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Financial Institutions Department
Bangladesh Bank
Head Office
Dhaka

FID Circular No. 10

Dated - 18 September, 2005

Managing Director/Chief Executive
All Financial Institutions

Dear Sir,

Guidelines on “Managing Core Risks of Financial Institutions (non-bank)”

You are aware that Risk is the element of uncertainty or possibility of loss that prevail in any business transaction in any place, on any mode and any time. Deregulated regimes alongwith globalization of business has opened new frontiers that warrants risk management an even greater priority. The failure to adequately manage these risks exposes financial institutions(non-bank) not only to business losses but may also result in circumstances that they can not remain in business. Therefore, at the heart of good governance of this business is effective management of these risks to ensure sustainable performance.

Although rapid developments are taking place internationally in this area, financial institutions(non-bank) have not yet put in place a robust and structured framework for risk management. In recognition of the importance of an effective risk management system, Bangladesh Bank undertook a project to review the global best practices in this area and examine the possibility of introducing these in the non-bank financial industry of Bangladesh. The four `core' risk areas of financial institutions(non-bank) have been identified which are -

- a) Credit Risk;
- b) Asset & Liability/Balance Sheet Risks;
- c) Internal Control and Compliance Risks ; and
- d) IT Security Risk

Three `Focus Groups' were formed with participation from financial institutions(non-bank) with representatives from the Bangladesh Bank as team coordinators to look into the industry best practices both home and abroad and produce a document that would be a basic risk management model for each of the selected three core risk areas.

The purpose of this document is to provide directional guidelines to the financial institutions(non-bank) that will improve the risk management culture, establish minimum standards for segregation of duties and responsibilities, and assist in the ongoing improvement of the financial institutions(non-bank) in Bangladesh. These documents are the manuals/guidelines, which are not complete in them but can form the basis on which financial institutions can either produce more sophisticated risk management models or follow these as a minimum starting point and develop them further as they progress.

Financial Institutions(non-bank) are, therefore, advised to put in place an effective risk management system by June, 2006 based on the guidelines are sending here with. These guidelines are flexible in the sense that financial institutions can adopt and adapt them in line with the size and complexity of their business. Bangladesh Bank will, based on its regular examination of individual financial institutions(non-bank), enforce the specific adoption of these guidelines.

Please acknowledge receipt.

Yours faithfully,

(Sudhir Chandra Das)
Deputy General Manager
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