Postgraduate Certificate in Risk Management for Central Banks (Bangladesh)

Regulatory Risk Compliance

Anti-Money Laundering (AML) – A set of laws, regulations and procedures aimed at preventing the concealment of illegally obtained funds. Related terms: KYC, suspicious transaction reporting, financial crime. Central banks enforce AML to protect the integrity of the payment system. Example: A bank must flag cash deposits exceeding a statutory threshold and submit a SAR. Challenge: Balancing thorough monitoring with operational cost in a resource-constrained environment.

Basel III Capital Framework – International regulatory standards defining minimum capital, leverage and liquidity buffers for banks. Related terms: Tier 1 capital, risk-weighted assets, liquidity coverage ratio. For Bangladesh's central bank, compliance ensures domestic banks meet global resilience benchmarks. Example: Calculating the Common Equity Tier 1 ratio using risk-weighted assets. Challenge: Aligning local accounting practices with Basel-III definitions.

Banking Supervision – Ongoing oversight activities performed by the central bank to assess the safety and soundness of financial institutions. Related terms: Prudential regulation, on-site inspection, off-site monitoring. Supervisors review capital adequacy, governance and risk management. Example: Conducting a quarterly review of a bank's loan portfolio. Challenge: Limited human resources to conduct comprehensive on-site examinations.

Capital Adequacy Ratio (CAR) – The proportion of a bank's capital to its risk-weighted assets, indicating its capacity to absorb losses. Related terms: Tier 1 ratio, Basel IV, capital buffer. A CAR below the regulatory minimum triggers corrective actions. Example: A bank with $200 million capital and $1.5 Billion risk-weighted assets has a CAR of 13.3 %. Challenge: Accurate risk-weighting of complex derivative exposures.

Compliance Culture – The collective attitude, values and behaviors that promote adherence to laws and internal policies within an institution. Related terms: Tone at the top, ethical standards, risk appetite. A strong compliance culture reduces regulatory breaches. Example: Board members regularly discuss compliance metrics in meetings. Challenge: Embedding culture across all hierarchical levels, especially in subsidiaries.

Consumer Protection Regulation – Rules designed to safeguard the rights and interests of banking customers. Related terms: Fair lending, disclosure requirements, grievance redressal. In Bangladesh, the central bank issues guidelines on transparent fee structures. Example: Requiring banks to provide clear loan amortization tables. Challenge: Monitoring compliance across a large number of retail branches.

Credit Risk Management – The process of identifying, measuring, monitoring and controlling the risk of loss from borrowers' failure to meet obligations. Related terms: Loan underwriting, provisioning, credit scoring. Effective credit risk management is a core supervisory focus. Example: Setting sectoral caps on exposure to the garment industry. Challenge: Rapid changes in macro-economic conditions affecting borrower performance.

Currency Board Arrangement – A monetary system where a country's currency is fully backed by foreign reserves at a fixed exchange rate. Related terms: Pegged exchange rate, reserve adequacy, monetary stability. While Bangladesh does not operate a currency board, the central bank monitors foreign exchange compliance. Example: Banks must maintain a minimum foreign reserve ratio for external liabilities. Challenge: Managing liquidity when foreign inflows fluctuate.

Data Privacy Law – Legislation governing the collection, storage, processing and disclosure of personal data. Related terms: GDPR, personal data protection, consent management. Central banks must ensure that supervisory data sharing complies with privacy standards. Example: Masking customer identifiers in supervisory reports. Challenge: Aligning cross-border data transfers with both domestic and international privacy regimes.

Derivative Risk Oversight – Supervision of banks' exposures to derivative contracts, including valuation, collateral and counter-party risk. Related terms: ISDA Master Agreement, mark-to-market, netting. Regulators require transparent reporting of derivative positions. Example: Requiring daily exposure reports for interest rate swaps. Challenge: Complex valuation models and limited expertise in supervisory staff.

Domestic Debt Market Regulation – Rules governing the issuance, trading and settlement of government and corporate bonds within Bangladesh. Related terms: Bond underwriting, credit rating, market infrastructure. The central bank oversees market integrity and investor protection. Example: Mandating disclosure of issuer's financial statements before bond issuance. Challenge: Developing a liquid secondary market for domestic securities.

Effective Date – The specific point in time when a regulatory provision becomes legally binding. Related terms: Transitional period, implementation schedule, grace period. Clear communication of effective dates prevents inadvertent non-compliance. Example: A new AML guideline takes effect on 1 January 2025. Challenge: Coordinating system upgrades across all regulated entities before the deadline.

Electronic Funds Transfer (EFT) Regulation – Standards governing the electronic movement of money between accounts, including security, timeliness and consumer rights. Related terms: RTGS, SWIFT, payment gateway. The central bank sets rules for batch processing and settlement. Example: Requiring two-factor authentication for high-value EFTs. Challenge: Keeping pace with rapid fintech innovations while maintaining security.

Enterprise Risk Management (ERM) Framework – A structured approach for identifying, assessing and managing all material risks across an organization. Related terms: Risk appetite, risk register, risk governance. Central banks expect banks to embed ERM in strategy and operations. Example: Integrating operational risk metrics into the capital planning process. Challenge: Achieving consistent risk identification across diverse business lines.

Environmental, Social and Governance (ESG) Risk – Risks arising from environmental, social and governance factors that may affect a bank's financial performance. Related terms: Climate risk, sustainability reporting, green financing. Regulators are increasingly requiring disclosure of ESG exposures. Example: Banks must report the carbon intensity of their loan portfolio. Challenge: Quantifying ESG metrics due to limited data availability.

Foreign Exchange (FX) Controls – Regulatory measures restricting the buying, selling or transfer of foreign currencies. Related terms: Capital controls, exchange rate management, foreign reserve requirements. Bangladesh's central bank imposes limits on certain FX transactions. Example: Requiring approval for outbound remittances exceeding a threshold. Challenge: Balancing market openness with macro-economic stability.

Governance Structure – The system of rules, practices and processes by which an organization is directed and controlled. Related terms: Board of directors, audit committee, compliance function. A robust governance structure underpins regulatory compliance. Example: Establishing a dedicated compliance committee at the board level. Challenge: Preventing overlaps and gaps between risk and compliance responsibilities.

Hazard Identification – The process of recognizing potential sources of loss within an institution's operations. Related terms: Risk assessment, control environment, loss event database. Early identification enables proactive mitigation. Example: Mapping fraud scenarios in the loan origination process. Challenge: Capturing emerging risks such as cyber threats.

Information Security Policy – A formal set of rules governing the protection of information assets against unauthorized access, disclosure, alteration or destruction. Related terms: Cyber risk, ISO 27001, data encryption. Central banks require banks to maintain robust security controls. Example: Mandatory annual penetration testing of core banking systems. Challenge: Keeping policies up-to-date with evolving threat vectors.

International Financial Reporting Standards (IFRS) – Global accounting standards that prescribe how transactions and events should be reported in financial statements. Related terms: IFRS 9, fair value measurement, financial instrument classification. Compliance ensures comparability of banks' financial disclosures. Example: Applying IFRS 9 to measure expected credit losses. Challenge: Reconciling IFRS with local regulatory capital calculations.

Joint Liability Provision – A regulatory clause that holds multiple parties jointly responsible for meeting a compliance requirement. Related terms: Co-guarantor, shared responsibility, supervisory sanction. In Bangladesh, a bank and its correspondent may share liability for AML breaches. Example: Both institutions face fines if a transaction is flagged as suspicious. Challenge: Coordinating compliance efforts across jurisdictions.

Liquidity Risk Management – The process of ensuring that a bank can meet its short-term financial obligations without incurring unacceptable losses. Related terms: LCR, NSFR, cash flow forecasting. Regulators require banks to maintain high-quality liquid assets. Example: Maintaining an LCR of 100 % by holding Treasury bills. Challenge: Managing liquidity during market stress when asset values decline.

Macro-prudential Policy – Regulatory tools aimed at safeguarding the stability of the financial system as a whole, rather than individual institutions. Related terms: Counter-cyclical capital buffer, systemic risk, stress testing. The central bank may adjust loan-to-value limits to curb overheating. Example: Raising the counter-cyclical capital buffer during rapid credit growth. Challenge: Calibrating measures to avoid unintended credit contraction.

Money Market Regulation – Rules governing short-term borrowing and lending activities, including instruments such as Treasury bills and commercial paper. Related terms: Repo market, short-term funding, market liquidity. The central bank monitors money-market participants for systemic risk. Example: Requiring disclosure of daily repo transactions. Challenge: Ensuring transparency in a fragmented market.

National Payment System (NPS) Oversight – Supervision of the infrastructure that enables the clearing and settlement of payments in the country. Related terms: RTGS, ACH, payment rails. Bangladesh's central bank sets standards for speed, security and resilience. Example: Mandating real-time gross settlement for high-value payments. Challenge: Integrating fintech solutions while maintaining regulatory control.

Operational Risk Framework – The set of policies, procedures and controls used to mitigate risks arising from failed processes, people or systems. Related terms: Basel II, loss event database, key risk indicators. Supervisors evaluate the adequacy of banks' operational risk models. Example: Implementing a three-line-of-defence model for risk oversight. Challenge: Capturing low-frequency, high-impact events such as natural disasters.

Payment Card Regulation – Standards governing issuance, usage and security of debit and credit cards. Related terms: PCI-DSS, tokenization, fraud detection. The central bank requires banks to adopt secure card-present transaction protocols. Example: Enforcing EMV chip implementation across all ATMs. Challenge: Balancing user convenience with stringent security measures.

Quantitative Reporting Framework (QRF) – A structured approach for submitting numerical regulatory data, often through electronic templates. Related terms: XBRL, data validation, supervisory data warehouse. Accurate QRF submissions enable effective monitoring. Example: Banks upload quarterly capital adequacy figures in XBRL format. Challenge: Maintaining data integrity across multiple legacy systems.

Risk Appetite Statement – A formal declaration of the amount and type of risk an institution is willing to accept in pursuit of its objectives. Related terms: Risk tolerance, strategic risk, board oversight. It guides decision-making and aligns with regulatory limits. Example: Setting a maximum loan-to-value ratio of 80 % for mortgage lending. Challenge: Translating high-level appetite into actionable limits for business units.

Sanctions Compliance – Adherence to international and domestic economic sanctions regimes that restrict dealings with designated persons or entities. Related terms: OFAC, UN sanctions, watch-list screening. Banks must block transactions involving sanctioned parties. Example: Using automated screening to reject transfers to a designated country. Challenge: Keeping watch-lists current and minimizing false positives.

Sectoral Exposure Limits – Regulatory caps on a bank's credit exposure to a specific industry or economic sector. Related terms: Concentration risk, credit portfolio, diversification. Limits prevent excessive risk concentration. Example: Not exceeding 15 % of total credit to the real-estate sector. Challenge: Monitoring dynamic exposure as borrowers shift between sectors.

Supervisory Review Process – The systematic evaluation conducted by the central bank to assess a bank's compliance with regulatory standards. Related terms: Supervisory rating, corrective action, enforcement. Reviews may be on-site or off-site. Example: Issuing a supervisory rating of "satisfactory" after a compliance audit. Challenge: Ensuring consistency across diverse institutions.

Technology Risk Governance – The oversight of risks associated with the adoption, integration and operation of technology solutions. Related terms: IT governance, third-party risk, digital transformation. Effective governance mitigates outages and data breaches. Example: Requiring board approval for major core-banking system upgrades. Challenge: Rapid technological change outpacing governance processes.

Undertaking Supervision – Monitoring of non-bank financial entities that perform banking-like activities, such as micro-finance institutions. Related terms: Shadow banking, licensing, regulatory perimeter. The central bank extends its oversight to ensure systemic safety. Example: Requiring capital buffers for large micro-finance firms. Challenge: Defining the scope of supervision for emerging fintech platforms.

Value-at-Risk (VaR) – A statistical technique used to measure the potential loss in a portfolio over a defined period for a given confidence level. Related terms: Stress testing, tail risk, risk metrics. Regulators may set VaR limits for market-risk exposures. Example: A 99 % one-day VaR of $10 million indicates a 1 % chance of exceeding that loss. Challenge: Model risk and inadequate data for extreme events.

Watch-List Management – The process of maintaining, updating and applying lists of individuals or entities subject to regulatory restrictions. Related terms: Sanctions screening, AML, risk screening. Effective management reduces false positives and compliance gaps. Example: Integrating a real-time watch-list feed into the transaction monitoring system. Challenge: Reconciling multiple jurisdictional lists and ensuring timely updates.

Yield Curve Controls – Policy tools used by a central bank to influence the shape of the interest-rate curve, often through open-market operations. Related terms: Monetary policy, bond buying, forward guidance. While not common in Bangladesh, awareness of such tools informs risk assessments. Example: Purchasing long-term government bonds to lower yields. Challenge: Managing unintended distortions in the credit market.

Zero-Tolerance Policy – A strict regulatory stance that imposes severe penalties for any breach of specified rules, often applied to AML or sanctions violations. Related terms: Enforcement, punitive sanctions, compliance breach. The policy signals the regulator's seriousness. Example: Immediate revocation of a banking license for a proven money-laundering case. Challenge: Ensuring proportionality and due process while maintaining deterrence.