



Guide to the Central Bank's On-Site Examination Process



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...Why A Guide?

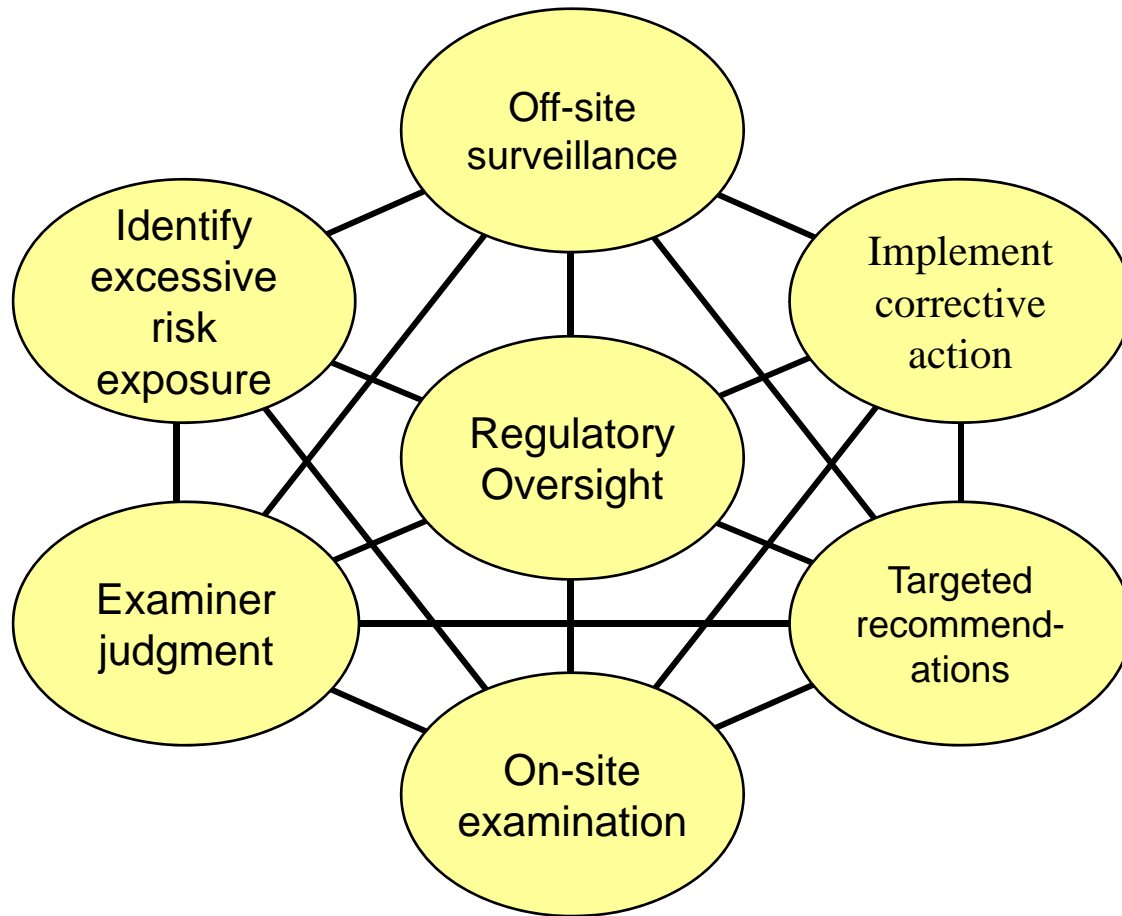
- Openness and Transparency in financial markets regulation and supervision
- Enhanced dialogue with financial institution & other stakeholders



...Objective

- Objective of Guide
 - Promote greater openness in policy and decision making
 - Promote awareness and enhance transparency of examination process

...Risk-based Framework





...On-site Examination Process

- Shift to more risk-based approach.
- Frequency/focus of examinations based on determined by risk profile of licensee
- Publication of risk based framework
- Updating of examination manual
 - Consistency in approach/level playing field
 - Ensure findings considered within context of licensee's overall risk profile.



...On-site Examination Process

- Examinations
 - scheduled as a part of annual plan for examinations
 - scope determined based on ongoing supervisory process and pre-examination analysis
 - scope can range from targeted to comprehensive
 - Most examinations tend to focus on safety and soundness issues



...Comprehensive Exams

- What's involved?
 - appropriate and effective policies, processes and procedures in place?
 - corporate governance, risk management and control programme?
 - management and staff—knowledge, training and technical skill?



...Jointly Regulated Licensees (JRL)

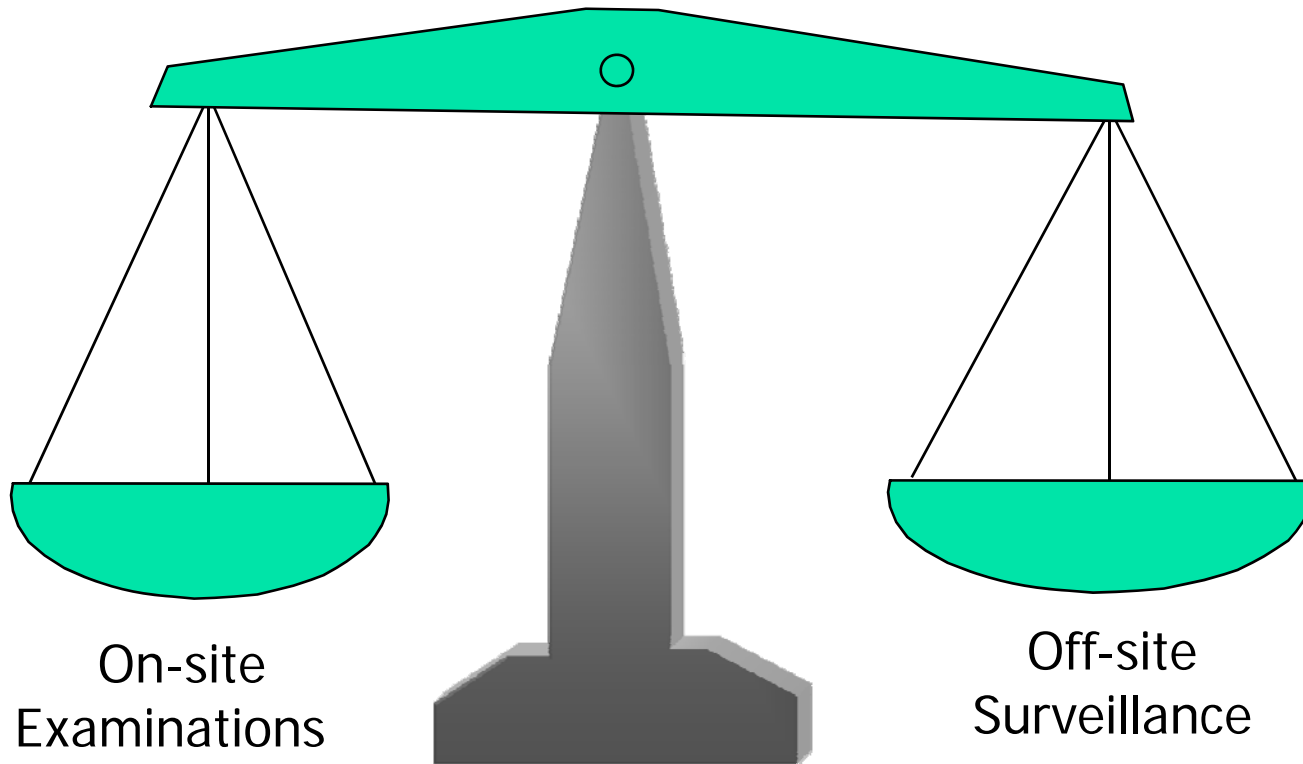
- CBB and SCB agreed Joint Examination Programme (JEP)
- Objectives of JEP?
 - planning, timing and scope of examinations of these institutions
 - the reporting of examination findings and recommendations
 - follow-up and enforcement actions, if any



...Joint Examination Programme

- Important considerations:
 - CBB will take lead in coordinating joint examinations
 - overall coordination is responsibility of Joint Examinations Committee (JEC)

...On-site versus Off-site Complementary





...On-site Examinations

- On-site examinations enable an Examiner to, inter alia:
 - test and reach a conclusion about the reliability of systems, controls and reports so that Examiners may reasonably rely upon the information provided for the off-site monitoring and analysis;
 - examine changes or anomalies disclosed by off-site surveillance and analysis; and
 - evaluate aspects of operations for which off-site surveillance of systems and control is insufficient.



...Pre-examination planning

- Examiner-in-Charge (*"EiC"*) is appointed to lead the examination team
 - smooth operation of the assigned on-site examination;
 - preparation of the Scope Letter and Scope Document;
 - fulfilment of requirements and objectives of examination;
 - the Report of Examination (*"RoE"*) properly reflects the examination findings and recommendations.



...Pre-examination planning cont'd

- Notification/Scope Letter

- Addressed to the Senior Official of a licensee
 - ❖ Includes detailed list of information needed to conduct:
 - ✓ off-site pre-examination analysis
 - ✓ on-site examination information required at start of the examination
- identifies the EiC and start date of examination
- generally sent at least six (6) weeks prior to the start of the examination
- notification/Scope Letter for a JRL will include, as an attachment, a formal letter from the Securities Commission



...Pre-examination analysis

- EiC reviews and evaluates several sources of information to prepare pre-examination analyses and scope of the examination
 - prior RoEs and work papers;
 - information resident in BSD files including audited financial statements, licensee quarterly reports, Corporate Governance Certificates and other pertinent information; and
 - the pre-examination information required of the licensee as detailed in the Notification/Scope letter.



...Pre-examination analysis cont'd

- Other factors EiC might take into account
 - a licensee's risk profile;
 - the responses received from the licensee to the recommendations of prior RoE(s);
 - significant changes in a licensee's organisational structure, systems, products and regulatory requirements; and
 - independent testing performed by a licensee's external and internal auditors.



...Pre-examination analysis cont'd

- EiC also prepares an Internal Scope Document
 - includes detailed information on team member work assignments of an examination.



...On-Site Examination Procedures

- Entry Meeting
 - first day of exam or as soon as practicable thereafter
- Amendment of Examination Scope
 - EiC may expand scope of examination for various reasons
- Testing
 - Examiner select various attributes for review and testing to appropriately and adequately assess the various risk areas



...On-Site Examination Procedures cont'd

- Examination Findings
 - issues that, in an EiC's opinion, should be addressed and/or improved to ensure a licensee's business is performed within various parameters
- Exit Meeting
 - Examiners hold an exit meeting with senior management of a licensee to communicate summary results of the examination and to discuss any potential findings



...Preparation/Issuance of RoE

- RoE will usually contain the following broad elements:
 - ✓ *Objectives of the Examination*
 - ✓ *Update on a licensee's business activities*
 - ✓ *Findings*
 - ✓ *Recommendations*



...Preparation/Issuance of RoE

- N.B.– RoE will normally contain only the information needed to explain the issue
 - Examiners will generally prioritise findings and if possible focus on the five (5) or six (6) major issues.

- Preparation of Draft RoE
 - EiC is responsible for the preparation of Draft RoE
 - Draft RoE submitted internal committee for review and amendment where required
 - Draft RoE is transmitted to the licensee's senior official
 - For JRLs, CBB and SCB prepare their respective sections of a Draft RoE (marked for discussion purposes only), which is then sent to the licensee's senior official for review and comments.



...Preparation/Issuance of RoE

- Closing Meeting
 - EIC organises and coordinates closing meeting with the license's senior management
 - Objective:
 - ✓ ensure that the Draft RoE factually correct and that the licensee fully and correctly understand recommendations and/or findings
- EIC makes any necessary amendments to the Draft RoE and present a Final RoE for final review by internal committee prior to transmittal to the licensee
- For JRLs, subsequent to closing meeting, CBB & SCB make necessary amendments, to their respective Draft RoEs after which, they are submitted to their respective internal RoE approval committee prior to transmittal to the licensee.



...Transmittal/Follow-up of RoE

- Final RoE issued to a licensee's Senior Official 1, with copies of the final RoE for all members of that licensee's board of directors
 - Licensee given specified date for written response
 - Continues until all recommendations addressed
- For JRLs, each licensee required to reply to each agency's (CBB & SCB) RoE separately



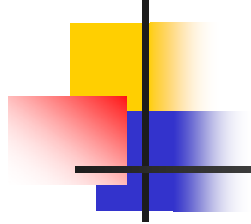
...Special Focus Examinations

- Where either the Central Bank or the Securities Commission has supervisory concerns about a jointly regulated licensee and considers that a “Special Focus Examination” should be conducted, such an examination may be conducted jointly or individually by each agency without observing the usual notification period



Enforcement Action

- Should a licensee fail to address significant issues raised in the RoE, the Central Bank will have recourse to supervisory intervention in accordance with the policy guideline titled "*A Guide to the Central Bank's Ladder of Supervisory Intervention*", issued on 12th April 2006
- Supervisory intervention communicated in writing
- For JRLs, enforcement action taken by agency that has primary responsibility for the issue that caused the concern



Thank You!