

Payments Systems Risk Program

EXAMINATION OBJECTIVES

To evaluate the institution's self-assessment process and resultant net debit caps when applicable.

To determine the adequacy of electronic funds transfer internal controls, policies, practices, and procedures and the level of compliance within each.

To determine whether the institution has unposted electronic transfer funds.

To determine the adequacy of the board of directors' oversight of electronic funds transfer activities and monitoring of unposted electronic transfer funds.

To determine if the association is in compliance with Regulation F.

To determine compliance with applicable laws, rulings, and regulations.

To initiate corrective action when internal objectives, policies, or procedures are deficient, or when violations of laws, rulings, or regulations have been noted.

To ensure that institutions without self-assessments have adequate controls to prevent daylight overdrafts.

EXAMINATION PROCEDURES

LEVEL I

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1. Review the most recent Electronic Funds Transfers (EFTs) policies and procedures for large dollar wire transfer system(s) used by the institution. Any weaknesses should be reviewed as part of the payments systems risk review.

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2. Review the previous report of examination and all payments systems risk-related exceptions noted and determine if management has taken appropriate corrective action.
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3. Review scoping materials applicable to this program. If the review of scoping materials is performed by others, obtain a summary of the review of items concerning this program. Refer to the examiner in charge for instruction if needed.
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4. Determine the level and frequency of the institution's daylight overdraft activity. Institutions may comply with the PSR policy statement by:

- Not incurring daylight overdrafts. In this case, the institution will not have a self-assessment file. However, the examination should include a review of controls established to ensure that no daylight overdraft will occur;
 - Qualifying for a de minimis daylight overdraft cap. Although self-assessments are not required of such institutions, the policy sets forth guidelines for institutions electing this option;
 - Qualifying for the exempt category; or
 - Completing a self-assessment and establishing a net debit cap.
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5. Determine if correspondents are used and whether the correspondent relationship creates a credit exposure to the association. Review the association's written policies with regard to the selection and monitoring of correspondents and determine if the policies comport with the requirements of Regulation F.
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6. Review Level II procedures and perform those necessary to test, support, and present conclusions derived from the performance of Level I procedures.
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LEVEL II

1. Determine whether the institution effectively monitors its payments activity for daylight overdrafts, if necessary.

2. Determine whether the institution has received counseling from the Federal Reserve Bank regarding daylight overdraft activity in excess of its appropriate limit.

3. If a de minimis cap is used, review the board of directors' approval of the cap on the institution's daylight overdrafts.
 - Determine whether the board of directors has submitted a copy of the certification of the de minimis cap to its Federal Reserve Bank within the past 12 months.
 - Based on the results of the overall examination, determine if the de minimus cap poses undue risk.
 - Determine whether the institution meets the exempt category requirements, if it has filed for exempt status.

4. For institutions that incur daylight overdrafts and do not qualify for a de minimis cap, determine if a self-assessment review has been performed.

5. If self-assessment is used, determine whether an annual resolution by the institution's board of directors has established the self-assessment rating of the institution, and whether the current board of directors' resolution has been submitted to the institution's Federal Reserve Bank.
 - Determine whether the self-assessment is complete, reasonable, and reflective of the examiner's findings on the overall condition of the institution.

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- Determine whether the net debit cap assigned by the institution accurately reflects the self-assessment findings of the institution and the findings of the regulator.
 - Review monitoring reports submitted to the institution by the Federal Reserve Bank to ensure that the institution's funds transfer activity remains within the limitations of its self-assessment rating.
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6. If the institution has not voluntarily established a net debit cap on funds transfer activity:

- Determine the adequacy of controls implemented to prevent daylight overdrafts.
 - Initiate, through the institution or the OTS regional office's liaison officer, remedial action in the event of inadequate controls to prevent daylight overdrafts.
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7. Review any arrangement that permits a depository institution to have its Fedwire business conducted by a correspondent with Fedwire accessibility. The correspondent may be an affiliate of the institution or an unaffiliated company. In such cases, the PSR policy statement requires that the third-party-access arrangement conform to certain requirements or have been phased out by June 30, 1990.

- Determine whether the institution either approves each individual transfer or has established individual customer credit limits to limit each transfer.
- Review the adequacy of controls on the service provider to ensure adherence to the institution's net debit cap and approved credit limits.
- Review the board of directors' approval of the service provider and the necessary agreement with the institution's Federal Reserve Bank to allow direct postings of funds transfer activity to the institution's reserve account.
- Review the adequacy of the institution's monitoring of the service performed.

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- Determine that the institution has confirmed the absence of conflicts for the service provider and its own funds transfer activity.
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8. Determine whether the institution has any unposted funds that need to be returned to the appropriate government agencies.
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9. If the institution has unposted funds:
- Determine the adequacy of controls for returning funds or notifying the government agencies of changes in recipients' account information.
 - Initiate remedial action in the event of inadequate controls.
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10. Review the institution's credit files on correspondents (obtaining outside data, if necessary) and determine if the association has limited its credit exposure to correspondents as specified by the requirements of Regulation F.
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11. Summarize findings, obtain management responses, and update programs and the continuing examination file (CEF) with any information that will facilitate future examinations. File exception sheets in the general file (GF).
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12. Ensure that the Objectives of this Handbook Section have been met. State your findings and conclusions, as well as appropriate recommendations for any necessary corrective measures, on the appropriate work papers and report pages.
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EXAMINER'S SUMMARY, RECOMMENDATIONS, AND COMMENTS

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