

**Department of Financial Institutions & Markets
Bangladesh Bank
Head Office
Dhaka.**

DFIM Circular No.-01

24 Chaitra, 1419
Date : -----
07 April, 2013

Chief Executives/Managing Directors,
All Financial Institutions in Bangladesh.

Dear Sir,

**Formation of Risk Management Forum (RMF) & Risk Analysis Unit (RAU)
in the Financial Institutions (FIs).**

With a view to facing the ongoing challenges of increased competition and expansion of diversified financial business of the FIs in Bangladesh under the recent global recession, Bangladesh Bank has issued several prudent guidelines on Risk Management for the FIs which includes *Risk based Capital Adequacy, Stress Testing and five Core Risks Management*. Introduction of Basel II (and subsequently Basel III) requires more multifaceted method to calculate regulatory capital requirements. Therefore, its implementation entails that the FIs should adopt improved policies and procedures in line with international best practices for its risk management framework.

Considering the heat and upheaval of the globalized economic system, the financial interrelation it has, become vital to explore the ways of being more resilient. For ensuring a sound financial system, ***Proactive Risk Management*** is getting more emphasis day by day.

In order to manage all the risks in a prudent and organized way, the FIs operating in Bangladesh are advised to follow the instructions as mentioned below:

A. Risk Management Forum:

Each FI must have an effective Risk Management Forum (RMF). It should be headed by the Chief Risk Officer (CRO) and comprised with the heads of the Credit, Treasury, ICC, MIS, Operation Division, ALCO or any other related divisions. The responsibilities of RMF include the following:

- a) Designing overall risk management strategy of the FI;
- b) Communicating views of the board and senior management regarding the Risk Management Culture and Risk Appetite all over the FI;
- c) Preparing risk management policies and procedures;
- d) Monitoring the prescribed/threshold limits of Risk Appetite set by the regulator and/or by the FI itself;
- e) Developing, testing, and observing the use of models to measure and monitor the risks;
- f) Developing and overseeing implementation of stress testing;

- g) Overseeing the Capital Management functions in accordance with the Risk Based Capital Adequacy measurement accord i.e. BASEL-II /III;
- h) Determining the most cost-effective way to minimize the risks;
- i) Highlighting the risky portfolios and deficiencies of the FIs on timely manner and reporting these analyses to the Managing Director as well as the Board of Directors with specific recommendations and suggestions;
- j) Reviewing the market conditions, identifying the external threats and providing with recommendations for precautionary measures accordingly; and
- k) Developing overall information system/MIS to support risk management functions of the FI.

B. Risk Analysis Unit:

Broadly, Risk Analysis Unit (RAU) will be responsible solely to **identify** and **analyze** all sorts of risks appropriately and timely. It (RAU) will act as the secretariat of Risk Management Forum. However, it must also be independent from all other units/divisions of the FI, e.g. no member of this unit will be involved in any sort of ratings of transactions, or setting/working to achieve any target imposed by the FI. S/He will not also be involved in the process of determining any standard or threshold ranges for risk management goals. This unit will be responsible only for the followings:

- a) Collecting all relevant data related to the risk indicators from different models and information system at the earliest;
- b) Assessing the quality, completeness and correctness of those data;
- c) Identifying and quantifying the risks and their exposures to material loss;
- d) Preparing Risk Management Paper (RMP) in monthly basis; and
- e) Conducting periodic Stress Testing.

C. Reporting of Risk Management activities

- a) RAU will prepare a Risk Management Paper (RMP) with a detailed analysis including trend analysis of all categories of risk with adequate updated data every month.
- b) The RMP will be placed in the **Monthly Meeting** (if necessary, more than one meeting may be arranged) of the Risk Management Forum.
- c) After detailed discussion RMF will recommend some **specific action plans** for mitigating the identified risks.
- d) Name of the responsible division/unit who will implement the task along with a given timeline will have to be mentioned.
- e) The updated data of any month will be collected by RAU by the 15th of the next month.
- f) The meeting of RMF may be conducted within 20th of the same month. The Risk Management Paper along with the Minutes of the RMF meeting (both hard copy and soft copy) will then be submitted to the Department of Financial Institutions & Markets by the end of that month. [For example: Data as on 30th April must be collected by RAU within 15th May; RMF meeting must be held within 20th May and the RMP and minutes of that meeting must be submitted to Bangladesh Bank by the end of May.]

For the purpose of Risk analysis, FIs may incorporate (but not limited to) the following risk categories:

1. Credit Risk
2. Market Risk
 - a. Interest Rate Risk
 - b. Equity/Investment in Share Risk
3. Liquidity Risk
4. Operational Risk
5. Reputational Risk
6. Oversee the Capital Management Function
7. Stress Testing Results and Implication

The FIs are advised to form and establish RMF & RAU by 15th of April, 2013 and inform Bangladesh Bank (detailed with the name of the Committee members & contact person) by 21st of April, 2013. The RAU will have to prepare their first Risk Management Paper based on 30th April, 2013.

The Risk Management Framework prescribed in this circular will hereby replace the provision of 'Preferred Risk Management Structure & Responsibilities' as mentioned in the *Credit Risk Management* guidelines circulated for *Managing Core Risks of FIs* on 21st July, 2005.

This Circular shall come into force with immediate effect.

Yours sincerely,



(Md. Sohrawardy)
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