

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

August 1, 2013

To: Depository Institutions in the
Twelfth Federal Reserve District

Changes to the Borrower-In-Custody of Collateral Program Policy

In response to more depository institutions participating in the Borrower-in-Custody (BIC) program and feedback we have received from BIC program participants, the Federal Reserve Bank of San Francisco (FRBSF) is making several changes to our BIC program policy effective August 5, 2013. The updated BIC Program Guidelines and referenced forms that reflect these changes can be found online at http://www.frbdiscowindow.org/12_bic.cfm

Below are noteworthy changes.

- Institution Level Inspections - Periodic inspections are now completed at the institution level. If you have more than one site location for your collateral, we will conduct a comprehensive inspection during a single period instead of performing inspections only at a single collateral site. This provides for more efficient use of your staff resources as well as aiding in exception resolution.
- On-line Inspections – On occasion we may perform BIC inspections without a physical presence at the collateral site. The On-line inspections of pledged collateral will be conducted using imaged documents sent over secure data transmission lines. We will utilize conference calls to maintain communication during the inspection. It is anticipated that this method of inspection will more efficiently use your staff resources that support us at the inspection site.
- Imaged Legal Documents – We have clarified and expanded our policy of accepting non-original, e.g., imaged, legal loan documentation such as promissory notes, etc. A completed Imaged Questionnaire will give us relevant information to assess that sufficient controls exist over the imaging process, among other things, to approve the pledge of non-original legal documents.
- New BIC1 Transmittal Form – If you have multiple locations and/or collateral types, you need now complete only one BIC 1 form instead of completing one for each pledge listing.
- Audit Certification – The Audit Certification is now in a questionnaire format giving the institution's internal audit function more guidance and clarity on our expectations.
- Collateral Schedule Confirmation – A new annual requirement is the execution of a Collateral Schedule Confirmation by the depository institution's executive management. The confirmation serves as an attestation – to the best of the signer's knowledge - that controls are in place giving reasonable assurances that accurate pledge listing are generated.

The change to our BIC program policy will be in effect on August 5, 2013. For your convenience we have also created FAQs of the changes and they are located at the web address above.

Additional Information

If you have any questions please do not hesitate to contact us at 866-974-7475 and choosing Option 4.

Federal Reserve Bank of San Francisco
Credit and Risk Management