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ASSOCIATION OF CYPRUS BANKS

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Dr Michael Kammas

Having now entered the era of the Memorandum, the Cypriot banking sector is asked to overcome a number of challenges. Based on the provisions of the Memorandum and the explicitly expressed intentions of the regulator, Cyprus's banking sector will be thoroughly reformed and restructured in depth.

It is Troika's estimate that at the end of the restructuring process which will be based on the provisions of the Memorandum as agreed by the state of Cyprus, the sector will be smaller, stronger, and more resilient.

The deadlines for the adjustment are demanding and challenging. Both the supervisory authority of banks and the banking sector itself are required to make significant steps to fully restore trust in the system as soon as possible. In the past, Cypriot banks have demonstrated their resilience in the face of adversity, and are therefore well positioned to successfully meet the present challenges.

In the current issue of the "Insight", we examine the connection between sovereign debt and the banking sector, a relationship which is key to the predicament of the eurozone. We also present the challenges posed to Cypriot financial institutions in the implementation of requirements by US regulatory authorities (the Foreign Accounts Tax Transaction Act – FATCA). Other regulatory developments that our Member Banks are currently dealing with and which we present in this issue include the latest MiFID II developments, as well as the continuous developments in the fight against money laundering. Our collaborators, Synectics Ltd, have contributed two articles outlining the management of operational risk in Cypriot banks and presenting the results of a related study they carried out with input from our Member Banks. Other articles in this publication deal with efforts to improve the security of transactions through IBAN and with the means of facilitating dispute resolution through consumer redress mechanisms as well as the European Works Councils for the purpose of informing and consulting employees in companies that operate at European Union level.

We hope that you find this issue informative and, as always, we welcome your comments and suggestions.

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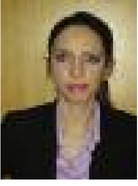

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Anti Moneylaundering Regulation in Cyprus

1. Combating Financial Crime in Cyprus

Cyprus has implemented a comprehensive framework to combat money laundering and terrorist financing. As a regional and international business center, Cyprus places the fight against money-laundering among its top domestic and foreign policy priorities retaining and elevating in this way its credibility, integrity and quality as a business centre.

The appropriate mechanisms for the prevention and suppression of money laundering and terrorist financing activities have been implemented in Cyprus through effective regulatory frameworks based on European Directives and relevant international standards.

The Law defines and criminalises the laundering of the proceeds generated from all serious criminal offences and provide for the confiscation of such proceeds aiming at depriving criminals of their profits. It also places special responsibilities upon banks, financial institutions and professionals which are required to take preventive measures against money laundering and terrorist financing by adhering to prescribed procedures for customer identification, record keeping, education and training of their employees and reporting of suspicious transactions.

2. Evaluation by International and European bodies

A. MONEYVAL

Cyprus' anti-money laundering system has continually been evaluated by the experts of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval). The evaluation was based on a detailed methodology developed jointly by the International Monetary Fund and the FATF and on the FATF 40+9 Recommendations.

In the latest 2011 evaluation, Cyprus was highly commended for the comprehensive and sound manner in which it took measures for combating money laundering and financing of terrorism in accordance with the prevailing international standards and was congratulated for the very comprehensive legal framework put in place. These comments which provide a comprehensive response to the various unfounded adverse criticisms which are aired, from time to time, against Cyprus.

It is important to note that the ratings assigned to Cyprus compare favourably with the corresponding ratings of other member countries of the FATF and the European Union.

Some of the main Moneyval comments are listed below:

- Cyprus has effectively addressed most of the issues raised in the previous evaluation.
- The financial sector shows a higher degree of awareness of its responsibilities and obligations AML/CFT obligations.
- Cyprus's regime to combat money laundering and the financing of terrorism is compliant with Financial Action Task Force standards. The number of convictions for money laundering has increased and helpful case law on freezing and confiscation has been established.
- The Cyprus supervisory authorities of the financial sector have sufficient powers to supervise compliance and carry our inspections. Overall, the financial sector appears to be adequately monitored. The authorities need additional resources to monitor designated non financial businesses and professions and there is no effective supervision as regards to company service providers, real estate agents and dealers in precious metals and stones.
- The legal framework for mutual legal assistance is sound and Cyprus generally responds to requests for assistance in an efficient and effective manner.

B. Financial Action Task Force on Money Laundering (FATF)

Reports by the FATF verified that Cyprus is a cooperative

1. Source: FSB, Shadow Banking: Scoping the Issues – A Background Note of the Financial Stability Board, 12 April 2012
2. Source: FSB, Shadow Banking: Scoping the Issues – A Background Note of the Financial Stability Board, 12 April 2012

country against money laundering as well as having a comprehensive anti-money laundering system.

C. International Monetary Fund (IMF)

The IMF has in the past assessed Cyprus' banking supervisory and regulatory systems applied to the international banking and financial services sector, including its anti-money laundering system and concluded that the latter are in line with internationally accepted principles. The latest review (2005) contained positive comments about Cyprus' financial sector.

3. Updates in the Cyprus Legal Framework

The Sectors which are regulated for AML purposes are the following: banks, electronic banking institutions, money transfer businesses, cooperative Societies, investment companies, insurance companies, lawyers ,accountants and auditors, real estate agents and traders of services and goods such as precious metals and stones.

One of the upcoming inclusions in this list of regulated sectors is the Company Services/Fiduciaries Companies. This action has been triggered by the recent expansion of the EU Anti-Money Laundering Regulatory Framework to cover trust and company services providers.

Consequently in Cyprus, a Draft Law for the Regulation of Fiduciaries, Trustees, Administration Services and Company Directors Providers is discussed in Parliament for the general regulation of this sector by a supervisory body (Cyprus Securities and Exchange Commission). This general regulation shall include of course the regulation for money laundering purposes of Company Services/Fiduciaries Companies and the respective obligations of the latter companies.

The recent enactment of the Cyprus Gambling Law has rendered any gambling being illegal under the latter law (ie online casino gambling), to be considered a crime punishable with over one year imprisonment, from which proceeds were generated that may become the subject of a money laundering offence.

In addition the newly amended Cyprus International Trusts Law imposes on the Trustee of a cyprus international trust obligations mirroring the obligations of entities regulated under the AML Law, enhancing in this way the integrity of Trustees in cyprus international trusts and furthering the credibility of cyprus international trusts as corporate vehicles.

4. Upcoming International and European Developments

A. FATF Recommendations : Revamped

In February 2012, the Financial Action Task Force (FATF) has revised its anti-money-laundering Recommendations, with the aim of strengthening global safeguards and further protecting the integrity of the financial system against the fight against money laundering and terrorist financing.

Being an international financial centre, Cyprus is highly cautious against illicit funds that could threaten its veracity. Hence several of the latest 2012 updated FATF Recommendations have already been implemented in Cyprus. These include applying a risk based approach, enhanced measures for politically exposed persons to deter and detect corruption proceeds, and measures to fight the financing of proliferation. Furthermore due to the increased importance of transparency of beneficial ownership' the numerical threshold for determining controlling ownership of a legal person in Cyprus has been set at the lower 10% plus one share (instead of higher 20-25% threshold used in other member states) i.e. the beneficial owner shall at least include, in the case of corporate entities the natural person or natural persons, who ultimately own or control a legal entity through direct or indirect ownership or control 10% plus share.

B. Foreign Account Tax Compliance Act (FATCA) and AML

FATCA is a US Tax Reform aimed at combating tax evasion. Its goal is to track US taxpayers who are evading their US tax obligations either by holding off-shore bank accounts with foreign financial intermediaries (FFIs) or by setting up foreign shell corporations and investing overseas through these corporations.

In order to comply with these rules, FFIs would be expected to put into place specific AML due diligence as follows:

- Identification of U.S. accounts
- Establishing Monitoring and Due Diligence processes
- Define "Exit-Strategy" for individual clients
- Design and implement FATCA and other Reporting
- Establishing organisational set-up that is (U.S.) compliant

3. Source: FSB, Shadow Banking: Scoping the Issues – A Background Note of the Financial Stability Board, 12 April 2012

Cyprus and the Foreign Account Tax Compliance Act (FATCA)

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FATCA refers to a major US step in the fight against tax evasion carried out by US persons holding investments in offshore accounts to avoid their US tax obligations. According to the relevant US law[1], foreign financial institutions (FFIs) such as banks, insurance companies and investment companies, as well as non-financial foreign entities (NFFEs) that refuse to identify their US account holders or investors are subject to a 30% withholding tax on certain payments they receive. This tax is imposed on US income received directly or indirectly by the above entities, such as interest or dividends paid by a US firm and the gross proceeds from sale of securities. The tax is withheld on all such US income received, irrespective of whether the income belongs to clients or to the entity itself.

FFIs and NFFEs can avoid withholding by entering into a direct agreement with the Internal Revenue Service to implement FATCA provisions, namely to carry out due diligence checks on existing and new depositors / investors to identify US persons, to disclose US account details to the IRS and to carry out withholdings on payments to entities that do not comply with FATCA.

Apart from the disproportionately high cost of compliance and tight implementation timeframe, European banks were greatly concerned with the incompatibility of FATCA with the EU data protection rules. Presently there is no legal basis within the EU or Cyprus national law to ensure lawful processing of the data within the scope of FATCA. This, in effect, would mean that even if an EU institution entered into an agreement with the IRS, it would be violating data protection rules by carrying out the required data exchange.

In response to the above, 5 EU countries announced their intent to sign a bilateral intergovernmental agreement (IGA) with the US, whereby their financial institutions themselves will not need to sign a direct agreement with the IRS and the exchange of information will take place on an automatic basis through the tax authorities. A model of this Agreement is now ready (Model Intergovernmental Agreement to Improve Tax Compliance and to Implement FATCA) and an IGA based on this has already been signed between the US and the UK. The US is willing to sign this bilateral agreement with other interested countries.

Members of the Association of Cyprus Banks have concluded that it would be advantageous for the financial sector in Cyprus to comply with FATCA through an IGA and have communicated their position to the Ministry of Finance as well as other stakeholders. The Ministry of Finance, taking into consideration the merits of this proposal, intends to sign an IGA and has informed US authorities of this intention.

An agreement at sovereign level means that individual Cypriot institutions will not have to enter into agreements with the IRS directly. This will resolve important problems of FATCA implementation, including the data protection conflicts. An IGA will also address another important issue for Cypriot financial institutions, given their presence in non-EU countries – most notably Russia. Under the proposed terms of FATCA regulations (which as at November 2012 have not been finalized), a financial group that signs a FATCA agreement directly with the IRS would still be considered non-compliant if it has subsidiaries in jurisdictions where FATCA cannot be implemented. However, this issue does not arise if the financial institution is located in a jurisdiction which has entered an IGA, even if some affiliates of this institution are located in countries that are not FATCA-compliant. It is understood that presently Russian law does not allow adoption of FATCA by Russian domestic financial institutions and that the Russian government has significant reservations on signing an IGA. Should Russia choose not to sign an IGA, the operations of Cyprus financial institutions with Russian affiliation will not be penalized, provided that Cyprus has entered into an IGA.

Given that Cyprus and the US already have a bilateral tax treaty that provides for exchange of information, Cyprus will enter into a FATCA IGA Model 1, same as that signed by the UK, (the "reciprocal version") whereby Cypriot FFI's will report to Cypriot Tax Authorities, rather than to the IRS, details on the identified US accounts and the US and Cyprus will exchange information about each other's taxpayers[2]. The Ministry of Finance wants

1. *Title V of the Hiring Incentives to Restore Employment ("HIRE") Act, March 18, 2010.*
2. *The US has developed a non-reciprocal version of the IGA which is basically the same as the reciprocal, but does not require the US to send information to the partner country about its taxpayers. This non-reciprocal version will be offered to countries that do not have a bilateral tax agreement with the US.*

to conclude the IGA before the end of 2012 and will subsequently draft legislation to implement FATCA in Cyprus. Following a meeting between the relevant tax official dealing with FATCA IGAs in the US Treasury and her Cypriot counterpart, it emerged that US authorities do not wish to make any amendments to the FATCA IGA Model 1 (which has already been signed by the UK) other than to include country-specific financial entities and products that should be exempted from FATCA obligations (in Annex II of the IGA). Also, it is understood that discussions for signing the IGA will be held directly between the US Treasury and the Cypriot Tax Authorities rather than involving other official state channels, in order to expedite matters.

The Greek authorities have also decided to enter into an IGA (the "reciprocal" version) and have already had meetings with US Treasury representatives to advance this. This is an important development for Cypriot banks since they have a significant presence in Greece, while also Greek banks have a number of subsidiaries in Cyprus. Having both Cyprus and Greece enter into an IGA with the US, and also the fact that the IGAs will be identical, makes compliance much simpler for cross-border Cyprus and Greek banking groups.

Cypriot banks have mobilized their project teams, and conducted impact assessments in preparation for the introduction of FATCA. The Association of Cyprus Banks has set up ad-hoc committees to address legal, compliance and implementation issues and has regular meetings with the Ministry of Finance official who handles FATCA implementation and represents the Cyprus Presidency in Council Working Party discussions on this matter. Following a request from the Ministry of Finance, the Association's members identified possible financial entities and products to be included in Annex II of the IGA and also solicited the input of other Associations and interested parties. In addition, the legal committee of the Association formed an ad-hoc committee which advised the Ministry of Finance of the necessary changes in Cyprus's legal framework in order for banks to comply with the requirements stemming from a FATCA IGA without violating data protection laws and banking secrecy.

Representatives of the Association held a meeting with the Commissioner for Personal Data Protection to brief him on FATCA, the Cypriot government's intention of signing an IGA and the data protection issues that arise. The Commissioner shared the Association's view that financial institutions will not have to seek the permission of account holders identified as US persons in order to process their data for FATCA purposes, as long as Cyprus enters into an IGA and Cyprus's IGA obligations are transposed into local legislation. Association representatives also discussed with the Commissioner the possible means of informing account holders of how FATCA will impact them. The Commissioner was also informed on the need to modify the existing US-Cyprus double tax agreement to ensure the protection of personal data, the data security and the prohibition of sending the relevant data to anyone other than the tax authorities of the US and Cyprus.

According to the model IGA, financial institutions must have new account procedures in place by 1 January 2014, must review preexisting high value individual accounts by 31 December 2014 and must review other preexisting accounts by 31 December 2015. This project requires the involvement of numerous departments, such as compliance, O&M, IT as well as Operations and the deadlines imposed by the effective dates are considered to be very tight. Therefore, even though the final FATCA guidelines have not yet been published, and an IGA between Cyprus and the US is still pending, we would like to stress that financial institutions (including fund managers and custodians) do not have the luxury of waiting for these to be finalized before forging ahead with their FATCA implementation plans.

Eurozone debt crisis: Sovereign and bank interdependence

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The eurozone debt crisis has revealed the strong link between sovereign and banking risk. The reason for this is the strong financial and economic interdependence between sovereigns and banks. It is well known that banks hold sovereign debt of countries they operate as well as other eurozone countries. Data from the 2011 European bank stress tests indicate the high level of exposure in debt of eurozone countries. On average, domestic banks held approximately 20% of domestic government debt, while other European banks held 50%. It is worth mentioning that in the US only 2% of government debt is held by domestic banks and only 10% in the UK. This cross border holding of sovereign debt played a primary role in the eurozone crisis and was a major factor in all political decisions taken to encounter the situation. When the safety of a country's sovereign debt starts being questioned, the problem quickly spills-over to the national banking system and consequently to other banking systems due the high degree of financial integration within the eurozone.

Banks hold government debt mainly for liquidity management purposes. Government debt is considered as highly liquid and can be used as collateral to draw liquidity from the interbank market or the European Central Bank (ECB). The introduction of the euro strengthened further the strong bias towards investments in euro denominated sovereign bonds. The common currency diminished any foreign exchange risk and rendered all euro-denominated bonds issued by eurozone Member States as national bonds. Banking capital regulation treats investments in eurozone sovereign bonds as risk-free, does not impose any exposure restrictions and allows a zero-risk weighting for capital requirement purposes.

The interdependence between banking and sovereign risk may be the result of a two-way causality. On the one hand, higher banking risk translates into higher sovereign risk because of the potential possibility that a given Member State has to rescue its domestic banking system. Despite the strong degree of monetary integration reached in the eurozone, Member States remain individually responsible for rescuing banks in their jurisdiction. The European Financial Stability Facility (EFSF), and later European Stability Mechanism (ESM), can assist by providing loans to eurozone Member States for the purpose of capitalizing their banks but cannot inject capital directly into the banking system. Therefore, the cost of recapitalizing banks remains with the individual Member State and can be very high for countries that are home to large banks with significant cross-border banking activities. Given the size of the banking systems across the eurozone, this implies that the fiscal consequences of rescuing banks are potentially very large and explains how stress in the banking system can spill over to sovereigns. On the other hand, higher sovereign risk translates into higher banking risk because of the mere fact that eurozone banks hold high and often disproportionate amounts of eurozone government bonds. This implies that stress on the sovereign bonds, due to solvency issues, spills over to the national banking systems. Deterioration in the credit worthiness of a sovereign impacts negatively on banking assets, because of the lower market value of sovereign bond holdings and the reduction of collateral values used for funding purposes. Sovereign downgrades also lead to lower credit ratings of banks located in the specific country.

The eurozone crisis illustrated the extent of economic and financial interdependence of governments and banks, created by the fact that eurozone banks hold eurozone government debt. In times of financial crisis the problem becomes more complicated particularly for those banks that are exposed not only to the risk of the country they operate but also the solvency risk of other eurozone countries. There have been several initiatives trying to confront this very important issue. One such initiative is the creation and issuance of Eurobonds. This will reduce exposure to specific sovereign bonds and constrain the transmission of solvency risk from governments to banks. Undoubtedly the most concrete suggestion is the creation of the Banking Union. The Banking Union has four pillars (Single Supervisory Mechanism, Single Rule Book, Common Recovery and Resolution Framework, Common Deposit Guarantee Scheme) and renders the European Central Bank (ECB) as the single supervisor for all banks operating in the European Union. Such a reform would break the interdependence of sovereign solvency and potential bank rescuing responsibility, reduce Member States' vulnerability in cases of banking crises and allow for the direct recapitalization of banks by the European Stability Mechanism (ESM). Ultimately, both initiatives described above are closely linked with the willingness of eurozone Member States to accept, directly or indirectly, the pooling of budgetary resources and agree to an EU consolidated budget framework.

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Last October (2011) the European Commission released two legislative proposals for the revision of the Markets in Financial Instruments Directive (MiFID I). The first proposal is a recast Directive (MiFID II) of the MiFID I (Directive 2004/39). The second text is a proposal of Regulation (MiFIR), which is also going to amend the recently approved European Market Infrastructure Regulation. As part of the responses to the financial crisis and the implementation of G20 commitments, the proposals seek to improve the transparency and regulation of more opaque markets, such as derivatives. The full impact of the changes will not be clear until the legislation is passed but the key changes relate to the scope of the directive, electronic trading, transparency and transaction reporting, third country firms, investor protection and product intervention.

Scope

The proposals expand the scope of MiFID, both in terms of the types of firms and instruments (e.g. structured deposits and emissions allowances) captured. As a result additional firms, such as data reporting providers, third country firms, and more commodities firms will come need to be authorised, regulated and undergo extensive compliance.

OTFs

The financial crisis of 2008 revealed the increasingly complex and opaque nature of financial markets, which comprise many activities that are not regulated by existing legislation (such as broker crossing networks or derivatives trading systems). So, although, the current MiFID framework is equipped to capture a great deal of multilateral derivatives and fixed income trading, it did fail in providing a complete definition of bilateral execution mechanisms and narrowed it to mainly own account trading (e.g. systematic internaliser). To bridge this regulatory gap, the Commission has proposed a new category of trading venue called Organised Trading Facilities (OTFs), which would exist in parallel with Multilateral Trading Facilities (MTF), regulated markets (exchanges) and Systematic Internalisers (SIs).

"Organised trading facility (OTF)' means any system or facility, which is not a regulated market or MTF, operated by an investment firm or a market operator, in which multiple third-party buying and selling interests in financial instruments are able to interact in the system in a way that results in a contract in accordance with the provisions of Title II of Directive [new MiFID]" (art.2.7, MiFIR). As a result of the introduction of OTFs, additional trading venues which have been established since MiFID was originally implemented will now be covered. In addition, OTFs have been defined in away to ensure that they capture future technological developments. The introduction of this new category is also in line with a broader G-20 commitment, stating that "All standardised OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, [...] by end-2012 at the latest." (G-20 Toronto Summit Declaration, June 26-27 2010).

Under the proposal, firms operating OTFs will require a separate permission. Such firms will not be allowed to match orders against own capital. The text clarifies that only Systematic Internalises (Sis) would be able to match against own capital. Nevertheless, the proposal does not allow an SI to interact with an OTF, which further reduces the range of action of the OTF. It is noted that some observers see no need

for OTFs, which would be less regulated, and recommend a strengthening of the existing framework instead.

Algorithmic Trading and Direct Electronic Access to Trading Venues

The proposals also include specific systems and control requirements for firms which undertake algorithmic trading and firms which provide clients with direct electronic access to trading venues for execution purposes. Such systems must be properly resilient and include appropriate risk controls, such as preventing systems from sending erroneous instructions and the ability to slow down the flow of orders, in order to improve the stability of financial markets.

The proposals also include a provision for a market making obligation for algorithmic trading strategies. The impact of this is likely to be major given the broad definition of algorithmic trading.

Transparency and transaction reporting

The proposals extend transparency requirements to additional asset classes that are not currently covered, such as bonds, structured finance products, derivatives and emissions allowances. There will also be requirements to different trading venues, such as OTFs. However, their application will be calibrated to each type of asset class and type of trading undertaken.

There will also be additional requirements in respect of transaction reporting, including the extension of reporting requirements to instruments admitted to trading on OTFs. The type of information required in transaction reports will also be amended to include additional information, such as the identification of individuals (or computer algorithms where relevant) responsible for the investment decision.

Third country firms

ESMA will maintain a central list of the relevant countries which are deemed equivalent. Only third country firms from equivalent jurisdictions will be allowed access. Third country firms will have to establish branches in order to provide services to retail clients, but they may continue to provide services to eligible counterparties provided they are supervised in their own countries and are registered with ESMA. The picture regarding 'professional clients' will need to be clarified. Existing third country firms will have four years to comply with new requirements set out in the Regulation from its 'entry into force' date.

Investor protection

With the purpose to strengthen investor protection, the receipt of monetary inducements is restricted, for both portfolio managers and providers of independent advice. Also when providing investment advice, clients should be informed of whether the advice is independent and whether the firm will provide an ongoing assessment of the suitability of products provided. Firms will need to specify how the advice given meets the personal characteristics of the client. Firms will also be required to provide additional information, including pre and post trade information, to clients regarding advice, inducements and complex instruments.

Additional best execution requirements are imposed (e.g. firms will be required to disclose their top five execution venues for each class of financial instrument, at least on an annual basis).

Product Intervention

National regulators and ESMA are given more powers. For example, the national regulators, in coordination with ESMA, will have the power to ban products permanently, while giving ESMA the ability to also ban products temporarily. Position limits may also be imposed in respect of commodity derivatives and emissions allowances (including spot contracts and derivatives). This will require trading venues to impose limits and to inform the national regulators of them. National regulators and ESMA will have powers to force positions to be reduced and have the ability to impose limits in exceptional circumstances so as to ensure market stability.

Costs

The EC's own cost estimates set the one-off compliance costs with all the new changes between €512 and €732 million and ongoing costs between €312 and €586 million. It appears that electronic trading infrastructure will be a key area of focus for implementation work and, due to the associated IT spends, is likely to result in significant investment by firms to ensure their trading infrastructure is compliant.

Implementation

A final agreement between the legislative bodies on the Level I proposals is expected by the end of 2012. Implementation of the new measures is not expected until at least 2015.

IBAN: The new account number

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Payment Systems

The International Bank Account Number (IBAN), is an internationally agreed method of identifying bank accounts across national borders. It was originally created by the European Committee of Banking Standards and later adopted as an international standard, under ISO. Until now, it has been implemented by all EU (and SEPA) countries, as well as countries from the Middle East and the Caribbean.

Before the use of IBAN, both corporate and retail customers often got confused with the large number of identification variations of the domestic bank accounts, as they comprised of different banking codes and routings. Furthermore, the traditional account numbers did not contain any check digits, which made it easier for simple transaction errors to go unnoticed. As there was no way of validating routing information before a payment was submitted, payment delays and extra costs were frequent results of routing errors for all banks involved (i.e. sending, receiving and intermediary banks).

With the creation of the Single Euro Payments Area (SEPA), the IBAN became an important tool for identifying cross-border payments within the SEPA-zone. The IBAN was intended to replace the domestic bank account number, which in several cases created confusion, mistakes and delays for cross-border payments.

The main advantages of using IBAN for banks, corporations and individuals are as follows:

- It simplifies cross border transactions by assigning a unique account number format for all participating countries. It also provides a uniform appearance of the account number, thereby making it easier to identify the country and the banking relationship of the account holder.

- It provides a level of assurance to the trading partners that the account number is real, and that it can be validated against national payment directories.

- It lowers transaction costs by supporting a higher level of automation in the payment process. It also reduces the cost of investigations, as it minimizes the risk of errors.

According to ISO, the IBAN may consist of up to 34 alphanumeric characters, which are structured as follows:

- two letters representing the home country of the account holding bank,
- two check digits (which allow sending banks to perform validity checks of the account number during the entry of data),
- a maximum of 30 alphanumeric characters identifying the bank and the domestic account number.

Although IBAN aims at unifying electronic payments, its final form may still vary from country to country as it may include a different number of alphanumeric characters. Norway has the shortest IBAN structure with only 14 characters and Malta has the longest with 31 characters. The Cypriot banking community in co-operation with the Central Bank of Cyprus, have decided to implement 28 characters for the Cypriot IBAN. Consequently, a typical IBAN of a Cypriot-based bank account looks as follows:

CY 51 0030 0013 0000 0013 2102 4363

In March 2012, the European Parliament approved the "Regulation (EU) No. 260/2012 for establishing technical and business requirements for Credit Transfers and Direct Debits in euro", otherwise known as the "Regulation for the SEPA migration end-date".

Among other things, the Regulation requires the exclusive use of IBAN instead of the domestic account number, for the processing of any Credit Transfer or Direct Debit payments within the SEPA zone. The "IBAN only" requirement must be adopted by all participating countries, the latest by the 1st of February 2014, with an option to defer the rule for national transactions only, until the 1st of February 2016.

According to the guidelines provided by the European Commission and the European Central Bank, all stakeholders must take active measures in order to ensure a smooth and effective transition to IBAN.

These measures involve the following:

- Financial Institutions must ensure that their customers are able to easily locate the IBAN pertaining to their own account. This can be achieved by displaying it on the monthly account statements, or printing it on payment cards or cheque books.

Banks should also provide their customers with easy-to-understand information about the uses of IBAN, either through their internet banking channels, or by print flyers.

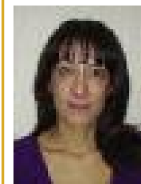
- A national website dedicated to IBAN could be constructed, containing a range of IBAN-related information, as well as account number-to-IBAN conversion facilities.

- Businesses and public administrations are expected to: review their invoicing and accounting procedures, identify and adapt all systems operating on the basis of account numbers and bank codes, and redefine their standardised processes for cross-border payments, so as to include any missing IBANs.

- Businesses are also expected to disclose their IBAN to their business partners and customers. This can be achieved by printing it on their invoices, stationary or any other documents exchanged with their counter-parties.

Having all the above in mind, the Association of Cyprus Banks and its members have agreed to create a special page in the Association's website, which will give general information on IBAN, as well as provide account conversion facilities for users. In particular, the page will contain a portal which will be linked to the websites of all SEPA-participating financial institutions in Cyprus. With a touch of a button, the said links will be connected to specific pages in the bank's websites, which will provide account number-to-IBAN conversion facilities for users. By using these services, senders of domestic electronic payments will be able to easily identify the IBAN of their beneficiaries, without wasting time on communicating with them, or their banks. Banks in Cyprus have committed to implement the account conversion pages in their websites, the latest by the end of the year. The forecasted date of implementing the page in the Associations' website, (30th of April 2013), will be the same as the date agreed for terminating the use of "JCC Transfers" in Cyprus. Consequently, after the 30th of April 2013, almost all types of domestic Credit Transfers will require the use of IBAN.

Consumer redress mechanisms: an alternative way to justice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Alternative Dispute Resolutions (ADR) aim at resolving disputes out of court between consumers and businesses with simple, fast and low cost procedures. In 1998 and 2001 the Commission adopted two Recommendations, 98/257/EC and 2001/310/EC, on consumer ADR. The intention was for disputes to be settled by all existing or new entities in an efficient and responsible way, through the implementation of certain principles laid down in the Recommendations. Nevertheless, these Recommendations were not binding and subsequently did not create a level playing field for dispute resolution mechanisms within Europe. Various studies of the situation in EU Member States identified a number of problems and shortcomings. In particular, the Eurobarometer study which was carried out in 2010 showed that one in five consumers in Europe faces problems when buying goods or services. These problems usually remain unsolved and the losses incurred by European consumers have been estimated at 0.4% of the EU's GDP. Although in most Member States ADR entities exist, these are highly diverse, have different procedures, feature substantial gaps and lack quality.

Following the conducting of various studies on ADR, a public consultation and an impact assessment, in November 2011 the European Commission drafted a Proposal on the out-of-court resolution of disputes (ADR). The objective was to ensure that all consumer complaints could be submitted to an ADR entity and that disputes arising from cross-border transactions would be more easily resolved. The Proposal aims to strengthen consumers' confidence in the internal market, including the area of e-commerce. Importantly, the new legislation is expected to ensure quality of out-of-court redress all over Europe.

The philosophy behind the European legislation is the use of existing ADR entities in Member States and the adjustment of their scope of application. In countries where no alternative dispute resolution exists, the legislation provides for the creation of ADR entities. The Proposal does not regulate all aspects of alternative dispute resolution but focuses on some key aspects of out-of-court resolution. The European legislation builds on national ADR entities that already exist and leaves the choice of form and methods to achieve the results expected to Member States.

The main aspects of the Proposal are the following:

- The new legislation covers disputes between consumers (natural persons only) and businesses arising from the sale of goods or the provision of services.
- ADR entities must (a) have a website enabling the parties to submit a complaint online; (b) enable the parties to exchange information with them via electronic means and (c) accept both, domestic and cross-border disputes.
- The ADR procedure must be free of charge or at moderate costs for consumers.
- The dispute must be resolved within 90 days from the date on which the ADR entity has received the complaint.
- The ADR entity resolves the dispute by suggesting a solution. The outcome is made available to both parties in writing. The parties, before agreeing to a suggested solution, are informed of the legal effect of such agreement and before expressing their consent to a suggested solution are allowed a reasonable period of time to reflect.
- Businesses must also inform consumers about the ADR entities by which they are covered. Such information shall include the addresses of the relevant ADR entities' websites and specify whether or not the business commits to use these entities to resolve disputes with consumers.
- ADR entities in Member States must cooperate on the resolution of cross-border disputes.
- The authority of each Member State is responsible for the monitoring, the functioning and development of ADR entities on its territory.

It is expected that the European Proposal will be finalised and voted before the end of 2012. The new Directive is expected to ensure access to quality ADR for all disputes and provide important benefits to both consumers and businesses. In quantifying terms, EU consumers can save around €22.5 billion and businesses can save up to €3 billion, when using dispute resolution entities in contrast to court procedures. An EU wide ADR system is therefore anticipated to enhance consumer confidence and improve the functioning of the Single Market.

Cyprus case

The national legislation for the resolution of financial disputes was passed by the House of Parliament in

2010. According to this legislation, financial disputes can be resolved out of court in a friendly and impartial manner. The out-of-court procedure has been designed to facilitate consumer access to justice in such a way that consumers will benefit from the simple, fast and low-cost way of resolving disputes.

The Financial Ombudsman covers complaints against banks, insurance companies, investment companies, electronic money institutions and mutual fund companies. Cooperative credit institutions have not been included in the scope of the national law and thus are not covered by this body.

Based on the provisions of the law, without having to go through exhausting court procedures, the customer can seek compensation through an out-of court settlement. An opportunity is given initially so that the dispute is solved directly between the business and the customer. Within this context, the customer must first file his/her complaint to the financial institution, which should respond within 3 months from the day of the submission of the complaint.

Subsequent to the above, if the customer is not satisfied with the reply provided by the financial institution, he/she can submit the complaint to the office of the Financial Ombudsman within the next 4 months. The Financial Ombudsman then examines the complaint. With the aim to get a fair outcome, the Ombudsman communicates with both parties and issues his friendly decision. Once the decision is issued, the Financial Ombudsman asks the two parties if they wish to be bound by the decision. The parties should reply in writing within two months from the day of the decision, that is, whether they accept it or not. The Financial Ombudsman's decision is binding only if both parties have accepted it, and in such case the consumer cannot turn to a Court of Justice. If the decision is in favour of the customer, the Ombudsman decides about the amount of compensation which should be paid by the financial institution involved. The financial compensation should not exceed the amount of €50,000.

The office of the Financial Ombudsman is governed by the Board, which is composed by eight members – the Chairman, the Vice-Chairman and six members. One of the five members is the representative of the banking sector in Cyprus – currently the Director General of the Association of Cyprus Banks. The entity is funded as follows:

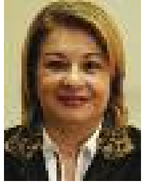
I. By a standard annual contribution from each financial sector. The contributions are calculated according to a formula: 70% of the contribution of each sector towards GDP and 30% according to the number of complaints filed against the financial service providers.

II. By a contribution of €20 which is paid by the customer for the complaint submitted.

III. A fee of €350 to be paid by the financial institution for each decision issued against it.

It is anticipated that the body will be launched in 2013. Consumers will hence be able to seek compensation for their financial complaints without having to go through courts which are associated with high fees, long delays and cumbersome procedures. The functioning of the Financial Ombudsman will boost consumer confidence in the local market, and this is undoubtedly significant in a period of economic and financial crisis.

European Works Councils



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On 22 September 1994, the Council of the European Union passed a Directive (94/45/EC) on the establishment of a European Works Council (EWC) for the purposes of informing and consulting employees in companies which operate at European Union level.

Around 10 million workers across the European Union have the right to information and consultation on company decisions at European level through their EWCs. The Works Council Directives apply to companies with 1,000 or more employees, including at least 150 in two or more Member States.

EWCs were created partly as a response to increase transnational restructuring brought about by the Single European Act. They give representatives of workers from the European countries in big multinational companies a direct line of communication to top management. They also make sure that workers in different countries are all told the same thing at the same time about transnational policies and plans. Furthermore they give workers' representatives in unions and national works councils the opportunity to consult with each other and to develop a common European response to employers' transnational plans, which management must then consider before those plans are implemented.

The EWC Directive was revised by the Council and the European Parliament in May 2009 and is fully operational since June 2011.

In Cyprus the Establishment of a EWC Principal Law came into force on 1 May 2004 and it was amended on 21.12.2007 and 5.6.2011, respectively.

The main provisions of the Directive are as follows:

- Establishment of a EWC on the basis of an agreement between the Central Management and a Special Negotiating Body.

- The Central Management will be responsible for creating the conditions and means necessary for the setting up of a EWC or an information and consultation procedure; will initiate negotiations on its own initiative or at the written request of at least 100 employees or their representatives in at least two undertakings or establishments in at least two Member States.

- Special Negotiating Body comprising a minimum of three and a maximum of the number of Member States, will have the task of determining – with the Central Management – by written agreement, the scope, composition, competence and term of office of the EWCs or the arrangements for implementing a procedure for the information and consultation of employees; it also may decide, by at least 2/3 of the votes, not to open negotiations or to terminate the negotiations already opened.

Subsidiary requirements
In order to achieve the objectives of the Law, special provisions (subsidiary requirements) apply to the following cases:

- Where the Central Management and the Special Negotiating Body so decide, or

- Where the Central Management refuses to commence negotiations within six months of the initial request to convene the Special Negotiating Body, or

- Where, after three years from the date of this request, they are unable to conclude an agreement to establish a EWC or an information and consultation procedure, and the Special Negotiating Body has not taken the decision not to open negotiations or to terminate the negotiations.

The following subsidiary requirements must also be satisfied:

- The competence of the EWC will be limited to information and consultation on matters which concern the Community-scale undertaking as a whole or at least two establishments or group undertakings situated in different Member States.

- The EWC is to have a minimum of three and a maximum of thirty members and, where its size so warrants, is to elect a select committee from among its members, comprising at most three members.

- Four years after the EWC is established, it is to consider whether to open negotiations for the conclusion of the agreement on the arrangements for implementing the information and consultation of employees, or to continue to apply the subsidiary requirements adopted.

- The EWC will have the right to meet with the Central Management once a year in order to be informed and consulted, on the basis of a report drawn up by the Central Management, on the progress of the business of the Community-scale undertaking or Community-scale group of undertaking and its prospects.

- Where there are exceptional circumstances affecting the employees' interests to a considerable extent, particularly in the event of relocation, closure or collective redundancy, the select committee or, where no such committee exists, the EWC will have the right to be informed.

- The members of the EWC are to inform the employees' representatives of the content and outcome of the information and consultation procedure.

- The operating expenses of the EWC are to be borne by the Central Management.

Confidential Information

Members of the Special Negotiating Bodies and of EWC, any experts who may assist them, and the workers' representatives are not authorized to reveal to third parties any information, which has expressly been provided to them within the framework of the information and consultation procedure and has been made known to them that it is confidential. This obligation for confidentiality shall continue to apply even after the expiry of the terms of office of the above mentioned persons irrespective of the location they are. Central Management is not obliged to inform the EWC for matters:

- Whose nature is such that, according to objective criteria, they may seriously harm the functioning of the undertakings concerned or would be prejudicial to them.

- Which are classified as confidential by legislation in force, like for banking, judicial matters, national security and patent confidentiality. The dispensation of a matter considered as confidential, as provided for above, must be subject to prior administrative or judicial authorization.

Protection of Employees' Representatives

The members of the Special Negotiating Body, or the EWC and workers' representatives exercising their functions, in accordance to this Law, enjoy the same protection and guarantees provided for workers' representatives by Law and/or practice in force. This shall apply in particular to attendance at meetings of the Special Negotiating Body, or the EWC, or any other meeting within the framework of the agreement for information and consultation of employees, and the payment of the remuneration of the members who belong to the staff of the Community – scale undertaking or the Community – scale group of undertakings for the period of absence necessary for the performance of their duties.

Offences and penalties:

Any person who contravenes the provisions of this Law shall be guilty of an offence and shall be liable on conviction to imprisonment not exceeding two years or to a fine not exceeding the amount of €34.172 or to both such penalties.

Extreme Value Theory

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Extreme Value Theory

The Basel Committee on Banking Supervision (BCBS) presents three methods for calculating the minimum capital charge for operational risk under Pillar I, namely, the basic indicator approach (BIA), the standardised approach (STA) and the advanced measurement approach (AMA). Amongst the three proposed approaches only AMA can assess the idiosyncratic risk that a credit institution faces due to its exposures to operational risk. The academic literature has proposed many complex models in order to address the idiosyncratic risk of credit institutions. In spite of the theoretical completeness of some of them, the complex mathematics they employ and the IT and human resources they assume resources make it almost impossible for the (small) banks to apply them.

This article presents a simple approach that could utilise the data collected by the credit institutions in Operational Risk Management (ORM) databases to come up with a simple quantification of operational risk and the regulatory requirements thereof. It is essential that credit institutions not yet implemented any database, leave behind the "perfect definition", as it needs to have a detailed coverage of the operational loss events for at least one business circle (5 to 7 years). Lam (2003) also believed that "many institutions do not get off the ground because too much time is spent trying to come up with the perfect definition of operational risk".

The suggested approach was presented and tested within the scope of a research project[1] utilising the Synectics SA[2] database[3]. The specific database registers the necessary information that meets the requirements of data needed for the estimation of operational risk and regulatory capital thereof. The database is configurable enough to accommodate differences among, classification schemes, legislation and organisational structure while it collects all the qualitative and quantitative information that a risk manager needs for carrying out the aforementioned estimations.

In risk management analysis, unusual or rare events that cause high-impact losses are defined as extremes. In classical data analysis, the extreme events and losses are often labeled as outliers ("unlikely to happen") and even ignored from policy makers of the day-to-day operations. However, if the focus is on how to shield a credit institution against rare, but probable events, then the EVT could be a valuable tool.

The Extreme Value Theory (EVT) in risk management is separated into two approaches: the block maxima (BM) approach and the peaks-over-threshold (POT) approach, both of which model the extreme events to come up with an estimation of the impact of an extreme event that is likely to appear according to a pre-specified (low) frequency. Despite its theoretical coherence, the latter approach is difficult to be implemented by the (small) banks.

The experience has shown that the losses resulted from operational risk are heavy-tailed, meaning that they are rare but of high impact. To analyse them, the cluster analysis could be a useful tool for picking up those events from a data series. The cluster analysis comprises a technique for partitioning the collected data into groups of natural clusters and, if combined with Extreme Value Theory, could help risk managers to determine the impact of low probability events (size of the tail). To apply this technique, it is essential that the time series are of sufficient length and data quality.

The quantification of risks consists of modeling random variables to predict expected and unexpected future states of the world, which are in turn translated into profits and losses. These risks may be considered individually, or seen as part of a stochastic system where present risks. The probability distribution of operational risk losses cannot be observed accurately, although past losses due to similar risks (if available) may provide partial information about the loss distribution.

The BM approach is a non-parametric EVT method based on the distribution of business losses for a given probability and impact. In EVT, the probability is defined in terms of frequency, whereas the impact is described in terms of financial losses or "near

1 Research project, entitled: "Operational Risk Management Tool", with protocol number "ΕΠΙΧΕΙΡΗΣΕΙΣ/ΠΡΟΪΟΝ/ 0609 / 79", co- financed by the Republic of Cyprus and the European Regional Development Fund.
2 Synectics SA is a company, based in Cyprus, that specializes in assessing and quantifying operational risk.
3 The database was developed by Synectics SA, in collaboration with the Frederick Research Center and the Association of Cyprus
4 Banks, within the scope of the research project, with protocol number "ΕΠΙΧΕΙΡΗΣΕΙΣ / ΠΡΟΪΟΝ / 0609 / 79".
This Article should not be reported as representing the views of the European Banking Authority (EBA). The views expressed in this Paper are those of the author and do not necessarily represent those of the EBA or EBA policy.

misses". To this end, it is important to use the "Number of Events" and "Number of Near Misses" to assign a probability as well as "Lost Amounts" to assign the severity of impact. In recent years, EVT has been receiving more recognition in literature of time series and risk analysis. The main difference between EVT and all other methods of estimating VaR is that the former uses only the values of the tail instead of using the whole dataset.

Figure 1: Block Maxima Approach

The BM can be easily implemented by credit institutions, given that they have adequate historical data. In the absence of internal data, credit institutions could use anonymous data. The most useful way forward to resolve this problem is banks to get the data from a "commonly-fed" database which receives data from many users (banks). It is important, thus, that the database is an inter-bank multi-user database in order to meet the requirement of high-frequency, long time-series, data.

A visual representation of the block maxima approach is given in Figure 1. The dataset is separated into identical, consecutive and non-overlapping periods (blocks) with n length (the number of observations within the block). The length of the block should be higher than the density of the observations in order for the approach to be meaningful (e.g. if the observation frequency is daily then the length of the block should be at least one month).

The set of extremes is formulated from the maxima values Mj that are collected from each block j, a total number of m block maxima. When describing the BM method, Xij (i _ 1…n, j _ 1…m) is the individual observation i of the block j and Mj (j _ 1…m) is the maximum loss value of block j.

Estimation of operational risk loss

After constructing a new data series comprising of the local maxima, one can estimate the "global maximum" for a specific confidence level, that is, a specific frequency of appearance. The global maximum corresponds to the estimated maximum amount to be lost due to operational risk events and is given by the following formula:

Formula 1: Quantification of Operational Risk using the Block Maxima (BM) approach

$$VaRm = H^{-1}(1-1/m)$$

For example, when using daily observations with m = 1000 and VaR99.9, it means that the maximum loss observed during a period of one day will exceed VaR99.9 in one out of thousand days on average.

The banks could move one more step forward by estimating the expected shortfall (ES). The ES quantifies the average value given that the loss exceeds the threshold value determined by VaRm. In this sense, the ES constitutes a coherent complement to the Value-at-Risk estimations.

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Country-Wide Operational (Risk) Loss Database-Cold

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The need for a country-wide Loss Database for Operational Risk Events is well documented by organisations such as the British Bankers Association (BBA), the Operational Risk Exchange Association (ORX), etc.

During the last few years, the collection and classification of Operational Risk Events advocated by the Directives of Basel II has motivated many institutions to start a systematic assembly and analysis of such Events. Over the years, many difficulties have been identified and documented regarding the set up and the operation of an Operational Risk Loss Database e.g.

- Lack of correct and sufficient data
- Deployment difficulties (as quickly as possible and as near as possible to the source)
- Inappropriate classification of events
- Need for proper awareness and the right culture
- Institutions sceptical on sharing incidents.

However, many financial institutions having realised the benefit of gaining access to accurate and properly codified external data to establish a common pool of Loss Events either on a national scale or on a membership basis spanning multiple countries (but perhaps of same size of Members).

The establishment and operation of a Country Operational Loss Database (COLD) will provide to financial institutions of a country external quality data which, according to Basel II, should provide additional data points as well as useful insight into areas and issues that have resulted in operational losses at other institutions operating in a common environment and facing similar risks.

The purpose of this article is to: -

- Justify the creation, operation and controlled enhancement of such a mechanism
- Outline the procedures that should surround such an implementation
- Summarise the policy decisions that are required at the outset of the exercise
- Describe at a high level the technical attributes of the proposed Loss Database.

Objectives

The Scheme proposed in this article is modelled along established industry practice and it sets out to achieve the following overall objectives: -

- Easy to implement on a National scale
- Flexible classification system to conform to Basel II Directives while at the same time being easy to accommodate possible dissimilar taxonomies within individual Members
- Resilient enough to accommodate future changes in classification schemes and other aspects that will be imposed either on a European or National level by the corresponding Supervisory Authorities
- Scalable to accommodate unlimited number of participating Institutions (Members) and also to process any future volume of transactions
- Built on industry-standard infrastructure, e.g. web-enabled front-end (through a browser such as the Microsoft Internet Explorer) and widely used database engines (either Oracle or MS SQL).

Business Policies

The effort for establishing a Country-wide Common Operational Loss Database (COLD) is usually coordinated by the involved Banks' Association or a similar Entity (e.g. the Country's Supervisory Authority or a corporate or unincorporated consortium or venture of some sort, etc). An entity of the latter type can also act as the Custodian of the Loss Database.

Steering Committee

1 The whole exercise must be supervised by a Steering Committee which will be defined and agreed amongst the Members and documented in a Memorandum of Understanding (MOU).

2 The Steering Committee will decide issues such as:

2.1 Obligations and responsibilities of each Member defined and agreed in the MOU.

2.2 Custodian (entity operating and administrating the System) appointment, control and supervision procedures.

2.3 Appoint the Vendor/Developer of the System.

2.4 Define the mechanism and controls of new Postings.

2.5 Data Policies (Retention, Quality, Confidentiality, etc)

2.6 Policies for Functionality and other Product Change Requests (PCRs)

2.7 Periodic Reviews of the overall Scheme, etc.

2.8 Membership Fees and Charges and corresponding compensation for the Custodian and the Vendor/Developer.

2.9 Thresholds, which is a debatable decision

especially for small-medium institutions (e.g. reporting Events with associated loss of more than ten thousand euro), etc.

Policies, Principles of Operations and Procedures

1. Principles and Procedures must be documented in a companion document.
2. The System will be hosted, operated and maintained by the Custodian who will receive new entries in batches at agreed periodic intervals, verify that the data structure is appropriate, remove any data or links that could potentially identify the submitting Member, etc.
3. Postings by Members will be done in an anonymous mode and confidentiality will be maintained throughout the submitted postings' entirely life history.
4. Access to data posted to the Database will be performed in an anonymous retrieval mode.

Security, Access Control, Data Protection

1. The System and the Custodian will ensure that for any data stored in the System the associated originating Member will not be identifiable.
2. The Custodian will ensure that only authorised Members have access to the System as per the MOU Terms and Conditions.
3. The Custodian and the Members appointed by the Steering Committee will verify that the System authenticates properly and conforms to the agreed access privileges, security and data controls.

Roadmap

1. Decision at the level of the country's Banks' Association
2. Appoint Steering Committee
3. Draft and approve Memorandum of Understanding (MOU) for Members
4. Define Policies and Implementation aspects identified above
5. Appoint Custodian and Vendor/Developer
6. Tailor and Accept the System
7. Put in Production ("Live" Operations)
8. Maintain and Enhance the System on an on-going basis.

Synectics Country Operational Risk Data Base (Cold)

Synectics exploiting its extensive knowledge on Operational Risk designed and developed its own COLD system. The idea was not to develop a competitive product full of bells and whistles but rather to make available a simple, functional, extremely useful and value-for-money mechanism, which makes it very easy to be adopted and used productively in a very short period.

Main System Features

1. Fully compliant with Basel II Directives, recommendations and taxonomies, with on-going maintenance ensuring adherence to supervisory directives (both European and National levels).
2. Secure Data Entry / Data Population Schemes: Interface File or Uploading Mechanism.
3. Bilingual Glossary
6. HeatMaps
7. Risk Register
8. (Optional): Features and modules of an Operational Risk Management System e.g. Scenario Management, Risk Control Self Assessment (RCSA), Questionnaire Management, Model for calculating the required Operational Risk Capital Charge, etc.

Technical Infrastructure

1. Web-enabled: Facilitates the easier deployment and minimises training requirements.
2. Back-end Flexible: Database can be either Oracle 11g or greater, or MS SQL 2008 or greater.
3. Events Posting: Uploading a file through an on-line connection to the Custodian's site (preferred way), or by dispatching a file on an as-needed basis to the Custodian.
4. Record layouts, field description, data business rules (checks) already developed but can be the subject of discussion amongst the founding Members so these and other details can be finalised.

Reporting Mechanism (Posting of New Events)

1. Reporting period deadlines
2. Reporting Form
3. Uploading Mechanism
4. Classification
   - 4.1 Basel II Level 1
   - 4.2 Basel II Level 2
   - 4.3 Country Level (Level 3)
5. Fields
   - 5.1 ID Code
   - 5.2 Dates (e.g. Recognition, Occurrence, etc)
   - 5.3 Classification
   - 5.4 Business Line
   - 5.5 Location of Event
   - 5.6 Event Description
   - 5.7 Gross Loss (and/or Revised Loss) Amount
   - 5.8 Impact of Loss along agreed codification scheme
   - 5.9 Soft Loss (and side effects) again using common classification scheme, etc.

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- Fraud Control
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