

RESOLUTION OF THE BOARD OF THE NATIONAL BANK
OF THE REPUBLIC OF BELARUS
February 12, 2016 No. 69

**On approval of the Instruction on Setting Requirements to
Organizing Internal Control and Risk Management in
Forex Companies, the National Forex Center**

By virtue of paragraph three of Clause 10, paragraph fifteen of Clause 17 in Edict of the President of the Republic of Belarus No. 231 dated June 4, 2015 “On Carrying out Activities in the Over-the-counter Forex Market”, and Part one of Article 39 in the Banking Code of the Republic of Belarus, the Board of the National Bank of the Republic of Belarus DECIDES:

1. The enclosed Instruction on Setting Requirements to Organizing Internal Control and Risk Management in Forex Companies, the National Forex Center shall be approved.
2. This Resolution shall come into effect from March 7, 2017.

Chairman of the Board

P. V. Kallaur

APPROVED

Resolution of the Board
of the National Bank
of the Republic of Belarus
February 12, .2016 No. 69

INSTRUCTION

**on Setting Requirements to Organizing Internal Control and Risk Management in Forex
Companies, the National Forex Center**

**ARTICLE 1
GENERAL PROVISIONS**

1. This Instruction sets up requirements to organizing internal control and risk management in forex companies, the National Forex Center.
2. For the purposes of this Instruction the following terms shall have the following meanings:
 - internal control – means the process implemented by forex companies, the National Forex Center with a view to ensuring the effective activities in the over-the-counter forex market in compliance with requirements of the legislation of the Republic of Belarus and local regulatory legal acts of forex companies, the National Forex Center;
 - internal control system – means a combination of internal control, organization structure, local regulatory legal acts specifying the internal control policy, methods and procedures, as well as powers and responsibilities of administrative bodies and employees of forex companies, the National Forex Center;
 - risk – means a really existing opportunity (probability) of damages (losses), loss of planned revenues, decline in liquidity and/or happening of other adverse consequences conditioned

by occurrence of different events related to internal and/or external factors for activities of forex companies, the National Forex Center;

risk management system – means a combination of organization structure, powers and responsibilities of administrative bodies and employees, local regulatory legal acts specifying the policy, methods and procedures of risk management, risk control processes enabling to ensure financial sustainability of forex companies, the National Forex Center.

For the purposes of this Instruction the forex companies shall be deemed legal entities mentioned in paragraph two Part one of Clause 1 in Edict of the President of the Republic of Belarus No. 231 dated June 4, 2015 “On Carrying out Activities in the Over-the-counter Forex Market” (National Legal Internet Portal of the Republic of Belarus, June 06, 2015, 1/15836).

ARTICLE 2

REQUIREMENTS TO ORGANIZING INTERNAL CONTROL IN FOREX COMPANIES, THE NATIONAL FOREX CENTER

3. The internal control system in forex companies, the National Forex Center shall be provided by qualified employees, essential information systems, and software-hardware tools enabling to acquire, analyze, transmit and protect information used for internal control.

4. The internal control system in forex companies, the National Forex Center shall include the processes such as:

safeguarding of assets and investments;

reliability, completeness, fairness and promptness of maintenance of accounting records, drawing up and presentation of accounts;

implementation of measures to prevent from laundering of proceeds of crime, financing of terrorism and financing of proliferation of mass destruction weapons;

efficiency of risk management systems;

operation of information systems;

data flow management (receiving and transfer of information);

ensuring information security;

dealing with applications by citizens and legal entities.

Forex companies, the National Forex Center may specify additional internal control processes in their local regulatory legal acts.

5. To form the efficient internal control system ensuring proper level of financial sustainability and information security consistent with the nature and value of conducted financial transactions (deals), forex companies and the National Forex Center shall provide the following:

development and approval of a local regulatory legal act regulating the internal control policy and operation of the internal control organization unit, procedure for informing of forex companies and the National Forex Center managers on the findings obtained from internal control;

development and approval of a local regulatory legal act regulating internal control methods and procedures, manner and frequency of implementation of measures within the internal control processes specified in Clause 4 hereof;

creation of an organization unit engaged in internal control and reporting directly to the manager;

arrangement of the internal control system, allocation of responsibilities and authorities between the employees; decision-making procedure not allowing for conflicts of interest in the course of internal control implementation;

participation of the governing bodies of forex companies, the National Forex Center in the internal control system arrangement and operation, as well as allocation of authorities relating to internal control and allocation of responsibilities between the governing bodies, organization units and employees;

evaluation of compliance of managers of forex companies and the National Forex Center, and employees of the organization unit engaged in internal control, with the qualification requirement and requirement to business reputation set up by the legislation.

6. Internal control shall be implemented through the use of the following means (methods):

internal control implemented by the governing bodies of forex companies, the National Forex Center through receipt of regular management reporting, other information on performance of organization units, clarification by managers of respective organization units with a view to identifying shortcomings (infringements, errors);

internal control over allocation of authorities between employees for conduct of financial transactions (deals) and other activities;

accounting control aimed at presentation of complete and reliable information on conducting financial transactions (deals) and other activities in order to ensure safeguarding of assets and property;

material (physical) control through check of restriction of access to inventory items, revaluation of inventory items, supervision of premises where such inventory items are stored;

control of compliance with established financial ratios, reserves for conducting financial transactions (deals) and other activities;

control of compliance with the procedure of making decisions on conducting financial transactions (deals) and allocation of authorities and responsibilities for conducting financial transactions (deals) exceeding established financial ratios;

verification of compliance of activities of forex companies, the National Forex Center with the legislation and local regulatory legal acts;

control of legality of signing and execution of agreements on conducting financial transactions (deals) and other activities;

computer-aided process control in the course of conducting financial transactions (deals) and other activities through verification of compliance with appropriate technical codes and standards in the field of information systems;

other means (methods) of internal control specified by forex companies, the National Forex Center in their local regulatory legal acts.

7. Forex companies, the National Forex Center shall exercise such types of internal control as preliminary, ongoing and follow-up control.

Preliminary control shall be exercised before actual conduct of financial transactions (deals) and shall be used for staff selection, raising and placement of monetary funds, disposal of material resources, and in other fields specified by local regulatory legal acts of forex companies and the National Forex Center.

Ongoing control of conducted financial transactions (deals), compliance with the decision-making procedures, routine document flow shall be exercised within the business day by forex companies, the National Forex Center with a view to preventing from non-compliance with the legislation and local regulatory legal acts of forex companies and the National Forex Center, timely and reliable recording of financial transactions (deals) on the books, ensuring purpose-oriented use of resources, and safeguarding of property.

Follow-up control shall be exercised after conduct of financial transaction (deals) with a view to testing reasonability and correctness of conduct thereof, ensuring information security, identification of cause-and-effect relations between non-compliances and shortcomings, determination of remedial measures, and adjustment of performance indicators.

Procedure of preliminary, ongoing and follow-up control shall be established by local regulatory legal acts of forex companies, the National Forex Center.

8. Control of safeguard of assets and investments shall be ensured through verification of valuation of assets and liabilities, completeness and promptness of payments, justification of expenses.
9. Control of reliability, completeness, fairness and promptness of maintenance of accounting records, drawing up and presentation of accounts shall include verification of recording financial transactions (deals) with a view to avoiding or restricting probable losses and shall be aimed at presentation of complete and reliable information on operation of forex companies, the National Forex Center.
10. Control of the risk management system operation shall include supervision (monitoring) of compliance with the procedure of the risk management system arrangement and with the requirements applied to risk management set up by the legislation and regulatory legal acts of forex companies, the National Forex Center, as well as evaluation of the risk management system effectiveness.
11. To control operation of information systems, ensure data flow management, information security, forex companies and the National Forex Center shall exercise:

general supervision which includes data backup (copying) and functional recovery of computer-aided information systems, support of computer-aided information systems during their life cycle, including the rules of software purchase, development and maintenance, and procedure for control of physical access security;

programmed control exercised through the use of automated procedures embedded in application programs and through manual implementation of procedures for financial transactions (deals) processing control.

12. Control of dealing with applications filed by citizens and legal entities shall include verification of compliance with the procedure of dealing with applications filed by citizens and legal entities and taking actions to remedy non-compliance with the legislation, detected and mentioned in such applications.
13. Forex companies, the National Forex Center shall evaluate effectiveness of the risk management system at least once a year with a view to keeping it up to date, in particular, with due regard to material changes in the operation of forex companies, the National Forex Center and in the financial market.
14. Requirements to organizing of internal control over implementation of measures to prevent from laundering of proceeds of crime, financing of terrorism and financing of mass destruction weapons proliferation shall be established in compliance with certain regulatory legal acts of the Republic of Belarus.

ARTICLE 3
REQUIREMENTS TO ARRANGEMENT OF RISK MANAGEMENT
IN FOREX COMPANIES, THE NATIONAL FOREX CENTER

15. The risk management system in forex companies, the National Forex Center shall be provided by qualified employees, information systems, software and hardware tools enabling to acquire, process and analyze information used for risk management, calculation of capital requirement, management accounting.
16. Forex companies, the National Forex Center shall detect and manage the following risk types:
 - 16.1. credit risk – means the risk of occurrence of damages (losses), loss of planned revenues due to non-fulfillment, untimely or incomplete fulfillment, by the debtor, of financial and other proprietary liabilities to the forex company, National Forex Center under contractual terms and conditions or in compliance with the legislation. Credit risk also arises in the event of non-fulfillment, by a counterparty, of its/his liabilities under the transactions in non-deliverable OTC financial instruments providing for exchange of payments related to financial instruments with a view to risk hedging (counterparty's credit risk);
 - 16.2. country risk – means the risk of occurrence of damages (losses), loss of planned revenues due to non-fulfillment, untimely or incomplete fulfillment, by a foreign counterparty (legal entity and natural person), of its/his liabilities in consequence of economic, political, social changes, as well as for the reason that currency of pecuniary liabilities can be unavailable to such counterparty in the light of special aspects of the legislation (irrespective of financial standing of such counterparty);
 - 16.3. market risk – means the risk of occurrence of damages (losses), loss of planned revenues due to change in value of non-deliverable OTC financial instruments caused by changes in foreign exchange rates, market interest rates and other factors;
 - 16.4. liquidity risk – means the risk of occurrence of damages (losses), loss of planned revenues due to inability of forex companies, the National Forex Center to secure fulfillment of their respective liabilities in due time and in full. Liquidity risk arises due to imbalance between financial assets and financial liabilities and/or unforeseen need for immediate

and one-off fulfillment of financial liabilities by a forex company, the National Forex Center.

- 16.5. transaction risk – means the risk of occurrence of damages (losses) and/or extra costs due to incompliance of established rules of conducting transactions in non-deliverable OTC financial instruments or the rules of filing, processing and execution of customers' orders to fix an underlying asset price when conducting financial transactions in the OTC forex market with the legislation, or violation thereof by the employees of forex companies, the National Forex Center or incompetence of such employees, in particular, making errors of law, failure of used systems (including information systems) and also due to exposure to external factors.
- 16.6. reputational risk – means the risk of occurrence of damages (losses), loss of planned revenues due to reduction of customer base, deterioration of other sustainability indices in consequence of formation of a negative public opinion on financial sustainability of forex companies, the National Forex Center, quality of provided services and their operation in general.

Other types of risks inherent in operation of forex companies, the forex National Center may be specified by the same in their local regulatory legal acts.

17. With a view to efficient risk management, ensuring financial sustainability, forex companies and the National Forex Center shall provide the following:

development and approval of the local regulatory legal act to regulate the risk management policy providing for specification of the list of inherent risks, operation of the risk management organization unit (employee), procedure of notifying managers of forex companies and the National Forex Center of risk management findings;

development and approval of the local regulatory legal act to regulate risk management methods and procedures, cases and procedures for funneling an aggregate open position of its customers (a sum of open positions of customers) under a separate underlying asset to an external counterparty;

development and approval of the local regulatory legal act to make arrangements for risk reduction;

appointment of an employee responsible for risk management from among the staff-members of a forex company, the National Forex Center, or establishment of a risk management organization unit directly subordinate to the manager;

organizing the risk management system; allocation of responsibilities and authorities among employees; decision-making procedure not allowing for conflicts of interest, in particular between the organization unit (employee) engaged in risk management and risk-generating organization units, organization units engaged in internal control.

18. Risk management process shall include detection (identification), measurement (assessment), internal monitoring, control, limitation (reduction) of risk level.

19. Risk detection (identification) shall provide for identification of main risk sources (factors) which have caused or may cause losses and/or extra costs.

Forex companies, the National Forex Center shall detect their inherent risks, identify material (immaterial) risks, specify other risks arising in the course of their operation due to development of new transactions and markets.

20. Risk measurement (assessment) shall include identification of exposure to risk (risk level) by applying the quantifying and/or qualitative (expert) rating methods using quantitative and qualitative assessment factors to form a substantiated judgment on risk level.

The selected measurement (assessment) methods shall correspond to risk level, scope and complexity of activities.

Methods of risk level calculation shall be revised and updated from time to time with a view to improve their effectiveness, ensure compliance with the legislation and change market conditions.

21. Internal monitoring of risks is a system of acquisition (accumulation), processing and analysis of information which forms the basis of risk assessment and control, and accounting.
22. Risk control includes establishment of the internal risk control procedure, including preliminary, ongoing and follow up control; comparison of incurred and expected losses; comparison of planned and actual performance; risk assessment; implementation of measures in case of incompliance with the procedure of internal control.
23. Limitation (reduction) of risk shall provide for implementation of a set of measures aimed at reducing the likelihood of events which cause losses (damages) up to refusal of risk taking or transfer to any third party, or aimed at reduction of losses (damages) should they occur.
24. Forex companies, the National Forex Center shall on a regular basis make risk tolerance analysis, including simulation of potential impact of eventual shocks on financial standing.
25. Forex companies, the National Forex Center shall at least yearly assess the risk management system effectiveness for keeping it up to date, in particular, with due regard to material changes in operation of forex companies and the National Forex Center, and in the financial market.