Postgraduate Certificate in Risk Management for Central Banks (Bangladesh)

Regulatory Risk Compliance

Regulatory risk refers to the potential for loss or operational disruption that arises when a central bank or a financial institution fails to comply with laws, regulations, supervisory directives, or policy mandates. In the context of the Bangladesh banking system, regulatory risk can emerge from changes in monetary policy, revisions to prudential standards, or the introduction of new anti-money-laundering (AML) requirements. Failure to anticipate or respond to such changes can lead to fines, reputational damage, or restrictions on banking activities.

Compliance is the systematic process of ensuring that an organization's policies, procedures, and operations adhere to applicable legal and regulatory standards. For a central bank, compliance functions include monitoring legislative updates, conducting internal audits, and reporting to oversight bodies such as the Bangladesh Financial Intelligence Unit (BFIU). Effective compliance requires a clear governance structure, risk-based assessment, and continuous training of staff.

Prudential regulation encompasses the set of rules designed to maintain the safety and soundness of banks and other financial institutions. These rules include capital adequacy ratios, liquidity requirements, and asset quality standards. In Bangladesh, the central bank implements prudential regulation through the Banking Regulation Act 2010 and the Basel III framework. Understanding prudential regulation is essential for managing credit risk, market risk, and operational risk.

Basel III is an international regulatory standard that defines minimum capital, leverage, and liquidity requirements for banks. The standard introduces three key components: the Common Equity Tier 1 (CET1) capital ratio, the Liquidity Coverage Ratio (LCR), and the Net Stable Funding Ratio (NSFR). For Bangladeshi banks, implementing Basel III means adjusting capital structures, enhancing risk-weighted asset calculations, and establishing robust liquidity buffers. Non-compliance can trigger supervisory actions, including restrictions on dividend payments or the imposition of higher risk-based capital charges.

Capital adequacy measures a bank's capacity to absorb losses while continuing to operate. The capital adequacy ratio (CAR) is calculated as the ratio of a bank's capital to its risk-weighted assets (RWA). In Bangladesh, the central bank requires a minimum CAR of 12 percent, aligning with Basel III standards. Banks that fall below this threshold may be subject to corrective measures such as mandatory capital infusion or restrictions on loan growth.

Risk-weighted assets (RWA) represent the total assets of a bank, weighted by the risk associated with each asset class. For example, sovereign debt may receive a risk weight of 0 percent, while unsecured corporate loans might be assigned a weight of 100 percent. The calculation of RWA is central to determining capital adequacy and influences the cost of funding for banks. Accurate RWA measurement requires detailed data collection, robust modeling, and regular validation.

Liquidity risk arises when a bank is unable to meet its short-term cash flow obligations without incurring

unacceptable losses. The Liquidity Coverage Ratio (LCR) requires banks to hold high-quality liquid assets (HQLA) sufficient to cover net cash outflows over a 30-day stress period. In Bangladesh, the central bank monitors LCR compliance through periodic reporting and on-site inspections. Failure to maintain adequate liquidity can result in supervisory penalties or, in extreme cases, forced liquidation.

High-quality liquid assets are assets that can be readily converted into cash with little or no loss of value. Typical HQLA includes government securities, central bank reserves, and certain corporate bonds. Banks must classify assets according to the Basel III liquidity framework, ensuring that at least 30 percent of HQLA are Level 2A or Level 2B assets, which have lower liquidity characteristics than Level 1 assets. Proper management of HQLA is critical for meeting LCR targets.

Leverage ratio is a simple, non-risk-based measure that compares a bank's Tier 1 capital to its total exposure, including off-balance-sheet items. The Basel III leverage ratio minimum is 3 percent, serving as a backstop to risk-based capital requirements. In Bangladesh, central banks use the leverage ratio to assess whether banks are excessively leveraged, especially in environments where risk-weighting models may be subject to manipulation.

Anti-money-laundering (AML) refers to the set of laws, regulations, and procedures designed to prevent the conversion of illicit funds into legitimate assets. The primary AML legislation in Bangladesh is the Money Laundering Prevention Act 2012, which imposes obligations on banks to conduct customer due diligence, monitor transactions, and report suspicious activities to the BFIU. Effective AML compliance protects the integrity of the financial system and reduces exposure to sanctions.

Know-your-customer (KYC) is a core component of AML compliance that requires banks to verify the identity of their clients and assess the risk they pose. KYC procedures typically involve collecting identification documents, understanding the purpose of the business relationship, and performing ongoing monitoring. In Bangladesh, KYC standards are reinforced by the central bank's guidelines on customer identification and verification, which mandate periodic updates for high-risk customers.

Suspicious activity report (SAR) is a formal document filed by a financial institution when it detects transactions that may be indicative of money laundering, terrorist financing, or other illicit activities. The SAR must include detailed information about the transaction, the parties involved, and the reason for suspicion. The BFIU reviews SARs and may forward them to law-enforcement agencies for further investigation. Timely filing of SARs is essential for regulatory compliance and for avoiding penalties.

Customer risk rating is a systematic approach to categorizing clients based on their perceived likelihood of engaging in illicit activity. Factors influencing the rating include the client's industry, geography, transaction patterns, and regulatory history. Banks assign higher risk ratings to clients from high-risk jurisdictions or those involved in cash-intensive businesses. Risk-based KYC enables banks to allocate resources efficiently, focusing enhanced due diligence on higher-risk customers.

Enhanced due diligence (EDD) is a deeper level of scrutiny applied to high-risk customers or transactions. EDD may involve obtaining additional documentation, conducting site visits, or performing background checks on beneficial owners. In Bangladesh, the central bank requires banks to apply EDD for politically

exposed persons (PEPs), non-resident entities, and clients involved in high-risk sectors such as mining or real estate. Failure to conduct appropriate EDD can lead to regulatory sanctions.

Politically exposed person (PEP) is an individual who holds or has held a prominent public function, as well as their immediate family members and close associates. PEPs are considered higher risk due to the potential for abuse of public office for personal gain. Banks must identify PEPs during onboarding and apply enhanced monitoring throughout the relationship. In Bangladesh, the central bank's AML guidelines provide a comprehensive list of positions that qualify as PEPs.

Transaction monitoring involves the continuous analysis of customer transactions to detect patterns that may indicate suspicious activity. Effective transaction monitoring systems use rule-based alerts, statistical models, and machine-learning techniques to flag anomalies. For example, a sudden surge in high-value cash deposits from a low-risk retail client may trigger an alert. Banks must calibrate monitoring thresholds to balance false positives with the need for timely detection.

Regulatory reporting is the process by which banks submit periodic data to supervisory authorities. In Bangladesh, the central bank requires banks to file reports on capital adequacy, liquidity, large exposures, and AML compliance. Accurate and timely reporting is essential for maintaining regulatory confidence and avoiding penalties. Reporting formats may be electronic, using standardized templates such as XBRL (eXtensible Business Reporting Language).

Large exposure limit is a regulatory restriction that caps the maximum exposure a bank may have to a single counter-party or group of connected counterparties. The Basel III framework sets the limit at 25 percent of a bank's capital. In Bangladesh, the central bank enforces large exposure limits to prevent concentration risk, which could threaten financial stability if a major borrower defaults.

Concentration risk refers to the risk arising from an over-reliance on a particular borrower, sector, or geographic region. Managing concentration risk involves diversifying the loan portfolio, setting exposure limits, and conducting stress testing. For Bangladeshi banks, concentration in the agricultural sector or in large corporate conglomerates can amplify vulnerability during economic downturns.

Stress testing is a forward-looking analytical tool used to assess how a bank's financial position would be affected under adverse scenarios. Stress tests may examine the impact of macro-economic shocks, market volatility, or liquidity squeezes. The central bank in Bangladesh requires banks to conduct regular stress tests and submit the results as part of their supervisory reporting. The outcomes inform capital planning and risk mitigation strategies.

Scenario analysis complements stress testing by exploring the effects of specific hypothetical events, such as a sudden devaluation of the Bangladeshi taka or a pandemic-related credit shock. Scenario analysis helps banks understand the resilience of their business models and informs contingency planning. Effective scenario analysis requires cross-functional collaboration between risk, finance, and business units.

Risk appetite is the amount and type of risk that a bank is willing to accept in pursuit of its strategic objectives. The board of directors, together with senior management, defines the risk appetite statement, which sets quantitative limits for credit, market, and operational risk. Aligning risk appetite with regulatory

constraints ensures that banks operate within acceptable risk thresholds while meeting growth targets.

Risk governance encompasses the structures, policies, and processes that provide oversight of risk management activities. Key components include the board of directors, risk committees, the chief risk officer (CRO), and internal audit. In Bangladesh, the central bank expects banks to have a clear risk governance framework, with documented responsibilities and reporting lines.

Chief risk officer (CRO) is the senior executive responsible for overseeing the identification, measurement, and mitigation of risk across the organization. The CRO works closely with the board and senior management to ensure that risk policies are implemented effectively. In a central bank context, the CRO may also coordinate with regulatory authorities on compliance matters.

Internal audit provides independent assurance that risk management processes are operating as intended. Auditors evaluate the effectiveness of controls, compliance with policies, and the reliability of risk reporting. The internal audit function reports directly to the audit committee, reinforcing the separation between operational management and oversight.

Compliance officer is the individual tasked with implementing and monitoring compliance programs. Responsibilities include developing policies, conducting training, performing risk assessments, and liaising with regulators. In Bangladeshi banks, the compliance officer must stay abreast of changes to the Money Laundering Prevention Act, the Banking Regulation Act, and any circulars issued by the central bank.

Regulatory change management is the systematic approach to identifying, assessing, and implementing new or revised regulations. This process involves monitoring legislative developments, evaluating the impact on existing policies, and updating procedures accordingly. Effective change management reduces the risk of non-compliance and ensures that banks can adapt quickly to evolving regulatory environments.

Regulatory impact assessment (RIA) is a structured analysis used to determine the costs, benefits, and operational implications of new regulations. Banks conduct RIAs to prioritize implementation activities, allocate resources, and communicate potential challenges to senior management. In Bangladesh, RIAs may be required for significant regulatory reforms, such as the introduction of new macroprudential tools.

Macroprudential policy refers to regulatory measures aimed at safeguarding the stability of the financial system as a whole, rather than focusing on individual institutions. Tools include counter-cyclical capital buffers, loan-to-value (LTV) caps, and sectoral exposure limits. The Bangladesh central bank uses macroprudential policy to mitigate systemic risks, such as housing market bubbles or rapid credit growth.

Counter-cyclical capital buffer (CCCB) is an additional capital requirement that banks must hold during periods of excessive credit growth. The buffer is designed to be released during downturns, providing extra loss-absorbing capacity. In Bangladesh, the central bank may set the CCCB at a percentage of risk-weighted assets, adjusting the level based on macroeconomic indicators.

Loan-to-value ratio (LTV) limits the amount of credit a bank can extend relative to the value of the collateral, typically applied in mortgage lending. An LTV cap of 80 percent, for example, means that a borrower can receive a loan up to 80 percent of the property's appraised value. By controlling LTV, regulators aim to

reduce the likelihood of asset-price bubbles and protect borrowers from excessive debt.

Sectoral exposure limit restricts the amount of credit that a bank can allocate to a specific industry or economic sector. For instance, a limit of 20 percent of total loan portfolio for the textile sector helps prevent over-concentration in a single industry. The central bank monitors sectoral exposure through regular reporting and may impose additional limits in response to emerging risks.

Operational risk arises from failures of internal processes, people, systems, or external events. Examples include fraud, technology outages, and natural disasters. The Basel II and III frameworks require banks to maintain capital against operational risk, using methods such as the Basic Indicator Approach or the Advanced Measurement Approach. Managing operational risk is critical for maintaining service continuity and protecting customer data.

Fraud risk is a subset of operational risk that focuses on intentional deception for personal or organizational gain. Common fraud schemes in banking include account takeover, phishing attacks, and insider collusion. Banks employ fraud detection systems, employee training, and segregation of duties to mitigate fraud risk. In Bangladesh, the central bank may issue guidance on fraud prevention and require banks to report significant fraud incidents.

Information security pertains to the protection of data and information systems from unauthorized access, alteration, or destruction. Robust information security controls, such as encryption, multi-factor authentication, and regular vulnerability assessments, are essential for safeguarding customer information and complying with data protection regulations. The Bangladesh Data Protection Act 2022 imposes obligations on financial institutions to implement comprehensive security measures.

Cybersecurity is the practice of defending computers, networks, and data from cyber-attacks. Banks face threats such as ransomware, denial-of-service attacks, and advanced persistent threats. Effective cybersecurity programs involve continuous monitoring, incident response planning, and collaboration with national cyber-security agencies. Failure to address cybersecurity risks can result in regulatory fines and severe reputational harm.

Business continuity planning (BCP) ensures that essential functions can continue during and after a disruptive event. BCP includes disaster recovery procedures, alternate work locations, and communication protocols. Central banks often require banks to test their BCP regularly, documenting recovery time objectives and recovery point objectives for critical systems.

Third-party risk refers to the risk that a bank's reliance on external vendors or service providers could lead to operational failures, data breaches, or regulatory non-compliance. Managing third-party risk involves due diligence, contractual safeguards, and ongoing monitoring of service level agreements. In Bangladesh, banks must obtain approval from the central bank before outsourcing critical functions such as payment processing.

Outsourcing is the practice of delegating certain business processes to external parties. While outsourcing can reduce costs and improve efficiency, it also transfers risk to the provider. Regulatory guidance mandates that banks retain ultimate responsibility for outsourced activities and maintain oversight through regular

audits and performance reviews.

Risk-adjusted return on capital (RAROC) is a metric that evaluates the profitability of a business line after accounting for the capital required to support its risk profile. RAROC helps banks allocate capital to the most efficient uses and align performance incentives with risk appetite. By integrating RAROC into decision-making, banks can balance growth objectives with regulatory capital constraints.

Risk-weighting methodology determines the risk weights applied to different asset classes when calculating risk-weighted assets. The methodology may be based on standardized approaches set by the Basel Committee or internal models approved by regulators. Accurate risk-weighting is essential for capital planning and for ensuring compliance with minimum capital ratios.

Internal model validation is the process of independently reviewing and testing a bank's internal risk models to confirm their accuracy and reliability. Validation activities include back-testing, sensitivity analysis, and benchmarking against external data. The central bank in Bangladesh may require banks to submit model validation reports as part of their supervisory filings.

Regulatory capital is the amount of capital that a bank must hold to meet regulatory requirements. It includes Tier 1 capital (primarily common equity) and Tier 2 capital (such as subordinated debt). Maintaining sufficient regulatory capital buffers protects banks against unexpected losses and satisfies supervisory expectations.

Tier 1 capital consists of core capital elements, primarily common equity, retained earnings, and qualifying reserves. Tier 1 capital is considered the highest quality capital because it is fully available to absorb losses. Banks must ensure that Tier 1 capital remains above the prescribed minimum, often expressed as a percentage of risk-weighted assets.

Tier 2 capital includes supplementary capital such as subordinated debt and hybrid instruments that can absorb losses after Tier 1 capital is exhausted. While Tier 2 capital contributes to overall capital adequacy, it is subject to stricter limits and maturity requirements. In Bangladesh, the central bank monitors the composition of Tier 2 capital to prevent over-reliance on lower-quality instruments.

Capital conservation buffer (CCB) is an additional layer of capital that banks must maintain above the minimum capital requirement. The buffer is designed to absorb losses during periods of financial stress, allowing banks to continue operating without breaching regulatory thresholds. The CCB is typically set at 2.5 percent of risk-weighted assets under Basel III.

Liquidity stress testing evaluates a bank's ability to meet cash flow needs under adverse conditions. Scenarios may include a sudden withdrawal of deposits, a freeze in wholesale funding markets, or a sharp decline in asset prices. Results from liquidity stress tests inform the development of contingency funding plans and the adjustment of liquidity buffers.

Funding risk is the risk that a bank cannot obtain sufficient funding to meet its obligations. Funding risk can arise from market disruptions, loss of confidence, or regulatory restrictions on certain funding channels. Managing funding risk involves diversifying funding sources, maintaining stable deposit bases, and

monitoring market indicators such as the cost of borrowing.

Market risk is the risk of losses arising from movements in market variables such as interest rates, exchange rates, and equity prices. Banks use value-at-risk (VaR) models, scenario analysis, and stress testing to measure market risk exposure. In Bangladesh, the central bank requires banks to report market risk metrics and to hold capital against market risk positions.

Interest rate risk is a specific type of market risk that arises from changes in interest rates affecting the value of assets and liabilities. Banks may experience mismatches between the repricing of assets (e.g., loans) and liabilities (e.g., deposits). Managing interest rate risk involves gap analysis, duration matching, and the use of hedging instruments such as interest rate swaps.

Foreign exchange risk emerges when a bank holds assets or liabilities denominated in foreign currencies. Fluctuations in exchange rates can affect the bank's profitability and capital position. Banks mitigate foreign exchange risk through natural hedging, currency swaps, and forward contracts. Regulatory reporting for foreign exchange risk includes the disclosure of net open positions and the associated capital charges.

Credit risk is the risk that a borrower will fail to meet its contractual obligations, resulting in a loss for the lender. Credit risk assessment involves evaluating the borrower's creditworthiness, collateral, and repayment capacity. The central bank in Bangladesh requires banks to classify loans into standard, sub-standard, doubtful, and loss categories, each carrying specific provisioning requirements.

Provisioning is the practice of setting aside reserves to cover expected credit losses. Provisions are recorded as expenses on the income statement and reduce the bank's profitability. Regulatory guidelines dictate the minimum provisioning rates for each loan classification, ensuring that banks maintain sufficient buffers against credit deterioration.

Non-performing loan (NPL) is a loan on which the borrower is delinquent, typically defined as missing payments for 90 days or more. High levels of NPLs can erode a bank's capital base and signal deteriorating asset quality. The central bank monitors NPL ratios and may intervene if a bank's NPL ratio exceeds predefined thresholds.

Credit risk mitigation includes techniques such as collateralization, guarantees, and credit derivatives that reduce the exposure to borrower default. Effective credit risk mitigation requires accurate valuation of collateral, legal enforceability of guarantees, and proper accounting for derivative contracts. Regulators assess the adequacy of credit risk mitigation practices during supervisory examinations.

Collateral valuation is the process of determining the market value of assets pledged as security for a loan. Accurate collateral valuation is essential for ensuring that the loan-to-collateral ratio remains within acceptable limits. Banks must regularly re-value collateral, especially for assets with volatile market prices such as real estate or securities.

Credit scoring models assign numerical scores to borrowers based on statistical analysis of historical default data. Scores are used to automate credit decisions, set pricing, and determine risk-adjusted limits. In Bangladesh, banks may develop proprietary credit scoring models, subject to validation and approval by the

central bank.

Risk-adjusted pricing involves setting loan interest rates that reflect the borrower's credit risk, cost of funds, and desired profit margin. By incorporating risk premiums into pricing, banks can align earnings with the level of risk undertaken. Regulatory oversight ensures that pricing practices do not lead to excessive risk-taking or discriminatory outcomes.

Liquidity coverage ratio reporting requires banks to disclose the composition of high-quality liquid assets, total net cash outflows, and the resulting LCR percentage. Accurate reporting enables supervisors to assess the resilience of banks' liquidity positions. Banks must submit LCR reports on a quarterly basis, with any breaches reported immediately.

Regulatory sandbox is a controlled environment that allows financial institutions to test innovative products, services, or business models under regulatory supervision. The Bangladesh central bank has introduced a sandbox framework to foster fintech development while ensuring consumer protection and compliance. Participants must adhere to predefined testing parameters and provide regular progress updates.

Fintech compliance addresses the unique regulatory challenges posed by technology-driven financial services, such as digital wallets, peer-to-peer lending platforms, and blockchain-based solutions. Compliance considerations include AML/KYC integration, data privacy, and cybersecurity standards. Central bank guidance outlines the licensing requirements and ongoing supervisory expectations for fintech operators.

Regulatory arbitrage occurs when institutions exploit differences between jurisdictions to reduce regulatory burdens. In the Bangladeshi context, banks may be tempted to shift activities to less-regulated subsidiaries or offshore entities. Supervisors counteract arbitrage by applying consistent standards across related parties and monitoring cross-border transactions.

Regulatory compliance culture refers to the collective attitudes, values, and behaviors that promote adherence to laws and regulations throughout an organization. Building a strong compliance culture involves leadership commitment, transparent communication, and incentives aligned with ethical conduct. A robust compliance culture reduces the likelihood of violations and supports sustainable risk management.

Compliance risk assessment is a systematic process for identifying and evaluating the likelihood and impact of compliance failures. Assessments typically cover areas such as AML, consumer protection, data privacy, and sanctions compliance. Findings from risk assessments guide the allocation of resources to high-risk areas and the development of mitigation plans.

Sanctions compliance ensures that banks do not engage in prohibited transactions with sanctioned individuals, entities, or jurisdictions. The Bangladesh central bank aligns its sanctions list with United Nations Security Council resolutions and other international regimes. Banks must implement screening tools, maintain updated sanctions lists, and train staff on sanctions awareness.

Data privacy regulations govern the collection, storage, and processing of personal information. The Bangladesh Data Protection Act requires financial institutions to obtain consent, implement security

safeguards, and provide individuals with rights to access and correct their data. Non-compliance can result in fines, litigation, and loss of customer trust.

Regulatory audit is an independent examination of a bank's compliance with applicable laws, regulations, and internal policies. Audits may be conducted by external auditors, the central bank, or internal audit departments. Findings are documented in audit reports, and banks are expected to develop corrective action plans to address identified gaps.

Corrective action plan outlines the steps a bank will take to remediate compliance deficiencies identified during an audit or supervisory review. Plans include specific tasks, responsible parties, timelines, and performance metrics. Effective implementation of corrective actions demonstrates a bank's commitment to regulatory compliance and can mitigate enforcement actions.

Enforcement action is a regulatory response to a breach of law or regulation, which may include fines, penalties, restrictions on business activities, or revocation of licenses. The Bangladesh central bank may issue enforcement actions for violations such as inadequate capital, AML failures, or breaches of prudential limits. Prompt remediation and cooperation with regulators can reduce the severity of enforcement outcomes.

Regulatory reporting system is the technological platform used by banks to collect, validate, and submit data to supervisory authorities. An efficient reporting system automates data extraction from core banking applications, applies validation rules, and generates reports in the required format. Integration with the central bank's data repository facilitates timely and accurate submissions.

Regulatory capital buffer is an additional layer of capital that banks must maintain above the minimum regulatory requirement. Buffers may be composed of the capital conservation buffer, the counter-cyclical buffer, or a system-wide buffer specific to a jurisdiction. Maintaining buffers enhances resilience to shocks and provides regulators with confidence in the banking sector's stability.

Systemic risk is the risk that the failure of one or more financial institutions could trigger a cascade of failures throughout the financial system. Central banks monitor systemic risk through macroprudential indicators, stress testing, and the assessment of interconnectedness among banks. Mitigating systemic risk involves tools such as capital surcharges for systemically important banks and enhanced supervision.

Systemically important bank (SIB) is a financial institution whose size, complexity, and interconnectedness make it critical to the stability of the financial system. SIBs are subject to higher capital and liquidity requirements, as well as more intensive supervisory oversight. In Bangladesh, the central bank may designate certain large commercial banks as SIBs, applying additional prudential standards.

Resolution planning involves preparing strategies for the orderly wind-down or restructuring of a failing bank. Resolution plans, often called "living wills," outline how a bank can be resolved with minimal disruption to the financial system. Regulators evaluate resolution plans to ensure that critical functions can be transferred or terminated without causing systemic fallout.

Recovery plan is a set of actions that a bank will take to restore its financial position after experiencing

severe stress. Recovery plans include capital raising, asset sales, and cost-reduction measures. The central bank requires banks to develop and periodically test recovery plans, documenting triggers, governance arrangements, and communication protocols.

Stress scenario selection is the process of choosing appropriate adverse scenarios for stress testing. Scenarios may be based on historical events, hypothetical shocks, or forward-looking macroeconomic forecasts. Selecting relevant scenarios ensures that stress tests provide meaningful insights into a bank's vulnerability to plausible risks.

Liquidity risk appetite defines the level of liquidity risk that a bank is willing to accept in pursuit of its strategic objectives. The appetite statement may specify target LCR levels, acceptable funding concentration, and limits on reliance on short-term wholesale funding. Aligning liquidity risk appetite with overall risk appetite helps maintain consistency across the organization.

Regulatory capital adequacy assessment (CAAT) is an evaluation performed by supervisors to verify that a bank's capital levels meet regulatory standards. The assessment includes reviewing capital calculations, risk-weighting models, and the adequacy of buffers. Findings from a CAAT may result in supervisory recommendations or enforcement actions if deficiencies are identified.

Compliance monitoring involves the ongoing review of processes, transactions, and controls to ensure adherence to regulatory requirements. Monitoring activities may include automated rule checks, manual reviews, and periodic self-assessments. Effective compliance monitoring enables early detection of violations and supports timely remediation.

Risk control self-assessment (RCSA) is a structured process by which business units evaluate the effectiveness of their risk controls. Participants identify risks, assess control design and operating effectiveness, and assign risk ratings. The RCSA results feed into the overall risk management framework and inform resource allocation.

Key risk indicator (KRI) is a metric used to signal increasing risk exposure or control weakness. Examples of KRIs include the ratio of non-performing loans, the number of high-risk customers, and the frequency of policy breaches. Monitoring KRIs allows banks to detect trends and take proactive measures before risks materialize.

Risk appetite framework provides the formal structure for defining, communicating, and enforcing the organization's risk appetite. The framework includes governance arrangements, risk limits, escalation procedures, and performance measurement. A well-designed framework ensures that business decisions remain aligned with the bank's strategic objectives and regulatory constraints.

Regulatory compliance framework outlines the policies, procedures, and controls that enable a bank to satisfy legal and supervisory requirements. The framework typically comprises governance structures, risk assessments, training programs, and reporting mechanisms. Aligning the compliance framework with international standards such as the Basel Committee's principles enhances consistency and credibility.

Regulatory technology (RegTech) refers to the use of technology solutions to improve regulatory

compliance and reporting. RegTech tools may include automated data extraction, real-time transaction monitoring, and AI-driven anomaly detection. Adoption of RegTech can increase efficiency, reduce operational costs, and improve the accuracy of regulatory filings.

Artificial intelligence in compliance leverages machine-learning algorithms to analyze large volumes of transaction data, identify patterns of suspicious behavior, and predict potential compliance breaches. Banks in Bangladesh are beginning to pilot AI-based AML systems that can adapt to evolving threat vectors. However, the use of AI also raises concerns about model transparency and explainability, which regulators are beginning to address.

Model risk is the risk of adverse consequences arising from decisions based on inaccurate or mis-specified models. Model risk can affect capital calculation, credit scoring, market risk measurement, and liquidity forecasting. Effective model risk management includes model validation, documentation, and ongoing performance monitoring.

Regulatory capital surcharge is an additional capital requirement imposed on banks deemed to pose higher systemic risk. The surcharge may be calculated as a percentage of risk-weighted assets and is intended to increase loss-absorbing capacity. In Bangladesh, the central bank may apply a surcharge to banks with significant exposure to volatile sectors such as garment manufacturing.

Liquidity stress scenario simulates a severe disruption in funding markets, such as a sudden withdrawal of deposits or a tightening of interbank lending. The scenario tests a bank's ability to meet cash outflows, maintain operations, and preserve capital. Results guide the development of contingency funding strategies and the adjustment of liquidity buffers.

Contingency funding plan (CFP) details the actions a bank will take to secure additional liquidity during a stress event. The CFP may include lines of credit with other banks, the issuance of commercial paper, or the sale of high-quality assets. Regular testing of the CFP ensures that funding sources remain available and that operational processes are effective.

Operational resilience describes an organization's capacity to continue delivering critical services despite disruptions. Building operational resilience involves redundancy in systems, robust incident response procedures, and regular testing of recovery capabilities. Central banks assess operational resilience as part of their supervisory reviews, especially for critical payment and settlement systems.

Payment system risk refers to the risk that a failure in a payment or settlement system could disrupt the flow of funds, leading to liquidity shortages or broader financial instability. The Bangladesh central bank oversees the national payment system, setting standards for reliability, security, and risk management. Banks participating in the system must implement safeguards such as real-time monitoring and disaster recovery plans.

Regulatory stress testing framework defines the methodology, scenarios, and reporting requirements for stress testing activities. The framework ensures consistency across banks and facilitates comparability of results. The Bangladesh central bank's framework may require banks to submit stress test results semi-annually, covering credit, market, and liquidity risk.

Liquidity risk indicator (LRI) is a metric that provides early warning of potential liquidity strain. Examples include the proportion of short-term liabilities, the rate of deposit outflows, and the growth of wholesale funding. Monitoring LRIs helps banks proactively adjust funding strategies and maintain adequate liquidity buffers.

Risk governance structure delineates the roles and responsibilities for risk oversight across the organization. Typical components include a board risk committee, a senior risk committee, the CRO, and functional risk owners. Clear governance ensures accountability, facilitates effective risk communication, and aligns risk management with strategic objectives.

Regulatory compliance dashboard is a visual tool that consolidates key compliance metrics, alerts, and status updates in a single interface. Dashboards enable senior management to monitor compliance performance in real time, identify emerging issues, and allocate resources efficiently. The central bank may require banks to maintain dashboards that track AML, capital, and liquidity indicators.

Compliance training program provides employees with the knowledge and skills needed to fulfill regulatory obligations. Training topics may include AML procedures, data privacy, sanctions screening, and ethical conduct. Effective programs combine classroom instruction, e-learning modules, and periodic assessments to reinforce learning.

Regulatory change alert is a notification system that informs relevant stakeholders of new or amended regulations. Alerts may be generated by legal departments, compliance teams, or external service providers. Prompt dissemination of change alerts enables banks to initiate impact assessments and adjust policies accordingly.

Policy deviation occurs when a process or transaction does not follow established policies or procedures. Detecting policy deviations is critical for preventing compliance breaches. Automated monitoring tools can flag deviations, triggering investigation and corrective action.

Regulatory compliance risk register is a documented list of identified compliance risks, their likelihood, impact, and mitigation measures. The register serves as a central repository for tracking risk status, ownership, and remediation progress. Regular updates to the risk register support continuous improvement of the compliance program.

Risk appetite statement articulates the level of risk the organization is prepared to accept in pursuit of its objectives. The statement is approved by the board and communicated throughout the organization. Aligning the risk appetite with regulatory limits helps ensure that business strategies remain within permissible risk boundaries.

Regulatory capital floor establishes a minimum capital requirement based on standardized risk weights, preventing banks from using internal models to lower capital below a certain threshold. The floor promotes comparability and limits excessive reliance on model risk mitigation. In Bangladesh, the capital floor is applied to ensure consistency with international best practices.

Liquidity contingency plan testing involves simulating a liquidity crisis to evaluate the effectiveness of

contingency measures. Tests may include mock withdrawals, forced asset sales, and activation of backup funding lines. Results identify gaps in the plan and inform enhancements to funding strategies.

Regulatory compliance self-assessment is an internal review conducted by the bank to evaluate its adherence to regulatory requirements. Self-assessments may cover AML controls, capital adequacy, and consumer protection obligations. Findings are documented and shared with senior management and the board.

Regulatory capital adequacy ratio (CAR) is the ratio of a bank's capital to its risk-weighted assets, expressed as a percentage. The CAR is a key indicator of a bank's financial strength and is closely monitored by supervisors. Maintaining a CAR above the regulatory minimum is essential for avoiding supervisory interventions.

Liquidity risk management policy outlines the principles, objectives, and procedures for managing liquidity risk. The policy defines the LCR target, funding diversification strategies, and reporting requirements. Adherence to the policy is verified through internal audits and supervisory reviews.

Regulatory compliance audit trail provides a documented record of compliance activities, decisions, and evidence of control execution. An audit trail includes logs of system access, transaction reviews, and policy updates. Maintaining a robust audit trail facilitates regulatory inspections and supports effective governance.

Regulatory impact analysis assesses the potential effects of proposed