

Brussels, 11 december 2013

Appendix 1 to circular NBB_2013_15

Scope

This circular covers inspections carried out by the Bank, in its capacity of prudential supervisor with respect to the following institutions:

- credit institutions¹,
- insurance companies²,
- reinsurance companies³,
- stockbroking firms⁴,
- payment institutions⁵,
- electronic money institutions⁶,
- settlement institutions and institutions equivalent to settlement institutions⁷,
- Belgian branches of those institutions which are governed by the law of a state which is not a member of the European Economic Area (EEA)⁸,
- branches of those institutions established in another European Economic Area (EEA) Member State⁹,
- Belgian branches of those institutions which are governed by the law of a European Economic Area (EEA) Member State, within the limits of the Bank's supervisory powers as they result from the law of the European Union,
- financial holding companies¹⁰,
- financial services groups headed by a regulated company under Belgian law¹¹ or by a mixed financial holding company¹², and

¹ Article 46, paragraph 5, of the Law of 22 March 1993.

² Article 21, § 1 *bis*, paragraph, 4 of the Law of 9 July 1975.

³ Article 37 of the Law of 16 February 2009.

⁴ Article 92, § 4, of the Law of 6 April 1995.

⁵ Article 25, paragraph 4, of the Law of 21 December 2009.

⁶ Article 81, § 2, paragraph 2, of the Law of 21 December 2009.

⁷ Article 21, paragraph 4, of the Royal Decree of 26 September 2005.

⁸ Article 81 of the Law of 22 March 1993 (reference to Article 46 of the same Law), Article 36 of the Royal Decree of 26 September 2005 (reference to Article 21 of the same Decree), Article 65 of the Law of 16 February 2009 (reference to Article 37 of the same Law), Article 21, § 1 *bis*, paragraph 4 of the Law of 9 July 1975, Article 101 of the Law of 21 December 2009 (reference to Article 81 of the same law) and Article 22 of the Royal Decree of 20 December 1995 (reference to Article 92 of the Law of 6 April 1995).

⁹ Article 48 of the Law of 22 March 1993, Article 21, § 1 *bis*, paragraph 5, of the Law of 9 July 1975, Article 39 of the Law of 16 February 2009, Article 94 of the Law of 6 April 1995 and Articles 27 and 83 of the Law of 21 December 2009.

¹⁰ Article 49, § 2, paragraph 6, of the Law of 22 March 1993.

- insurance or reinsurance groups¹³.

As regards credit institutions, the scope of this circular will be reviewed in due course to reflect the Single Supervisory Mechanism established by Regulation 1024/2013 of the Council of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, as well as the regulations, guidelines and instructions to be adopted by the European Central Bank under Article 6 of said Regulation.

Provisions to which reference is made in notes 1 to 13 form the legal basis under which the Bank has prerogatives as regards inspection in respect of the aforementioned institutions.

As a reminder, the NBB may also, in accordance with Article 36/19 of the Law of 22 February 1998 establishing the Organic Statute of the NBB, require all necessary information from those who carry out operations or engage in activities covered by the laws and regulations the application of which it monitors, and from any third party that enables or facilitates carrying out such operations or engaging in such activities. The NBB may verify or have verified in the books and documents of interested parties, the accuracy of the information communicated to it.

Information-gathering assignments carried out on site by inspectors of the NBB are not inspections and are not covered by this circular.

This circular replaces with immediate effect section 5 of Circular D1 99/2.

¹¹ Article 49*bis*, § 2, paragraph 7, of the Law of 22 March 1993, Article 91*octies decies*, § 2, paragraph 7, of the Law of 9 July 1975 and Article 98, § 2, paragraph 6, of the Law of 16 February 2009.

¹² Article 49*bis*, § 3, of the Law of 22 March 1993, Article 91*octies decies*, § 3, of the Law of 9 July 1975, Article 95*bis*, § 3, of the Law of 6 April 1995 and Article 98, § 3, of the Law of 16 February 2009.

¹³ Article 91*septies* of the Law of 9 July 1975 and Article 87 of the Law of 16 February 2009.

Appendix 2 to circular NBB_2013_15

Lexicon

COSO: COSO is a management model developed by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). In 2002, this Committee, which consists of a number of private organizations, issued a series of recommendations and guidelines concerning internal (risk) control, following a number of accounting scandals and cases of fraud. If an organization wants to achieve its objectives, it must deal with risks and learn to control these risks. COSO describes and defines the various elements of an internal control system.

ICS or internal control system: The process designed is implemented and supervised by the supervisory authority, the management and other staff of the institution, in order to provide reasonable assurance that the objectives of the institution regarding the reliability of financial reporting, the effectiveness and the efficiency of the activities and compliance with the applicable laws and regulations, are achieved.

KPI, KRI, KCI: Key Performance Indicators (KPI) indicate whether performance is according to objectives, Key Risk Indicators (KRI) indicate whether risk exposures are according to risk appetite, Key Control Indicators (KCI) indicate whether controls are working out as expected. The three types of indicators are obviously linked: objectives are met because risks are under control.

3-Lines of Defence (of 3-LoD): The "three lines of defence" has become a standard model in the approach of many financial institutions to manage uncertainty and prevent risks. In this model, the first line consists of the financial institution's business frontline staff. They are in charge of the business and responsible for controlling its related risks. The second line is that of compliance and risk management functions. These internal control functions set policies, define work practices and oversee the business frontlines as regards risk and compliance. The third line of defence is that of the Internal auditors. Internal auditors periodically review both the first and second lines of defence in order to ensure that they are carrying out their tasks on the required level of competency.

PRISM: Prudential Internal Control Standardized Model. PRISM captures the way in which the financial institution (FI) organizes its activities and controls its risks and whether the FI is "in control" from a prudential perspective.
