

REGULATORY COMPLIANCE

11. Compliance Management for Banks
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COMPLIANCE MANAGEMENT FOR BANKS

Learning Outcome Statements

- Know internal & external compliance functions clearly
- Understand risks in con-compliance
- Responsibilities of the senior personnel

Key Contents

Compliance

- What is Compliance?
- Ways of achieving effective and efficient compliance
 - Role of the Board and the CEO.
 - Analysis of requirements and identification of risks, requirements and exposures
 - Development of systems and procedures
 - Creation of an organization wide compliance culture
- The risks involved in Non-Compliance:
 - Reputation Risk
 - International Isolation
 - Regulatory punitive action
 - Legal Risk

Effective Corporate Governance

- Setting up of
 - Appropriate management structures,
 - Reporting requirements,
 - Control structures
 - Performance measures.
 - Setting up a designated compliance unit, headed by a Senior Officer
- Role of Compliance Officers.
- Advise management and guide staff to ensure strict adherence of the various legal and regulatory provisions governing the operations of bank
- Reporting Structure and process between the Board and the Compliance Professional.

The Role of Compliance Professionals

FATF Recommendations

- General framework of the recommendations
 - Role of national legal systems in combating money laundering
 - Scope of the criminal offence of money laundering
 - Provisional measures and confiscation
 - Role of the financial system in combating money laundering
 - Customer identification and record-keeping rules
 - Increased diligence of financial institutions
 - Measures to cope with the problem of countries with no or insufficient anti-money laundering measures
 - Other measures to avoid money laundering
 - Implementation and role of regulatory and other administrative authorities
 - Strengthening of international co-operation
 - Exchange of general information
 - Exchange of information relating to suspicious transactions
 - Other forms of co-operation basis and means for co-operation in confiscation, mutual
 - Focus of improved mutual assistance on money laundering issues
- Personal investment policies issues
- Personnel integrity and related compliance issues
- Future of Compliance

BASEL II

Learning Outcome Statements

- Understand the requirements of Basel II and its background
- Specify the data requirements for the key calculations involved in various approaches
- Perform the basic calculations for both the Standardized and IRB approaches
- Understand the advanced approaches for credit risk as well as operational risk
- Identify the specific issues to be addressed under supervisory review process (Pillar II)
- Understand the general considerations with regard to disclosure requirements (Pillar III)

Key Contents

- Basel II - An Overview
- Credit Risk - Standardized Approach
 - Risk components and risk weights for corporate, bank, equity and sovereign exposures
 - Approaches used to estimate the risk components
 - Minimum requirements for corporate, bank, equity and sovereign exposures
- Standardized Approach - Credit Risk Mitigation
 - Techniques that banks use to mitigate credit risk
 - Treatment of risk mitigation techniques in standardised approach
- Simplified Standardized Approach
 - Simplified Standardised approach for credit risk
 - Treatment of credit risk mitigation techniques
 - Treatment securitization transactions
 - Simplified Standardised approach for operational risk
- IRB Approach - Overview
 - The mechanism of IRB approach
 - Different categories of exposures
 - Risk components involved
 - Sub-approaches in IRB approach
 - Procedure for adopting IRB approach across asset classes
 - Transition arrangements under the IRB approach
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 - The mechanism of IRB approach
 - Different categories of exposures
 - Risk components involved
 - Sub-approaches in IRB approach
 - Procedure for adopting IRB approach across asset classes
 - Transition arrangements under the IRB approach
- IRB Approach - Minimum Requirements
- Credit Risk - Securitization Framework
 - IRB approach for securitization exposures
 - Credit Risk Securitization framework
- Operation Risk Measurement Approaches
 - Principles for management and supervision of operational risk
 - Framework for evaluating operational risk management policies and practices
 - Role of supervisors and the utility of disclosure
 - Qualifying criteria for operational risk measurement approaches
- Qualifying Criteria For Operational Risk
 - Qualifying criteria for operational risk measurement approaches
- Market Risk - Measurement Framework
 - Methods to measure market risk capital
 - Capital Ratio
- Market Risk - Standardized Measurement Approach
 - Treatment of Interest rate risk
 - Treatment of equity position risk
 - Treatment of Foreign Exchange Risk
 - Treatment of Commodity
 - Treatment of Options
- Market Risk - Internal Models Approach
 - 'General' and 'Qualitative' requirements
 - Quantitative standards for calculating capital charge
 - Specification of market risk factor
 - Back Testing ; Stress Testing
- Key Principles of Supervisory Review Process
- Supervisory Review Process for Securitization
- Market Discipline

BASEL III

Learning Outcome Statements

- Comprehensive update on Basel capital and liquidity reforms for banks

Key Contents

Brief Overview of Events before and During the Banking Crisis

- Securitisation and the mortgage markets
- CDO markets, super senior tranches, the chase for yield, and the role of the rating agencies
- Point of Sale accounting and mark-to-market valuation
- Reliance on whole-sale funding and the creation of funding liquidity risk
- Use of structured investment vehicles and implicit support
- Impact on the interbank markets
- Limitations in stress testing
- Deficiencies in senior and risk management oversight

Changes to Capital itself

- Problems with current definition
- An outline of the changes
 - Removal of hybrid securities
 - Introduction of Common Equity Tier 1 and Additional Tier 1
 - Regulatory adjustments
 - Elimination of Tier 3 and harmonisation of Tier 2
 - Treatment of minority interests and other investments
 - Bail-in bonds
- Conservation Capital Buffer
- Counter-Cyclical Capital Buffers
- SIFIs and SIBSIRB

Changes to the Regulation of Market and Credit Risk

- Why has traded market risk been highlighted as requiring attention?
 - Reinforcement to the approval process for internal models
 - Introduction of Stressed VaR

- Introduction of the Incremental Risk Charge to replace Issuer Specific Risk
 - What are the broad requirements?
 - Netting and other mitigation
 - Specifying and implementing the liquidity horizon
 - Brief outline of credit portfolio modeling, including both default and migration, to estimate the IRC
 - Criticisms of the IRC, and likely modifications
- Estimation of a capital charge for counterparty credit risk (CCR)
 - What is the current state? Background to the existing formula
 - Introduction of the Credit Valuation Adjustment (CVA)
 - How to model expected positive exposure
 - Proposed Bond Equivalent approach
- Centralised clearing for OTC derivatives
 - How is the credit default swap market operating?
 - Lessons to be learnt
 - Incentives and disincentives to centrally clear
 - What are the current Basel proposals?
- Proposals under the Fundamental Review of 2012

Changes to the Securitisation Framework

- What went wrong, and what are the broad intentions?
- The IOSCO Code of Conduct
- Recalibration of the Supervisory Formula
- Specific risk charges and SF charges

Multi-Dimensional Risk Measures

Is capital the only mitigant? Introduction of a leverage constraint

Introduction of a Liquidity Framework

Other Changes to Pillars 2 and 3