

___ Bank
Audit of Regulation O
Compliance Program

Objectives:

- A. To test the bank’s vulnerability to insider abuse and its level of compliance with established laws, regulations, and policies regarding insider transactions and activities.
- B. To ensure that bank personnel are aware of the requirements of laws and regulations as well as the importance of avoiding even the appearance of impropriety regarding insider activities.
- C. To ensure that the bank’s operating procedures and information systems are adequate to enable management to comply with laws and regulations and board-established policies regarding insider activities.

	Answer Yes/No	Based on I,O,T	W/P Ref
1. Obtain the following: <ul style="list-style-type: none"> a. Written insider policies b. Regulation O guidance c. Determine new executive officers, directors and related interests since the last audit. d. Board of Directors minutes containing insider transaction information. e. A list of shareholders with more than 10% ownership f. A list of extensions of credit to directors, executive officers, principal shareholders, and related interests. 			
Policy Review			
2. Does the policy address: <ul style="list-style-type: none"> a. Disclosure to the board of actual or potential conflicts of interest? b. Abstention by insiders from the approval process on any transaction in which the insider may benefit directly or indirectly from the decision? c. Disclosure of related interests as defined in Regulation O? d. Disclosure by insiders of any material interest in the business of a borrower, an applicant, other bank customer, vendor, or supplier? e. Disclosure of insiders’ transactions with the bank including payment to or receipt from the bank of fees or commissions by insiders? 			

<ul style="list-style-type: none"> f. Communication clearly of the circumstances and conditions under which the bank may enter insider transactions? g. Requirements for arms-length transactions with insiders, or insider-related organizations? h. Documentation requirements for insider transactions? i. Officers who may enter into insider transactions on the bank’s behalf? j. Prohibitions for soliciting anything of value from anyone in return for any business service or confidential information of the bank? k. Prohibitions for accepting anything of value other than their bona fide salary, wages, fees, or other compensation paid in the usual course of business by their employer, from anyone in connection with the business of the bank, either before or after a transaction is discussed or consummated? l. Prohibitions from accepting gifts, bequests, or other items of value from bank customers or other persons with business dealings with the bank? m. Prohibitions from using insider information in securities transactions? 			
<p>3. Determine whether the policies adequately address the consequences of breaches of fiduciary duty, unethical conduct, violations of law, or suspected criminal activity, and contain effective internal reporting mechanisms as well as SAR filing processes.</p>			
<p>4. Determine whether the bank periodically reviews its insider policies to ensure that they reflect any changes in laws or regulations. Determine whether:</p> <ul style="list-style-type: none"> a. Insiders have copies of the document and have signed an acknowledgement form. b. Insiders are advised of their responsibilities. c. The bank provides training updates. 			
<p>5. Does the policy also address the payment of overdrafts for an executive officer or director on a personal account they hold or on another individual’s account on which they are a signatory party at the financial institution?</p>			
<p>6. For any such overdrafts, does the policy require they be:</p> <ul style="list-style-type: none"> a. Paid in accordance with a written, preauthorized interest-bearing extension of credit plan that 			

<p>specifies a method of repayment (12 CFR 215.4(e)(1)(i))? OR</p> <p>b. Paid in accordance with a written, preauthorized transfer of funds from another account of the executive officer or director (12 CFR 215.4(e)(1)(ii))? OR</p> <p>c. Paid only because it was both inadvertent and in an aggregate amount of \$1,000 or less provided the overdraft status continues for less than five business days and the executive officer or director pays the same fee charged any other customer in similar circumstances (12 CFR 215.4(e)(2) and (2)(i) and (ii))?</p>			
<p>7. Does the policy prohibit the financial institution from intentionally having cash items held in order to prevent an overdraft for an executive officer or director (12 CFR 215.3(b)(2))?</p>			
<p>8. Does the policy require that loans to or from a correspondent institution regarding insiders or their related interests:</p> <p>a. Be on terms no more favorable than those available at the same time to non-insiders for comparable transactions?</p> <p>b. Carry no more than the normal risk of failure to repay?</p> <p>c. Have no other unfavorable features?</p>			
<p>Processes</p>			
<p>9. Review information systems, and determine whether they:</p> <p>a. Can provide aggregate data on insiders and their related interests.</p> <p>b. Can ensure proper monitoring of, and compliance with, insider lending restrictions (see 12 CFR 215.8 for record keeping requirements).</p> <p>c. Require that reports on insiders be retained for at least 3 years (12 CFR 215.22(d))</p> <p>d. Require that records of publicly requested disclosures of information be retained for 2 years from the date of the request (12 CFR 31.2(a) and 215.23(b)).</p>			
<p>10. Determine whether the bank has established communication channels outside of the normal chain of command through which employees can seek advice on ethics or compliance questions.</p>			

11. Determine whether the bank’s employment practices include performing periodic background checks on insiders.			
12. Determine whether insider-related reports are being reviewed by management and the board.			
Personnel			
<p>13. Determine whether management ensures personnel are aware of regulatory requirements regarding insider activities:</p> <ul style="list-style-type: none"> a. Is there an ongoing program to educate and raise the awareness of all bank employees regarding its insider policies? b. Is there a confidential process by which personnel may bring potential conflicts of interest or improper situations to the attention of management and the board? c. Has management provided training to personnel regarding regulatory and bank-established policy requirements, including training for regulatory and policy changes/updates, at least annually? d. Do the bank’s policies require affected personnel to acknowledge reading the policy, including updates, and abiding by their terms? e. Are they aware of the reporting requirements of 12 CFR 31.2(a) and 215.22(e)? 			
Testing			
<p>14. Select a representative sample of insider borrowings. Review terms of extensions of credit (including renewals), such as interest rates, fees charged, and collateral. Assess compliance with laws and regulations for loans to insiders by determining whether these extensions of credit and loan renewals:</p> <ul style="list-style-type: none"> a. Are made on substantially the same terms and adhere to credit underwriting practices that are no less stringent than those available at the same time to non-insiders for comparable transactions (12 CFR 215.4(a)(1)). b. Are made pursuant to an employee benefit or compensation plan which is widely available to employees (12 CFR 215.4(a)(2)). c. Carry no more than a normal risk of failure to repay (12 CFR 215.4(a)(1)). d. Do not exceed the greater of \$25,000 or 5 percent of the bank’s unimpaired capital and 			

<p>unimpaired surplus (12 CFR 215.4(b)). If exceed, determine whether:</p> <ul style="list-style-type: none"> i. The extension of credit was approved in advance by a disinterested majority of the entire board (12 CFR 31.2(a) and 215.4(b)(1)(i)). ii. The interested party abstained from voting (12 CFR 31.2(a), 215.4(b)(1)(ii) and 215.4(b)(4)). iii. There is prior approval for any aggregate extension of credit to an insider and all related interests of the insider exceeding \$500,000 (12 CFR 215.4(b)(2) and (3)). 			
<p>15. Does the financial institution monitor to ensure that aggregate extensions of credit to executive officers, directors, and principal shareholders and their related interests do not exceed 100% of the bank’s unimpaired capital and unimpaired surplus?</p>			
<p>16. Determine whether the proceeds of any loans to third parties were transferred to, or used for the benefit of, any insider and, if so, whether such transfer or benefit qualifies for an exception to the “tangible, economic benefit” rule (12 CFR 215.3(f)).</p>			
<p>17. With respect to principal shareholders, determine whether any loans were made to members of that shareholder’s “immediate family,” as that term is defined by 12 CFR 215.2(g).</p>			
<p>Executive Officer Requirements</p>			
<p>18. Review all loans to executive officers and their related interests for the following:</p> <ul style="list-style-type: none"> a. The loans were for the finance or refinance of the purchase, construction, maintenance, or improvement of the residence. This should also be secured by a 1st lien on the residence. b. The loans was for a child’s education <p>19. If loans were made other than these purposes, review to determine that they do not aggregate more than \$25,000 or 2.5 percent of the bank’s unimpaired capital and unimpaired surplus (limited to \$100,000), whichever is greater (12 CFR 31.2(a) and 215.5(c)(4)).</p> <p>20. Determine whether extensions of credit to executive officers are:</p>			

<ul style="list-style-type: none"> a. Promptly reported to the board of directors (12 CFR 215.5(d)(1)). b. Made on the same terms as to any other person c. Preceded by the submission of a detailed current financial statement of the executive officer (12 CFR 215.5(d)(3)). d. Made under the written condition that the extension of credit shall become due and payable on demand at any time that the officer is indebted to any other bank(s) in an aggregate amount greater than the amount specified for the category of credit in section 215.5©, 215.5(d)(4)). 			
Other Insider Testing			
<p>21. Determine if bank records or insider borrowings satisfy the record keeping requirements of Regulation O, including (12 CFR 215.8):</p> <ul style="list-style-type: none"> a. Identifying all executive officers, directors, and principal shareholders and their related interests? b. Specifying the amount and terms of each extension of credit to insiders? c. Annually requesting each executive officer, director, and principal shareholder to identify their related interests? d. Employing a record keeping method the financial institution’s primary regulator determines is effective? 			
<p>22. Determine if executive officers and principal shareholders have made the following written reports on borrowings from other banks to the board of directors, including (12 CFR 215.9 and 215.22(a)):</p> <ul style="list-style-type: none"> a. Reports, made within 10 days, of indebtedness to other banks in an aggregate amount greater than they could borrow from their own bank (12 CFR 215.10)? (The indebtedness exceeds \$100,000 or the greater of 2.5% of capital and surplus or \$25,000.) b. A 10-day report detailing the lender’s name, the date, and the amount, security, and purpose for each extension of credit? 			
<p>23. Does the financial institution’s most recently filed call report include:</p> <ul style="list-style-type: none"> a. A report of all extensions of credit made by the bank to its executive officers (12 CFR 215.10). 			

<p>b. An accurate reporting of extensions of credit to executive officers, directors, principal shareholders, and their related interests (12 CFR 215.10)?</p>			
<p>24. Does each executive officer and director of a bank that is not publicly traded report the outstanding amount of any credit extended to him or her based on the security of shares of the bank, to the board of directors annually (12 CFR 215.2)?</p>			
<p>25. Using bank reports and other materials, determine whether aggregate loans to any individual and related interests exceed the limit on loans to a single borrower established by 12 CFR 215.4(c).</p>			