

Special points of interest:

- Fraud likely on the upswing. It's called the crime of the old, educated
- Critical Aspects of Risk Management
- Basel II (Operational Risk): Challenges and Hurdles for South-East Asian Banks
- Anti-Money Laundering (AML) Solution Suite
- ACL Asia Pacific User Conference 2004

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***Fraud likely on the upswing
It's called the crime of the old, educated***

By Jaquetta White, Times-Picaayune

Corporate fraud isn't going anywhere. In fact, fraud cases are likely to grow in number as the U.S. population ages and people become more highly educated, a fraud detection and deterrence expert told an audience Thursday at Loyola University's business school.

Unless the accounting profession changes the way it detects fraud, a new crop of companies will follow in the footsteps of high-profile organizations already toppled by internal scandals, said Joseph Wells, chairman of the Association of Certified Fraud Examiners, a 29,000-member professional organization dedicated to fighting fraud.

"Fraud is the crime of the older, more educated perpetrator," Wells said. "You should expect to see it rise as society ages."

Many baby boomers, he said, are likely to commit fraud as they are pushed to show profit. Add to that the growing number of college-educated Americans and you've cooked up a formula for trouble, Wells said.

"Crimes committed by the 'young and dumb' will decrease," he said, because more people will realize that the "best way to rob a bank is to own one."

To address these issues, Wells said the accounting profession's attitude toward fraud needs to change. Traditionally, the accounting profession has refrained from even using the word fraud, he said.

"We called it 'irregularities.' As if the cure was a high fiber diet," Wells said. "One of

the reasons the accounting profession is having so much trouble with fraud now is that we're doing what we've always done."

The accounting profession reacts to fraud, he said. Fraud specialists are called in only when a company is suspected of wrongdoing. Wells said companies should instead consider including anti-fraud specialists on audits.

"Most of the time they're used to investigate fraud after the fact instead of to detect," he said.

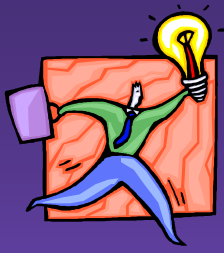
Adding anti-fraud specialists on the front end of audits increases the "perception of detection" and decreases the likelihood a person will commit a crime, he said. As an example, he said, people speed when driving only because they believe there is a high probability they won't be caught. There are simply too few patrol officers to catch every violator. But if there were enough patrolmen available to increase the chance of being caught, not many people would speed.

The accounting profession should apply that logic to their approach for detecting fraud. Bring in more anti-fraud specialists; decrease the occurrence of fraud.

"You have to create the perception of detection. It's not the reality of being caught. It's the perception of being caught," Wells said. "We have to raise this perception when it comes to white collar crimes."

3 Critical Aspects of Risk Management

- A Consistent Method for Measuring Risk and Consistent Policies for Management of risk across the organisation
- Integration of Risk Policies and Practices into Business Decisions
- The Risk Measurement Structure and Defined functions



ACL Useful Tips

Issue 7

Do you require the results of the AGE command for further analysis in ACL? You would have experienced that the usable output for the AGE command is only a ASCII text file. However, you can have the same results in an ACL table using computed fields. Here is the trick:

Transactional Table

Invoice Number	Invoice Date	Aging Days*	Aging Period*
1000	10/04/2004	52	30 – 60 days
1010	04/05/2004	28	0 – 30 days
2000	01/05/2004	31	30 – 60 days
2300	28/03/2004	65	60 – 90 days
3100	12/04/2004	50	30 – 60 days

* new computed fields

Result of Classify on Aging Period

Aging Period	Count
0 – 30 Days	1
30 – 60 Days	3
60 – 90 Days	1
> 90 Days	0

Assuming the desired cut off date is 01/06/2004,

1. Create a new computed field 'Aging Days' using the expression:
'20040601' - Invoice_Date
2. Create a conditional computed field 'Aging Period' using the expressions:
'0 – 30 Days' IF between(Aging_Days ,0,30)
'30 – 60 Days' IF Aging_Days <= 60
'60 – 90 Days' IF Aging_Days <= 90
'> 90 Days' IF Aging_Days > 90
3. Perform a CLASSIFY command on the 'Aging Period' field.
With the tabular result, you can perform a drill down on the desired period.

Basel II (Operational Risk): Challenges and Hurdles for South-East Asian Banks

By Pedro Garcia, Financial Risk Management - PwC SG Banking & Capital Markets

Introduction

The Basel Committee on Banking Supervision (the Committee) has proposed a New Basel Capital Accord (Basel II) that consists of three mutually reinforcing pillars, which together should contribute to increasing the safety and soundness of the financial system. The Committee is seeking to implement a more risk-sensitive and flexible approach to bank capital requirements than that established by its 1988 Capital Accord. At the same time, the Committee aims to align supervisory review more closely with the way in which banks manage their risks, including encouraging the use, and further development, of internal risk and capital management systems. One of the most notable changes in Basel II is the introduction of a capital charge for operational risk. Due to the extensiveness and complexity of Basel II, South-East Asian banks are now facing many challenges and hurdles in implementing the requirements for operational risk, some of which are discussed below.

Senior Management Responsibilities

Basel II adds to the burden of senior management responsibility and accountability, particularly through the supervisory review process requirements of Pillar Two. In addition, the Board of Directors and senior management of the bank as well as internal

auditors have to sign off and be accountable for the integrity of operational risk management systems and processes.

Strategic Issues

The Board of Directors and senior management need to prioritise their action plans emanating from their internal Basel II working groups. Given the magnitude of the issues involved, time and resources will be constrained and many banks are unlikely to be able to address all the issues raised by Basel II simultaneously. This would imply that a phased approach will be required to tackle the issues involved in achieving Basel II compliance. Even banks for which regulatory capital is currently not a constraint will need to review their capital position in detail. The Committee's current expectation is that the proposed operational risk charge could amount to 12% of total capital on average. Hence, a bank's minimum capital requirement could increase significantly unless it is able to take advantage of Basel II's more sophisticated approaches to credit and operational risks in order to mitigate this increase. Traditionally, the unavailability of operational risk data forms one of the biggest obstacles to operational risk quantification. Banks will need to put in significant effort

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to ensure that their processes for gathering operational risk data is up to the standards required by Basel II. Aside from data gathering processes, banks must also undertake a review of their disclosure policy, as Basel II recommends significantly greater public disclosure obligations for all banks (both listed and unlisted). Where the more sophisticated approaches permitted by Basel II are used, quarterly public reporting of key risk figures may be required. Banks will also need to assess how disclosure about their risks and how these risks are managed will affect market and stakeholder perceptions. As a priority, issues regarding the disclosure of proprietary information must be assessed. Finally, there are issues that relate to compliance. Basel II requires compliance on a legal entity basis as well as on a consolidated basis, which is a new development for banks in many countries. This would have significant implications which senior management needs to address, for example, capital, structure, and data. Banks will also need to ensure that their operational risk management systems and processes work effectively at all relevant levels.

Technical Issues

As banks will not be allowed to revert to simpler approaches once they have been approved for more advanced approaches, the proposal leaves little flexibility to deal with mergers, acquisitions or other major changes of corporate structure. Moreover, there may also be significant issues for many banks which attempt to map their existing business lines to the standard business lines established by Basel II. Another challenge faced by South-East Asian banks is that under the standardised approach, the financial indicators, business line weights and structure as stated by Basel II tend to be more reflective of developed countries and are not calibrated against regional norms. Establishing a global standard using data from the G-10 countries may be unjustified for smaller banks in developing countries. For example, using the midpoint of relative weightings for each business line when calculating; may not be sufficiently risk sensitive or reflective for those banks with a small number of activities within each business line. Faced with so many challenges and issues, how should banks respond? In the following sections, we set out a number of key actions that need to be taken by management in the short and medium term in order to be ready for Basel II implementation.

Action Points for Pillar One (Capital Requirements)

Pillar One contains the Committee's detailed proposals for the calculation of minimum capital requirements for credit and operational risk.

The Committee is looking to establish a system that is more risk sensitive than the previous Capital Accord and gives positive incentives for banks to pursue more sophisticated and effective risk management techniques. We have summarised the possible operational risk action points under Pillar One as follows:

- Banks should ensure that their definition of operational risk enables them to gather sufficient loss data of appropriate quality and consistency to satisfy regulatory standards. Banks need to apply the business lines as prescribed by Basel II to their operations. They should also determine how loss data arising from shared services should be allocated back to the prescribed business lines.
- Banks should assess the impact of each of the three approaches on current operational risk data and frameworks across all entities within the banking group, in order to determine which measurement approach to select.
- Banks should recalculate the capital charge once the proposed beta and gamma factors for the more advanced approaches are released, and assess the appropriateness of this proposed capital charge.
- Banks should develop an action plan to implement the chosen approach, including:
 - A detailed gap analysis against the requirements of the chosen approach;
 - A project plan to ensure compliance is achieved by the banking group and by each affected entity within the banking group;
 - Identification of resources and budget requirements; and
 - A report to the Board of Directors for approval of the proposed approach.

Action Points for Pillar Two (Supervisory Review)

Pillar Two aims to develop a globally consistent supervisory process. The four principles of supervisory review in Basel II are primarily addressed to the supervisory community. Banks will, however, be on the receiving end of actions taken under Pillar Two and will therefore need to understand what it means and the motives behind actions taken by their regulators. Under Pillar Two, the possible action points for banks include:

The Board of Directors and senior management should ensure that banks have a strategic plan that outlines economic capital needs, anticipated capital expenditures, desired capital level and sources of external capital. They should also ensure that proper risk measurement systems and strong internal controls are in place and communicated throughout the bank.

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- The Board of Directors and senior management should ensure that banks have a strategic plan that outlines economic capital needs, anticipated capital expenditures, desired capital level and sources of external capital. They should also ensure that proper risk measurement systems and strong internal controls are in place and communicated throughout the bank.
- Banks need to document compliance with the operational standards, documentation and audit trail requirements of Basel II before being allowed to use advanced Pillar One methods. This documentation must be sufficiently comprehensive to satisfy regulators.
- Banks should have a process for assessing overall capital adequacy in relation to its risk profile. Regular reports to the Board of Directors and senior management should enable them to evaluate:
 - The level and trend of risks and their effect on capital;
 - The reasonableness of key assumptions in the capital planning process; and
 - Future capital requirements based on the bank's evolving risk profile and whether any change to the strategic plan is necessary.

Banks should have a strategy for maintaining capital levels that can be effectively and convincingly communicated to the regulator. This should be the responsibility of senior management and should be approved and monitored by the Board of Directors. These policies should cover amongst other things:

- How the bank calculates economic capital requirements across business lines, customers, and products;
- How the bank adjusts capital targets and requirements over time in response to events, increases in perceived risk and any capital buffers that may be in place to cover systems and information deficiencies.

ACTION POINTS FOR PILLAR THREE (MARKET DISCIPLINE)

The proposed disclosures under Pillar Three require a change of mindset by many banks. The Committee wants to encourage an approach that moves away from minimum disclosure to one that encourages maximum transparency. Basel II requires full disclosure of the components of capital calculation, the methods used in the computations and the capital requirements that result. It should therefore be quite clear to readers of the financial statements how close a bank is to its minimum regulatory capital.

Some possible action points under Pillar Three include:

- Banks should re-assess or develop their policy for public disclosure. The policy must be Basel II-compliant and approved by the Board of Directors.
- Banks should identify gaps between current disclosures (including frequency) and those required under Basel II. This analysis is a pre-requisite for formulating a roadmap that will deliver the required disclosures by the due date.
- Banks should determine the data sources and system requirements to deal with new issues as identified by the gap analysis. They need to determine where they will obtain the required data, and if they do not already capture it, how they will do so.
- Banks should evaluate the impact of additional disclosures on their business and competitive positions. Early action should be taken to identify how they are perceived in the market and how this perception might be affected by the disclosure requirements – especially how their choice of regulatory methodology might appear against their peer-group and the impact of disclosing operational risk losses. This should then in turn be fed back into the strategic consideration of the options facing the bank.
- Banks need to develop procedures for disclosure. These include the development of vehicles for disclosures with a quarterly (or greater) frequency, and procedures for identifying disclosures that are potentially price sensitive and ensuring that such disclosures are made in a manner which is consistent with stock exchange rules and any other legal or regulatory requirements.

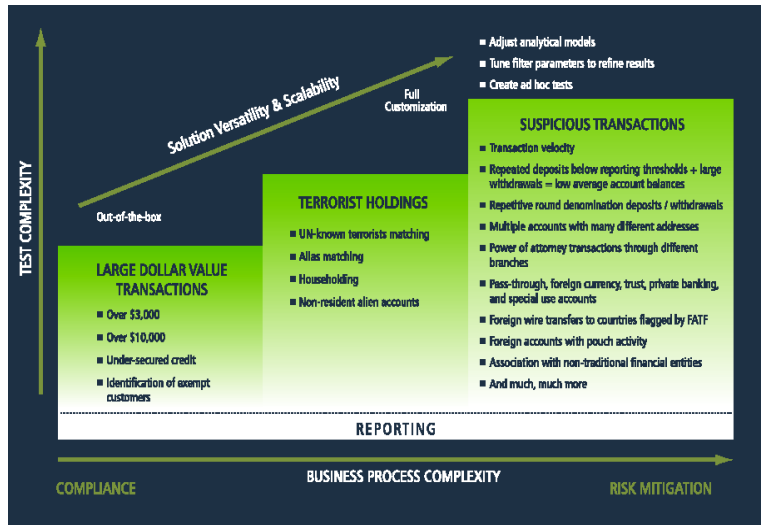
CONCLUSION

Banks must approach Basel II as a major project, with a number of working groups and in several distinct phases (diagnostic, design, implementation and backtesting) which may span several years. This will likely require significant resources over a sustained period of time, covering a wide range of functions and involving not only the Board of Directors and senior management, but staff from the risk management, internal audit, treasury, middle office, settlement, finance, information technology and human resources functions, etc.

Although Basel II has yet to be finalised (the Committee is targeting to finalise it by end-2003), the principles within Basel II constitute good risk management practices and are unlikely to change significantly. In order to meet the target implementation of end-2006, banks in South-East Asia must embark on their Basel II journey now.

Anti-Money Laundering (AML) Solution Suites

Prodigy has developed a series of solution suites that can help identify potential money laundering problems. These suites can be put into use quickly and easily resulting in immediate time and financial savings. The AML Solution Suites harness the robust functionality of



ACL software into powerful exception tests that can be customised to address unique situations. Drill down capability is standard to assist investigators with their analysis. Ad-hoc and pre-defined tests allow users at all technical proficiency levels to become productive quickly. Combining financial industry insights

and transaction analysis expertise with powerful technology, Prodigy's AML Solution Suites provide Continuous Monitoring; Interactive Data Interrogation; Ad-hoc Reporting; Customised Exception Reporting; Pattern Detection Tests and meets Broader Compliance & Risk Management issues.

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PRODIGY NEWS & EVENTS

ACL ASIA PACIFIC USER CONFERENCE 2004

Achieving Best Practice Standards for Corporate Governance
The Westin Kuala Lumpur, 6 – 7 July 2004

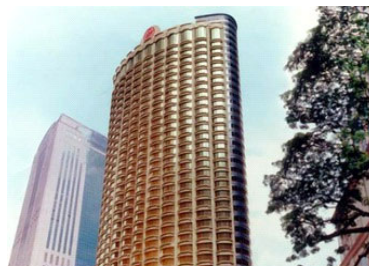
Prodigy Data Solution cordially invites you to the **ACL Asia Pacific User Conference 2004**.

Themed “ **Achieving Best Practice Standards for Corporate Governance** ”, this coming conference has attracted users and management from various industries such as manufacturing, banking, insurance, government, telecommunications, utilities, oil & petroleum, transportation, and so forth to sign up for this conference. Below is some highlights of the sessions at the conference for your preview.

Conference Programme Highlights

- **The Internal Auditor's Role Now & Beyond**
- The True Value of ACL in Financial Management
- **Enhancing Risk-Based Auditing in a Banking Environment**
- Bangko Sentral ng Philipinas' (BSP) Improved IT Operations through ACL
- **Working with ACL for Greater Effectiveness and Efficiency**
- System Quality Assurance and Anti-Money Laundering for Banks
- **Successful ACL Implementation for Managers**
- Using ACL for Revenue Assurance in Telco
- **From CAATs to SAT (Software Audit Tool) using ACL and Forensic Audit using ACL**
- Using CAATs in SAP R/3 Environment

Don't miss this remarkable opportunity to learn from the industries' experts on the implementation of ACL! Seats are limited and are based on first come first served basis. We urge you to register early to confirm your attendance at the conference. For more information on the pricing and group registration, please contact us at (65) 6221-2810 or email us at info@prodigy.com.sg.



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Coming Up in the Next Issue of Prodigy Newsbyte

- ◆ More Useful ACL Tips
- ◆ More Articles on Data Analysis, Fraud Prevention
- ◆ ACL Asia Pacific User Conference 2004 Review
- ◆ ACL User Feature
- ◆ And many other useful industries information

Feel free to write us any questions, comments or feedbacks on Prodigy Newsbyte via email at info@prodigy.com.sg

2-Day Practical Course to Proactive Risk Management Workshop 26-27 July 2004, Singapore

Industry Focus — Ministries, Government Agencies, Statutory Boards, GLCs and related

Benefits of Attending

- Learn how to define Risk Management
- Gain an understanding of current thinking and issues in Integrated Risk Management
- Understanding the scope of Integrated Risk Management
- Become familiar with the Risk Management process
- Develop the capability to assess your organisation's Risk Management profile
- Learn effective approaches to developing a 'Risk Aware' organisational culture
- Acquire an understanding of the need to implement Risk Management software to manage risks *effectively*, including reporting to senior management and external stakeholder

Who Should Attend — Department Directors, Finance Managers, Operational Managers, Risk and Compliance Managers, Project Managers, Auditors, Anyone concerned with internal controls

Course Outline

DAY ONE	DAY TWO
<p>Integrated Risk Management</p> <ul style="list-style-type: none"> ▪ What is Integrated Risk Management and why does it apply to you ▪ Different Risk Categories and Frameworks ▪ A Risk Management standard (AS/NZS 4360), becoming an internationally recognised standard ▪ Risk Appetite ▪ Stakeholder Involvement ▪ Corporate Governance and Risk Management ▪ Compliance Programmes and Risk Management <p>The Risk Management Process</p> <ul style="list-style-type: none"> ▪ Risk Context ▪ Format of Risk Molecules (Risk, Consequence, Controls) ▪ Determining Residual Risk Ratings ▪ Action Planning, including Traps and how to avoid them ▪ Ongoing monitoring and review, including the importance of maintaining Risk Profiles ▪ Dynamic Risk Management – what is it and why is it important? ▪ Control Frameworks COSO and COCO <p><i>(Including government case study examples – misuse of and effective use of information)</i></p>	<p>Case Study</p> <ul style="list-style-type: none"> ▪ Case Study – An exercise in applying risk management based on the development of an infrastructure project which affected a number of government departments. <p>Design of Organisational Risk Management Programme</p> <ul style="list-style-type: none"> ▪ Implementing a Risk Management Programme ▪ Establishment of a positive Organisational 'Risk Aware' culture ▪ Risk Monitoring, Evaluation, Audit and Reporting ▪ Measuring the effectiveness of Risk Management Programmes <p>Additional Areas of Risk Management (Time Permitting)</p> <ul style="list-style-type: none"> ▪ Introduction to Risk Quantification ▪ Emerging Risk Disciplines

For more information on the RM workshop, kindly email donald@prodigy.com.sg or info@prodigy.com.sg

ACL Open Enrolment Training Schedule

Venue	Course Name	July	August
Singapore	ACL Data Access	8	6
	ACL Version 8: Refresher	9	5
	ACL 105 - Foundations of ACL – Concepts and Practice	12-14, 28-30	11-13, 25-27
	ACL 201 - Data Analysis Techniques An ACL Workshop	15-16	16-17, 30-31
	ACL 301 - Advanced ACL Concepts & Techniques: Functions	19	18
	ACL 302 - Advanced ACL Concepts & Techniques: Scripts	20-21	18-19
	ACL 303 - Advanced ACL Concepts & Techniques: Functions & Scripts	19-21	18-20
	Fraud Detection Techniques Using ACL	26-27	23-24
Malaysia	ACL Data Access	9	6
	ACL Version 8: Refresher	5	5
	ACL 105 - Foundations of ACL – Concepts and Practice	14-16, 26-28	11-13, 23-25
	ACL 201 - Data Analysis Techniques An ACL Workshop	19-20	16-17
	ACL 301 - Advanced ACL Concepts & Techniques: Functions	21	18
	ACL 302 - Advanced ACL Concepts & Techniques: Scripts	1-2, 22-23	2-3, 19-20
	ACL 303 - Advanced ACL Concepts & Techniques: Functions & Scripts	21-23	18-20
	Fraud Detection Techniques Using ACL	29-30	26-27

For training schedule in India, Indonesia, Philippines, Thailand, please contact training@prodigy.com.sg