. LFTC without Audited Financial Statement

The Nevada Financial Institutions Division will conduct the examination off-site or on-site depending on the status of the LFTC.

The following Examination Guidelines are provided to address each of these protocols:

1. Independent Review Examination Procedures

2. Nevada Financial Institutions Division Examination Procedures

The purposes of these Examination Guidelines are: (i) to facilitate and expedite the Independent Review or Examination of a Licensed Family Trust Company; and (ii) to provide a Licensed Family Trust Company a useful guide in collection and maintenance of necessary information and recordkeeping as part of its policies and procedures and internal control functions. The Nevada Financial Institutions Division Commissioner may also require such additional information, inquiries and procedures as may be deemed necessary to effectively examine a Nevada Licensed Family Trust Company. Definitions used in NRS and NAC Chapter 669A shall apply unless otherwise defined in these guidelines.

Definitions

1. "Account Acceptance Policy" means a written policy describing the requirements for a Client or a Client account to be accepted by the Licensed Family Trust Company.

2. “Bank Secrecy Act Program” means a written plan for achieving compliance with BSA requirements which may be applicable to the Licenses Family Trust Company.
3. “Business Continuation Plan” means a plan to facilitate continued operations of the Licensed Family Trust Company in the event of interruption from natural or man-made hazards.
4. “Client Complaint Policy” means the policies and procedures employed by the Licensed Family Trust Company to identify, manage, respond and resolve Client Complaint(s).
5. “Client Data” means non-public, personally identifiable information of a consumer collected, stored and used by the Licensed Family Trust Company or one of its service providers.
6. “Client Data Policy” means the policy maintained by the Licensed Family Trust Company to protect and safeguard Client Data.
7. “Critical Vendor” means an unrelated third party service provider who is allowed access to Client Data by the Licensed Family Trust Company during its engagement with the Licensed Family Trust Company.
8. “Family Trust Company Office” means the physical office location maintained by the Licensed Family Trust Company in accordance with NRS Chapter 669A.140[1].
9. “Fee Schedule” means a documented schedule of fees that the Licensed Family Trust Company uses to calculate fees to be charged to their clients’ accounts for trust services provided (unless otherwise negotiated).
10. “Information Security Policy” means a documented policy which outlines key elements of a reliable system’s infrastructure, related to software, hardware and user controls.
11. “Intrusion Detection” means the ability to discover unauthorized access to a computer network by analyzing traffic on the network for signs of malicious activity.
12. “Investment Policies” means written policies that the Licensed Family Trust Company has adopted for the investment management of Client trust accounts.
13. “Nevada Statutory and Regulatory Compliance Plan” means a documented plan for achieving compliance with NRS 669A.140, NRS 669A.160, NRS 66A.179, NRS 669A.180 and NRS 669A.250 and the regulations promulgated pursuant to NRS Chapter 669A.
14. “OFAC” means the Office of Foreign Assets Control.
15. “Periodic Account Review Policy” means a documented policy which requires the Licensed Family Trust Company to complete a periodic review of accounts under administration.
16. “Physical Security Policy” means a documented policy which establishes reliable physical security controls and protocols that safeguard employees, premises and data.
17. “Privacy Notice” means a written or electronic notice provided to Clients by the Licensed Family Trust Company pursuant to requirements of the Gramm-Leach-Bliley Act (“GLBA”) which may be applicable to the Licensed Family Trust Company.
18. “Suspicious Activity Reports” means reports filed by the Licensed Family Trust Company with FinCEN in compliance with the Bank Secrecy Act which may be applicable to the Licensed Family Trust Company.

19. “Trust Committee” means the Committee of the Board, or other governing body of the Licensed Family Trust Company responsible for the oversight of the administration of trusts, other fiduciary relationships and Client accounts.
20. “Vendor Management Policy” means documented procedures and protocols established by the Licensed Family Trust Company to ensure that Critical Vendors adhere to service level agreements or contracts and applicable statutory and regulatory requirements.

EXAMINATION PROCEDURES

INDEPENDENT REVIEW

These examination procedures are designed to be followed as part of an Independent Review conducted by a Qualified Firm for Nevada Licensed Family Trust Companies. The Independent Review period will encompass the Licensed Family Trust Company's (LFTC) activities during the examination period (unless otherwise specified). The examination procedures should include the following:

1. Send Request List to LFTC and have documentation provided for Qualified Firm review.
2. Send Internal Control Questionnaire to LFTC and have responses provided for Qualified Firm review.
3. Review results of prior Independent Review and/or Examination, and confirm with Management that Corrective Action has been completed.
4. Confirm submission to the Financial Institutions Division of the required financial information, including supplementary information requested.
5. Review and test compliance with the requirements of NRS Chapter 669A.140-180 as to physical office, bank account and residency requirements, advertising, minimum stockholders', or member's equity, organizational structure and required governing document provisions.
6. Review and verify compliance with the requirements of NRS Chapter 669A.210 regarding the payment of license fees by the Licensed Family Trust Company.
7. Review Client Complaints to ensure they received a response by the Licensed Family Trust Company.
8. Review the Board and Committees structure for compliance with governing instruments of the Licensed Family Trust Company.
9. Review applicable documentation, and ascertain that at least one officer resides in the state of Nevada.
10. Review samples of Client Acceptance Policy documentation to confirm that individual and entities accepted as Clients of the Licensed Family Trust Company since the date of the most recent Independent Review or NFID Examination are Family Members.

11. Review Board and Trust Committee minutes for the last 12 months and determine if the minutes are retained permanently at the Family Trust Company Office in physical or electronic form.
12. Are the actions of the Licenses Family Trust Company reflected in the Board/Trust Committee minutes?
13. Verify if Management maintains fidelity bond coverage in accordance with NRS Section 669A.250.
14. Verify if Management determined whether or not property and casualty insurance is required, and if so, confirm that the insurance is maintained by the Licensed Family Trust Company consistent with Board's determination.
15. If the Licensed Family Trust Company has submitted its audited financial statements, determine if previous matters in the management letter for external financial audits of the Licensed Family Trust Company financial statements have been resolved, are being addressed by Management in a response to the external auditor, or do not require response or action. However, please note that a Licensed Family Trust Company is not required to have external financial audits of its financial statements unless the Licensed Family Trust Company elects to submit to an Independent Review.
16. Review copies of correspondence between the Licensed Family Trust Company and federal or state agencies with respect to the Licensed Family Trust Company's operations. Ascertain whether issues raised have been addressed or whether any of the correspondence reviewed requires additional review steps.
17. Determine that the Licensed Family Trust Company has established physical security controls aimed at protecting Client Data, Client property and the Licensed Family Trust Company's property located therein.
18. Obtain copies of the following policies if available and review for adequacy of content as discussed below:
 - a. Account Acceptance Policy, process steps involved, and documentation
 - b. Periodic Account Review Policy, process steps involved and documentation
 - c. Client account termination steps involved and documented
 - d. Fees collection and processing is documented

[End of Independent Review Procedures]

REQUEST LIST

The following documentation to the extent maintained by the Licensed Family Trust Company or applicable to the Licensed Family Trust Company will be provided upon request either in hard copy or electronically. Copies should be provided rather than originals. All documentation requested relates to the Licensed Family Trust Company unless otherwise specified:

1. Board and Committee organizational structure and responsibilities, including a list of directors, managers and Committee members' current names.
2. Organizational chart of the Trust Company's current Board and Committee(s), officers, managers and employees.
3. List of city and state of residence of each Board member.
4. Governing instruments (e.g. articles, bylaws, and/or operating agreement).
5. Board meeting minutes and/or Trust Committee minutes for the last 12 months.
6. Declaration Page(s) of the current in force fidelity bond for the Licensed Family Trust Company as determined in accordance with NRS Section 669A.250.
7. Declaration Page(s) for any additional property and casualty in force insurance maintained by the Licensed Family Trust Company.
8. Documentation evidencing the maintenance of the minimum stockholder's equity by the Licensed Family Trust Company, and the Licensed Family Trust Company's investment of the minimum capital of the Licensed Family Trust Company required by NRS Section 669A.160 and NRS Section 669A.230[1], respectively, for the period under Examination
9. Documentation evidencing a Business Continuation Plan.
10. Correspondence with government agencies since the prior Examination concerning the Licensed Family Trust Company's compliance with applicable licensing and other laws or regulations concerning its business.
11. Management's response from previous independent review or examination.
12. Client Complaints filed with the Financial Institutions Division.
13. Pending lawsuits.
14. Privacy Notice provided to Clients.
15. Regulatory compliance policies, or plans if applicable and available:

- a. Nevada Statutory and Regulatory Compliance Plan
 - b. Bank Secrecy Act (BSA)/ Anti-Money-Laundering (AML) Policy
 - c. Client Data Policy
 - d. Client Complaint Policy
 - e. Vendor Management Policy
16. Suspicious Activity Reports filed by the Licensed Family Trust Company.
17. Fee Schedule/s and documentation concerning calculation of fees charged by the Licensed Family Trust Company.
18. The following policies adopted by the Licensed Family Trust Companies, if applicable and available:
- a. Account Acceptance Policy
 - b. Periodic Account Review Policy
 - c. Investment Policies
 - d. Trust Fees Collection and Processing Policy
19. The following risk management policies:
- a. Information Security Policy
 - b. Physical Security Policy
 - c. Internal Audit Process, if applicable
20. List of principal operations and accounting software systems utilized.
21. Monitoring reports for protection of Client Data and Licensed Family Trust Company, if any.
22. Audited financial statement(s) issued to the Licensed Family Trust Company during the Examination Period, if any.
23. A List of accounts which require annual and final reports under NRS 669A.255
24. Bank account statement(s) of the Licensed Family Trust Company for the final month of the Examination Period.
25. List of all trust accounts by: account number, type, and estimated value.
26. List of critical vendors and copies of their agreements. Include any contracts for custodial services with outside party/parties.
27. Internal and External audits, including Management Letter, since the previous examination.

28. Reconcilements and supporting documentation for demand deposit accounts and/or operating accounts as of the examination date.
29. Reconciliations of LFTC's client fiduciary assets against the trust accounting system software as of the Examination date.
30. Copy of the following accounting policies, if applicable and available:
 - a. Reconciliations of the Licensed Family Trust Company's own bank and brokerage's accounts
 - b. Control over disbursements
 - c. Controls over negotiable instruments
 - d. Controls that are in place over suspense accounts

[End of Request List]

INTERNAL CONTROL
QUESTIONNAIRE

This Internal Control Questionnaire will be used as part of Independent Review conducted by a Qualified Firm for Licensed Family Trust Companies. The Review period will include the Licensed Family Trust Company's activities since the last Independent Review or Examination conducted (unless otherwise specified). Certain questions involve matters which may not be applicable to the Licensed Family Trust Company under examination and in such cases a response indicating it is not applicable is acceptable. Responses by the Licensed Family Trust Company to the Internal Control Questionnaire shall be limited to the Review period.

The following documentation to the extent maintained by the Licensed Family Trust Company or applicable to the Licensed Family Trust Company will be provided upon request either in hard copy or electronically. Copies should be provided rather than originals. All documentation requested relates to the Licensed Family Trust Company unless otherwise specified:

1. Through Management inquiry, have there been any changes in the composition or personnel of the Board, Committee or other key senior Management positions during the period under Examination? If required, was the Financial Institutions Division notified?

2. Through Management inquiry, has Management refrained from soliciting the public for trust company business?
 - a. Yes
 - b. No

3. Through Management inquiry, has the Licensed Family Trust Company experienced a loss (related to the fidelity bond or the property and casualty insurance) reportable to the Licensed Family Trust Company's insurance carrier in excess of \$50,000?
 - a. Yes
 - b. NoExplain _____

4. Through inquiry with the Licensed Family Trust Company's legal counsel or Management, has the Licensed Family Trust Company been involved as a named party in litigation or regulatory disciplinary proceedings with respect to its trust business? If so, provide information including: Client account/s involved, nature of the lawsuit and amount involved, and Management's statement as to likely outcome subject to any privilege claimed by the Licensed Family Trust Company.
 - a. Yes
 - b. No

Response _____

5. Through Management inquiry, ascertain whether the Privacy Notice was mailed to Clients in the last twelve (12) months of the period under Examination?
- a. Yes
 - b. No
6. Through Management inquiry, have any Suspicious Activity Reports been filed by the Licensed Family Trust Company?
- a. Yes
 - b. No

If yes, explain _____

7. Through Management inquiry and review of applicable documentation, has the Licensed Family Trust Company established a process for compliance with the requirements of OFAC has been established?
- a. Yes
 - b. No

Explain _____

8. Through Management inquiry, does the Licensed Family Trust Company maintain foreign accounts (excluding Client accounts)? If foreign accounts are maintained, has the Licensed Family Trust Company filed a "Report of Foreign Bank and Financial Accounts (TD-F-90-22.1)"?
- a. Yes
 - b. No
9. Through Management inquiry, has the Licensed Family Trust Company received any notification of the filing of Client Complaint(s) with the Financial Institutions Division?
- a. Yes
 - b. No

If yes, how many? _____

Explain the nature of the Client Complaint, the Licensed Family Trust Company's response, and any resolution (with copies of the Client Complaints and Licensed Family Trust Companies written responses).

10. Through Management inquiry, has the Licensed Family Trust Company received any correspondence from federal or state agencies concerning the Licensed Family Trust Company's alleged failure to comply with applicable state and federal law?

- a. Yes
- b. No

If yes, was the alleged failure satisfactorily resolved by Management?

11. Through Management inquiry, confirm that contracts with vendors that obtain or utilize Client Data contain adequate confidentiality and data protection language consistent with the language recommended by GBLA?

- a. Yes
- b. No

12. Through Management inquiry and review of Licensed Family Trust Company policies, does Management maintain a system for granting and monitoring of access to Licensed Family Trust Company's documents, records, and data?

- a. Yes
- b. No

13. Through Management inquiry, does the Licensed Family Trust Company maintain a process to monitor and respond to potential network and application system's intrusion attempts?

- a. Yes
- b. No

14. Where the Licensed Family Trust Company engages the services of a Critical Vendor, does the Licensed Family Trust Company know whether or not the Critical Vendor employs such processes for its customer accounts and whether or not the Critical Vendor confirms that contractual safeguards exist?

- a. Yes
- b. No

15. Through Management inquiry, has the Licensed Family Trust Company experienced a loss or theft of Client Data?

- a. Yes
- b. No

Explain _____

16. Through Management inquiry and observation at the Family Trust Company Office in the case of an Onsite Examination or Independent Review, does the Licensed Family Trust Company retain originals or true and correct copies of trust instruments in physical or electronic form?
 - a. Yes
 - b. No

17. Through Management inquiry and review of the Account Acceptance Policy, does the Licensed Family Trust Company conduct and document an initial review of each Client Account in accordance with the Account Acceptance Policy?
 - a. Yes
 - b. No

18. Through Management inquiry and review of the Periodic Account Review Policy, does the Licensed Family Trust Company conduct a periodic review of each trust account?
 - a. Yes
 - b. No

19. Through Management inquiry, did the Licensed Family Trust Company complete reconciliations its bank accounts for the last quarter?
 - a. Yes
 - b. No

20. Through Management inquiry and review of applicable insurance claims, did the Licensed Family Trust Company experience any physical security breach resulting in unauthorized removal of Client Data?
 - a. Yes
 - b. No

[End of Internal Control Questionnaire]

NEVADA FINANCIAL INSTITUTIONS DIVISION EXAMINATION

1. Introduction

Family trust companies, also known as private trust companies, have become an attractive vehicle for wealthy families to address their multi-faceted trust and wealth management needs. Specifically, the primary appeal of a family trust company is that it provides a forum for current and future generations of a family to have a voice in the management of family wealth in irrevocable trusts without forfeiting the tax, asset protection, and other benefits afforded by such trusts. This is accomplished by permitting family members to serve in a variety of “governance” roles, including serving as officers, directors and/or members of Board committees of a family trust company. The common family trust company services include serving as trustee, investment adviser, agent or personal representative, as well as tax planning, tax preparation, budgeting, and family wealth education and management. In general, a family trust company is similar to a public trust company, except that it does not provide fiduciary services to the public.

The supervisory process involves a periodic evaluation of the LFTC, which leads to an understanding of the company’s operations and enables examiners to tailor their examination to the LFTC’s risk profile. This section of the manual discusses the regulatory ratings and the entire examination process.

2. Rating the LFTC

The examination of LFTC is primarily focused on evaluating the adequacy of its established policies and procedures, the soundness of its operations; the effectiveness of management; and compliance with applicable laws and regulations.

Composite Ratings and Definitions:

Satisfactory – This rating is assigned to a licensed family trust company that is fundamentally sound, complies with the provisions of chapter 669A of NRS and chapter 669A of NAC in all substantial respects and exhibits only moderate deficiencies or minor weaknesses which are within the capability and willingness of the management of the licensed family trust company to correct.

Needs improvement – This rating is assigned to a licensed family trust company that generally complies with the provisions of chapter 669A of NRS and chapter 669A of NAC and exhibits some degree of supervisory concern in one or more areas where moderate deficiencies or weaknesses are present which are within the capability and willingness of the board and the management of the licensed family trust company to correct.

Unsatisfactory – This rating is assigned to a licensed family trust company that does not generally comply with the provisions of chapter 669A of NRS and chapter 669A of NAC and exhibits some degree of supervisory concern in one or more areas where a combination of deficiencies or material weakness exists which may range from moderate to severe.

Key Rating Components:

The three key components utilized to assess the LFTC's fiduciary activities are as follows:

- 1) The capability of management (**M**)
- 2) The adequacy of operations and internal controls (**O**)
- 3) Compliance with established policies and procedures, laws and regulations, governing instruments, and sound fiduciary principles (**C**)

3. Examination Process

The licensed family trust company examination process consists of the following four (4) stages:

- Notice of Examination
- Pre-Examination Planning
- Examination
- Post Examination

A. Notice of Examination

- 1) The EIC generally prepares and signs the NOE. (*See Exhibit A – Notice of Examination*)
 - a) For newly-formed LFTC, NOE shall be sent November 15th of year in which FTC license is issued.
 - b) LFTC that received a “Satisfactory” rating from the prior examination, NOE shall be sent on or before November 15, before the year in which the examination is to be conducted.
- 2) Review the response to the NOE.
 - a) If the LFTC elects to undergo an Independent Review, the LFTC must inform the Division of such election within 30 days after receipt of its NOE, and the Division needs to reply back within 30 days, with a written confirmation of the LFTC's selection. (*See Exhibit B – Confirmation Letter*)
 - b) If the LFTC elects to undergo an FID Examination, proceed to Pre-Examination Planning.

B. Pre-Examination Planning

Pre-examination planning is crucial to effective and efficient examination process. It is designed to reduce the amount of time spent on-site and/or off-site and improve the efficiency of the overall examination process, including staffing. Examination duties and responsibilities are assigned primarily by the Field Supervisory Examiner (FSE) in consultation with the Examinations Manager (EM). The FSE appoints an examiner to be the Examiner-In-Charge (EIC), who will be responsible for the overall examination and completion of the Report of Examination (ROE).

Below is a list of examination planning procedures:

- 1) Send the following to the LFTC through certified mail, with a return receipt requested, as scheduled.
 - Examination Entry Letter (*See Exhibit C – Entry Letter*)
 - Request List (*See Exhibit C-1 – Request List*)
 - Internal Control Questionnaire (*See Exhibit C-2 – Internal Control Questionnaire*)

The Entry Letter serves as a formal notification that an examination of the LFTC will be conducted. It includes the following:

- Examination start date
- Examination scope and objectives
- Information needed to complete the examination, including due dates for submission of requested items.
- Name, address, and telephone number of the Division’s contact.
- Instructions for delivering electronic files.

Entry Letter for an LFTC that received a “Needs Improvement” or “Unsatisfactory” rating in the previous examination, NOE shall be sent at least 30 days before the examination is required.

Entry Letter for circumstances where the Commissioner determines an examination is necessary shall be delivered at that time.

- 2) Ensure that all information requested from the LFTC has been submitted and is complete. If the information and documentation is incomplete or incorrect, please refer to the below procedure.
- 3) For an onsite or offsite examination, if requested information and documentation is not received by the set date on the Entry Letter or the Division determines that the materials provided are incorrect or incomplete, the EIC needs to inform the LFTC through a “Follow-Up Notice of Examination,” indicating the information and documentation needed to complete or correct the initial submission. The LFTC has 45 days after the follow-up notice of examination is received, to provide the necessary information and documentation. (*See Exhibit C – Entry Letter*)

C. Examination

Examination procedures should be tailored to the characteristics of each LFTC, keeping in mind, the size, complexity and risk profile. It should focus on developing appropriate documentation to adequately assess management’s ability to identify, measure, monitor, and control risks. Procedures should be completed to the degree necessary to determine whether the LFTC’s management understands and adequately control the levels and types of risks that are assumed.

The examination can be conducted either Onsite, Offsite or by an Independent Review. The following sections will provide guidance on how each examination should be conducted and the areas that should be reviewed. Areas include compliance, operations & management.

Onsite & Offsite Examination

Below is a list of examination procedures for both onsite and offsite review:

- 1) Review the following materials:
 - Prior Report of Examination & Workpapers
 - Correspondence/Application Files/License Fees
 - Responses to the NOE
 - Client Complaints & LFTC Responses
 - Minutes of the board/committee meetings. Determine if the minutes are retained permanently at LFTC office in physical or electronic form. Also, verify if LFTC's actions are reflected in the board and committee minutes.
- 2) Determine if previous examination issues have been adequately addressed.
- 3) Evaluate Compliance. This area covers the institution's overall compliance with applicable laws and regulations, accepted standards of fiduciary conduct, governing account instruments, duties associated with account administration, and internally established policies and procedures.
 - a) Review and evaluate the following factors:
 - Compliance with applicable federal and state statutes and regulations, including Bank Secrecy Act/ OFAC, Compliance with the terms of governing instruments relative to Client Transactions selected for testing (if any).
 - Adherence to established policies and procedures.
 - b) Review samples of Client Acceptance Policy documentation to confirm that individual and entities accepted as clients are family members.
 - c) Verify if LFTC maintains fidelity bond coverage per NRS 669A.250. Also, verify if management has determined whether or not property and casualty insurance is required, and if so, is the insurance maintained by the LFTC consistent with the Board's determination.
 - d) Ascertain that at least one officer resides in the State of Nevada.
- 4) Assess Operations. This area covers the adequacy of the institution's fiduciary operating systems and internal controls, including the following:
 - Staff, facilities and operating systems
 - Records, accounting & data processing systems
 - In-House Trading functions
 - In-House Vault controls
 - Segregation of duties

- Controls over disbursements & unissued securities
 - Controls over LFTC income processing activities
 - Reconciliation process
 - Disaster and/or business recovery programs
- a) Review the adequacy of the following policies and procedures:
- Account Acceptance Policy
 - Periodic Account Review Policy
 - Client account opening and termination
- b) Determine if the LFTC has established physical security controls aimed at protecting client data, client property, and the LFTC's property.
- c) Review the most recent Audited Financial Statements

If the LFTC did not submit audited financial statements to the Division as part of the examination, the following procedures must be performed:

- Sample and test not more than five transactions from the LFTC accounts and client accounts to determine whether the transactions are properly authorized and properly recorded.
- Compare the ending bank balance on the last quarterly LFTC's bank account statements and the cash balances recorded on the corresponding general ledger account as of the same date to the reconciliation of the last quarterly corporate bank account statements. Identify and discuss any inconsistencies with management.
- Trace at least two fee payments to the LFTC from five client account(s) to ensure that such fee payments are consistent with the Fee Schedule and is supported by appropriate source documentation.
- Confirm through documentation and review that procedures have been established to address periodic and timely reconciliations of general ledger accounts and subsidiary ledgers of the LFTC, as appropriate.
 - Verify the following items:
 - Controls are in place over suspense accounts.
 - The accounts are periodically reconciled.
 - The accounts reflect appropriate items.
 - The accounts are promptly cleared.
- Review the LFTC applicable tax filings and ensure that returns have been filed.
- Confirm that the LFTC is preparing and delivering annual or final reports for the client accounts that require it under NRS 669A.255.

- Confirm that the LFTC's investment policies are maintained for the LFTC and client accounts.

If the LFTC submitted its audited financial statements, determine if all issues and exceptions identified have been resolved or are being addressed. Review the LFTC's management's letter response to outside auditor. Please note that a LFTC is not required to have audited financial statements unless the LFTC elects to submit to an Independent Review.

- d) Evaluate Management. This covers the capability and performance of management and the board of directors, including the following factors:
- The level and quality of oversight and support of fiduciary activities by the board of directors and management, including committee structure and adequate documentation of committee actions.
 - The ability of the board of directors and management, in their respective roles, to plan for, and respond to, risks that may arise from changing business conditions or the introduction of new activities or products.
 - The adequacy of, and conformance with, appropriate internal policies and practices, and controls addressing the operations and risks of significant fiduciary activities, including conflicts of interest.
 - The accuracy, timeliness, and effectiveness of management information and risk monitoring systems.
 - The overall level of compliance with laws, regulations, and sound fiduciary principles.
 - Responsiveness to recommendations from auditors and regulatory authorities.
 - The level of experience and competence of fiduciary management and staff, including issues relating to turnover and succession planning.
 - The adequacy of securities trading policies and practices, if applicable.
 - Decision-making process relative to account administration duties, including cash balances, overdrafts, and discretionary distributions.
- e) Use the Internal Control Questionnaire (*See Exhibit C-2*)
- f) Discuss all major examination issues with senior management as soon as practical during the examination. This would prevent any misunderstanding and allows management to provide additional information. Every effort must be made to resolve significant differences concerning material findings, conclusions or recommendations. In communications with the LFTC, examiners must accurately describe management's position on any remaining differences. Ongoing communication and discussion ensures that examiners derive conclusions from sound and accurate information.
- g) Prepare a Conclusion Memorandum for each key rating component: Management, Operations & Compliance. At a minimum, it should provide a summation of the documentation relied upon during the review, brief details of procedures used and

analyses conducted to support conclusions relative to the assigned composite ratings of *Satisfactory*, *Needs Improvement* & *Unsatisfactory*. The Conclusion Memo should incorporate any material discussions with LFTC's management. All Conclusion Memos are reviewed and approved by the EIC. (See Exhibit D – Conclusion Memo)

- h) One day prior to the exit meeting with management, the EIC needs to prepare a brief summary of examination findings, conclusions & recommendations, including preliminary composite rating. A copy of the brief summary of examination results must be forwarded to the Supervisory Examiner and Examinations Manager, if applicable.
- i) Conduct the exit meeting with management to discuss examination findings, conclusions, recommendations, and preliminary composite rating utilizing the brief summary of examination results as the agenda and topics for discussions. Examiners need to obtain management's commitment to correct weaknesses identified during the examination.

D. Independent Review

Below is a list of administrative review procedures for LFTC that elects to have an independent review:

- 1) Review the following materials:
 - Prior Report of Examination & Workpapers
 - Correspondence/Application Files/License Fees
- 2) Determine whether issues and exceptions outlined in the management letter of the LFTC's external financial audit have been adequately addressed.
- 3) Verify if the LFTC has met the filing requirements, including the independent review report and the audited financial statements. The LFTC shall file these documents with the Division, on or before September 30 of the year in which an independent review is conducted.
- 4) Determine if the person conducting the independent review is independent, reputable, and has the necessary credentials to perform an Independent Review.
- 5) Evaluate the independent review report. The report must:
 - Confirm that the qualified firm performed the independent review using the policies and procedures adopted by the LFTC relating to the management, operation and administration of its trust business and the information and documentation provided in response to the notice of examination.
 - Identify any deficiency noted and client complaints
 - Identify any failure by the LFTC to respond to the notice of examination.

- Review compliance with the provisions of NRS 669A and NAC 669A by, at a minimum, following the Independent Review Examination Procedures and utilizing the Request List and Internal Control Questionnaire contained in these Guidelines.
- Review the adequacy of management's written response to any deficiency, corrective action or client complaint.

E. Post Examination

The post examination primarily consists of the following: writing report of examination and organizing work papers.

Report of Examination

Within 45 days of the completion of an on-site, off-site examination or the filing of an independent review report, the Division needs to prepare and deliver to the LFTC a report of examination that:

- Conveys the overall condition and risk profile of the LFTC, and summarizes examination activities and findings identified during the on-site, off-site examination, and the administrative review of the independent review report. The ROE includes:
 - (a) Any deficiencies or weaknesses which require corrective actions
 - (b) Any client complaints which require management's further response
 - (c) An assigned rating of *Satisfactory, Needs Improvement or Unsatisfactory*

The ROE should be professional, objective, clear, informative, and consistent. When examiners find significant weaknesses or excessive risks, these issues should be thoroughly discussed with management and the board of directors. Depending upon the extent and severity of the issues, the LFTC is generally given a reasonable opportunity to resolve differences and correct weaknesses.

The ROE and work papers must be posted on the S Drive.

F. Confidentiality of the Report of Examination

The report of examination and its workpapers are deemed to be confidential pursuant to *NRS 669A.310*.

[End of NFID Examination Procedures]

EXHIBIT A

BRIAN SANDOVAL
Governor

STATE OF NEVADA
FINANCIAL INSTITUTIONS DIVISION
DEPARTMENT OF BUSINESS AND INDUSTRY

BRUCE BRESLOW
Director

GEORGE E. BURNS
Commissioner

DATE

NAME OF PRESIDENT/CEO
TITLE/POSITION
INSTITUTION'S NAME
ADDRESS

Re: Notice of Examination

Dear Recipient:

Pursuant to the Nevada Revised Statutes and the Nevada Administrative Code (NAC) Chapter 669A, ***the Name of the Licensed Family Trust Company*** is scheduled for a full-scope examination in ***What Year***. Your institution has the option to choose whether the examination will be performed by a qualified firm that meets the standards set forth in NAC 669A or the Nevada Financial Institutions Division (NFID). Please mark your selection below:

- Independent Review (The independent review must meet all of the requirements outlined under NAC 669A and the published Licensed Family Trust Company Examination Guidance)
- NFID Examination (Based upon the Request List information received upon notice of Entry Letter, the NFID will determine the type of examination to be conducted whether an off-site or on-site examination)

If an Independent Review is elected, a confirmation letter acknowledging your selection will be issued within 30 days after the receipt of your response. The independent review report and the audited financial statements must be submitted to the NFID on or before September 30, 2017.

If the NFID Examination is elected, an Entry Letter indicating the date of the examination and the information needed prior to conducting the examination will be issued. Enclosed is a sample request list.

Please make a copy of this letter, mark your choice, and mail it back to NFID no later than **December 15, 2016**.

Should you have any questions or need clarification regarding this matter, please do not hesitate to contact Examiner Michael Smith or Examiner Armando Berumen at (702) 486-4120. Examination guidance available at FID.NV.GOV

Sincerely,

Examinations Manager

EXHIBIT B



BRIAN SANDOVAL
Governor

STATE OF NEVADA
FINANCIAL INSTITUTIONS DIVISION
DEPARTMENT OF BUSINESS AND INDUSTRY

BRUCE BRESLOW
Director

GEORGE E. BURNS
Commissioner

DATE

NAME OF PRESIDENT/CEO
TITLE/POSITION
INSTITUTION'S NAME
ADDRESS

Re: Confirmation Letter – Independent Review

Dear Recipient:

This is to confirm that your institution has elected to have an independent review. It is critical that your institution needs to ensure that all independent review guidelines and requirements as outlined under the Nevada Administrative Code Chapter 669A are met.

Once you have engaged a qualified firm, please notify and provide us the name and contact information of the qualified firm. Please keep in mind that the independent review report and the audited financial statements must be submitted to the Nevada Financial Institutions Division no later than *September 30, 2017*.

Should you have any questions or need clarification regarding this matter, please do not hesitate to contact Examiner Michael Smith or Examiner Armando Berumen at (702) 486-4120.

Sincerely,

Examinations Manager

EXHIBIT C

BRIAN SANDOVAL
Governor

STATE OF NEVADA
FINANCIAL INSTITUTIONS DIVISION
DEPARTMENT OF BUSINESS AND INDUSTRY

BRUCE BRESLOW
Director

GEORGE E. BURNS
Commissioner

DATE

NAME OF PRESIDENT/CEO
TITLE/POSITION
INSTITUTION'S NAME
ADDRESS

Re: Entry Letter – Examination of *Name of the Licensed Family Trust Company*

Dear Recipient:

A full-scope examination of *Name of the Licensed Family Trust Company* is scheduled the week of XXXXXX utilizing data and information as of DATE.

In order to facilitate the examination of your institution, you are requested to provide the information described in the enclosed Request List and Internal Control Questionnaire. You are asked to provide written responses to questions and copies of specific documents requested only if the requested information is new or has changed since the previous examination, which was conducted as of DATE. Please indicate no change where applicable. For each area covered by the Request List, please provide copies of the most recent reports used by management to administer and monitor the respective areas. Please note that examiners may make additional requests during the examination.

Information requested can be submitted electronically unless otherwise indicated, and must be submitted to NFID no later than DATE. All information submitted electronically must be password protected.

Should you have any questions or need clarification regarding this matter, please do not hesitate to call me at (702) 486-4120. You can also email me at *Email Address*.

Sincerely,

Examiner-In-Charge

EXHIBIT C-1

**LICENSED FAMILY TRUST COMPANY (LFTC)
 REQUEST LIST**

1

MANAGEMENT

Item #	Item Description
1.1	Board and Committee organizational structure and responsibilities, including a list of the names of directors, managers and committee members
1.2	Organizational Chart of LFTC's current Board and Committee(s), officers, managers and employees.
1.3	List of city and state of residence of each Board member
1.4	Minutes of the Board of Directors and/or Trust Committees for the last 12 months.
1.5	Business Continuation Plan
1.6	Correspondence with government agencies since the prior examination concerning LFTC's compliance with applicable licensing and other laws or regulations about its business
1.7	Client Complaints and pending lawsuits (if any)
1.8	Privacy Notice provided to Clients
1.9	Policies and Procedures a) Account Acceptance Policy b) Periodic Account Review Policy c) Investment Policies d) Trust Fees Collection and Processing Policy e) Information Security Policy f) Physical Security Policy g) Internal Audit Process, if applicable
1.10	Audited Financial Statements since the prior examination (if any)
1.11	A List of accounts which require annual and final reports under NRS 669A.255
1.12	Monitoring reports for protection of Client Data and LFTC (if any)
1.13	Management's response from previous year's examination findings

2

OPERATIONS, INTERNAL CONTROLS & AUDITING

Item #	Item Description
2.1	Governing instruments (e.g. articles, bylaws, and/or operating agreement)

2.2	List of principal operations and accounting software systems utilized
2.3	Accounting Policies on the following areas: a) Reconciliations of the LFTC’s own bank and brokerage’s accounts b) Control over disbursements c) Control over negotiable instruments d) Controls that are in place over suspense accounts
2.4	Bank account statement(s) of the Licensed Family Trust Company for the final month as of the examination date.
2.5	List of all trust accounts by: account number, type, and estimated value
2.6	Fee Schedule(s) and documentation concerning calculation of fees charged by the LFTC
2.7	List of major outside service providers and copies of their agreements. Include any contracts for custodial services with outside party/parties
2.8	Internal and External audits, including Management Letter, since the previous examination
2.9	Reconcilements and supporting documentation for demand deposit accounts and/or operating accounts as of the examination date
2.10	Reconciliations of LFTC’s client assets with the trust accounting system software as of the “as of” date listed on Entry Letter. (If you have any questions or issues with this request, please contact the Examiner-In-Charge)
2.11	Reconciliation of general ledger and any subsidiary ledgers of the LFTC

3 COMPLIANCE

Item #	Item Description
3.1	Regulatory compliance policies, or plans, if applicable and available: a) Nevada Statutory & Regulatory Compliance Plan b) Bank Secrecy Act (BSA) /Anti-Money Laundering (AML) Policy c) Client Data Policy d) Client Complaint Policy e) Vendor Management Policy.
3.2	Suspicious Activity Reports (SARs)/ Currency Transaction Reports (CTRs) filed since the prior examination
3.3	Declaration Page(s) of the current in force fidelity bond for the LFTC as determined in accordance with NRS 669A.250
3.4	Declaration Page (s) for any additional property and casualty in force insurance maintained by the LFTC.
3.5	Documentation evidencing the maintenance of the minimum stockholder’s equity by the LFTC, and the LFTC’s investment of the minimum capital of the LFTC required by NRS Section 669A.160 and NRS Section 669A.230(1), respectively, for the period under Examination.

4 TRANSACTION TESTING

LFTC that **DOES NOT** submit **Audited Financial Statements** pursuant to NAC 669A Section 25 will be subject to transaction testing listed in NAC 669A Section 25(7). NFID will request account sampling documents during the examination process based upon the information provided above.

EXHIBIT C-2

LICENSED FAMILY TRUST COMPANY INTERNAL CONTROL QUESTIONNAIRE

This Internal Control Questionnaire (ICQ) will be used as part of the Independent Review conducted by a Qualified Firm, or as part of the Offsite and Onsite Examination by the Nevada Financial Institutions Division (NFID) for the Licensed Family Trust Companies (LFTC). The Examination Period will include the LFTC's activities since the previous Independent Review or Examination conducted (unless otherwise specified). Certain questions involve matters which may not be applicable to the LFTC under examination, and in such cases, a response indicating it is not applicable is acceptable. Responses by the LFTC to the ICQ shall be limited to the examination period.

- 1) Have there been any changes in the composition or personnel of the Board, Committee or other key senior management positions during the period under examination. If required, was the NFID notified?

Response: _____

- 2) Has management refrained from soliciting the public for trust company business?
 - a) Yes
 - b) No
- 3) Has the LFTC experienced a loss (related to the fidelity bond or the property and casualty insurance) reportable to the LFTC's insurance carrier in excess of \$50,000?
 - a) Yes
 - b) No
- 4) Has the LFTC been involved as a named party in litigation or regulatory disciplinary proceedings with respect to its trust business? If so, provide information including: Client account(s) involved, nature of the lawsuit and amount involved, and management's statement as to likely outcome subject to any privilege claimed by the LFTC.
 - a) Yes
 - b) No

Response: _____

5) Ascertain whether the Privacy Notice was mailed to Clients in the last twelve (12) months of the period under Examination?

- a) Yes
- b) No

6) Have any Currency Transaction Reports/Suspicious Activity Reports been filed by the LFTC?

- a) Yes
- b) No

7) Has the LFTC established a process for compliance with the OFAC requirements?

- a) Yes
- b) No

8) Does the LFTC maintain foreign accounts (excluding client accounts)? If foreign accounts are maintained, has the LFTC filed a "Report of Foreign Bank and Financial Accounts (TD-F-90-22.1)"?

- a) Yes
- b) No

9) Has the LFTC received any notification of the filing of client complaints with NFID?

- a) Yes
- b) No

If yes, how many? _____

Explain the nature of the client complaint, LFTC response, and any resolution (with copies of the client complaints and LFTC's written responses)

10) Has the LFTC received any correspondence from federal and state agencies concerning the LFTC's alleged failure to comply with applicable state and federal law?

- a) Yes
- b) No

If yes, was the alleged failure satisfactorily resolved by management?

Response: _____

- 11) Confirm that contracts with vendors that obtain or utilize client data contain adequate confidentiality and data protection language consistent with the language recommended GLBA?
 - a) Yes
 - b) No

- 12) Does management maintain a system for granting and monitoring of access to LFTC's documents, records, and data?
 - a) Yes
 - b) No

- 13) Does the LFTC maintain a process to monitor response to potential network and application system's intrusion attempts?
 - a) Yes
 - b) No

- 14) If applicable, does the LFTC know whether or not the Critical Vendor employs such processes for its customer accounts and whether or not the Critical Vendor confirms that contractual safeguards exist?
 - a) Yes
 - b) No

- 15) Has the LTFC experienced a loss or theft of client data?
 - a) Yes
 - b) No

- 16) Does the LFTC retain originals or true and correct copies of trust instruments in physical or electronic form?
 - a) Yes
 - b) No

- 17) Does the LFTC conduct and document an initial review of each client account in accordance with the Account Acceptance Policy?
 - a) Yes
 - b) No

- 18) Does the LFTC conduct a periodic review of each trust account?
 - a) Yes
 - b) No

19) Did the LFTC complete reconciliations of its bank accounts for the last quarter?

- a) Yes
- b) No

20) Did the LFTC experience any physical security breach resulting in unauthorized removal of client data?

- a) Yes
- b) No

EXHIBIT D

AREA(S) REVIEWED¹		PREPARER & DATE PREPARED	
TOPIC DESCRIPTION²			
INSTITUTION'S NAME			
COMMENCE DATE			
AS OF DATE			
REVIEWED BY³	NAME	INITIALS	DATE REVIEWED
EXAMINER-IN-CHARGE (EIC)			

1) EXAMINATION OBJECTIVE(S)

List examination objective(s)

-
-
-

2) EXAMINATION PROCEDURE(S)

Review and assess the following:

-
-
-
-
-

3) CONTACTS

<u>NAME</u>	<u>TITLE</u>	<u>PHONE #</u>	<u>EMAIL ADDRESS</u>

¹ AREA(S) REVIEWED: Indicate the subject(s) of the supervisory activity.

² TOPIC DESCRIPTION: Indicate the relevant topic description.

³ REVIEWED BY: Your initials indicate that "the work is adequate given the circumstances, and the record is sufficient to support the conclusions reached.

4) DESCRIPTION OF ACTIVITIES REVIEWED / DETAILS OF ANALYSIS

-
-
-
-
-

5) LIST OF DEFICIENCIES, EXCEPTIONS, and VIOLATIONS

-
-
-
-
-

6) RECOMMENDED SUPERVISORY CONCLUSION(S), RATING(S) and ISSUE(S)

-
-
-
-
-

7) EXAMINER RESOURCES SPENT ON THIS SECTION

<u>EXAMINER NAME</u>	<u>AGENCY</u>	<u>ONSITE HOURS</u>	<u>OFFSITE HOURS</u>
a)			
b)			
c)			
d)			
e)			