Federal Reserve System
Borrower-in-Custody (BIC) Program Auditor Job Aid

This Job Aid outlines key activities to assist in conducting the annual audit of the institution's compliance with the Requirements as defined on the FRB Discount Window Pledging Loans page of the Federal Reserve Discount Window and Payment System Risk website.

Safekeeping

☐ Confirm all required loan documents are present, properly executed, and complete in accordance with the institution's internal loan policies and procedures.

☐ Confirm that effective controls are in place across all storage locations, including third-parties, to ensure that all loan documents are stored securely to prevent the inadvertent or deliberate removal, destruction, sale, double pledging, or modification of the loans.

☐ Verify the following against the most recent approval letter from the Reserve Bank:

- The current storage locations of the Notes. Effective controls must exist such that storage locations of the Notes cannot be added or removed without the Reserve Bank's prior written approval.
- The form in which the Notes are held (i.e., physical or electronic).

☐ For Notes originated in tangible form then imaged or converted to electronic format with the original tangible Note destroyed, ensure policies and controls exist to establish (i) the original was destroyed; (ii) the institution retains an imaged copy that is identified as the true and correct copy of the original record; and (iii) other duplicates are identified as such.

☐ For Notes originated with a digital signature that have been converted to paper records (i.e., printed and stored in tangible form with the original electronic record deactivated), ensure policies and controls exist to comply with applicable state law(s).

Identification

☐ Confirm pledged loans are prominently identified as pledged to the Reserve Bank and subject exclusively to the Reserve Bank's written instructions. The institution must have an established process and effective controls to update labeling as necessary. This requirement applies to:

- Physical Notes. Examples of how this requirement may be met include displaying visible and conspicuous signage where physical Notes are stored or affixing labels to each loan file containing physical Notes;
- Electronic Notes created, received, or stored in an electronic loan document vaulting service. Examples of how this requirement may be met include applying visible and conspicuous notations on the Electronic Notes or displaying a splash screen in the electronic loan document vaulting service.

☐ Confirm pledged loans are marked within the institution's loan accounting system to show that they have been pledged to the Reserve Bank and are subject exclusively to the Reserve Bank's written instructions. For both physical and electronic Notes, an example of how this requirement may be met is by applying a code, flag, or other label within the institution's loan accounting system. The institution must have an established process and effective controls to update labeling as necessary.

Pledged Loan Data and Characteristics

☐ Verify pledged loans comply with all Acceptance Criteria for Loans on the Federal Reserve Discount Window and Payment System Risk website.

☐ Verify the following items against the most recent approval letter from the Reserve Bank:

- For pledged commercial loans, the acceptability of the reported Internal Risk Ratings (IRRs).
- Foreign jurisdictions/U.S. territories where pledged loan obligors are domiciled (if applicable).
- Affiliates and/or subsidiaries to whom pledged loans are payable (if applicable).
- The state(s) in which the real estate is located for pledged loans secured by real estate where Notes originated in tangible form were imaged or converted to electronic form with the original tangible documents destroyed (if applicable).
- The Reserve Bank Collateral Categories and Call Report Line Items for the pledged loans.

☐ Verify accuracy of the data elements on the most recent Collateral Schedule(s) submitted to the Reserve Bank.

☐ Verify effective controls to ensure that Collateral Schedules are: 1) submitted timely and accurately to the Reserve Bank, and 2) kept current and updated such that ineligible loans are removed.

BIC Certification Form

☐ Verify the accuracy of all responses provided by the institution on the annual BIC Program Certification form.