

Pursuant to Article 9 and 25 of the Law on the Banking Agency of the Federation of Bosnia and Herzegovina ("Official Gazette of the FBiH", No. 9/96, 27/98, 20/00, 45/00, 58/02, 13/03, 19/03, 47/06, 59/06, 48/08, 34/12 and 77/12), Article 65, paragraph (3) of the Law on Factoring ("Official Gazette of the Federation of BiH", No. 14/16) and Article 18 of the Statute of the Banking Agency of the Federation of BiH ("Official Gazette of the Federation of BiH", No. 42/04), the Management Board of the Banking Agency of the Federation of BiH, at its 86<sup>th</sup> session held on 30 August 2016, adopted the

## **DECISION**

### **ON MINIMUM STANDARDS FOR THE CRITERIA AND MANNER OF RISK MANAGEMENT IN FACTORING COMPANIES**

#### **I Introductory provisions**

##### **Article 1**

(1) This Decision prescribes the minimum criteria and manner of managing the risks to which a factoring company is exposed or may be exposed in its business operations and which represent an integral part of the general rules regarding the establishment and application of the internal management system in the company, as well as the general standards of risk management defined by this Decision.

(2) Bound by this Decision are factoring service providers, i.e. factoring companies which have a licence for performing factoring operations issued by the Banking Agency of the Federation of BiH (hereinafter: the Agency).

(3) For the purpose of the provisions of this Decision, certain terms shall have the meaning prescribed in Article 2 of the Law on Factoring (hereinafter: the Law).

(4) The provisions of the Law apply to matters related to the implementation of this Decision, which have not been regulated by this Decision.

#### **II Minimum criteria for risk management**

##### **Article 2**

(1) Factoring companies:

a) shall have elaborate strategies, politics and procedures for risk management which, as a minimum, shall include:

1) risk identification, measurement or assessment and monitoring, including reporting on the risks to which the factoring companies are exposed or may be exposed in its business operations as well as

2) a division of responsibilities regarding risk management,

b) shall implement regular risk management measures and

c) shall act in accordance with the rules of the financial profession.

(2) Factoring companies which took on the right and obligation of recording, collecting and managing claims shall, in order to protect claim collection, have elaborate policies and procedures for client assessment, as well as, if necessary, conditions and criteria for the assessment of the need to insure the transferred claim with an insurance company.

#### **III Risk management strategies, policies and procedures**

### **Article 3**

(1) With its business strategy (hereinafter: the strategy), a factoring company shall determine, as a minimum, the long-term economic interests of the factoring company and its liquidity, risk underwriting and management, and the amount of the capital securing the factoring company's risk coverage.

(2) The factoring company shall clearly define responsibilities regarding the identification, adoption, implementation and review, i.e. updating of individual elements of the strategy, where the following rules shall apply:

a) the Supervisory Board adopts the strategies and policies;

b) the Management Board of the factoring company proposes strategies to be adopted by the Supervisory Board, ensures their implementation, and informs the Supervisory Board of the factoring company of possible discrepancies.

(3) The part of the strategy referred to in paragraph (1) of this Article pertaining to risk management shall define the following:

a) the goals and main principles of the factoring company's risk underwriting and management;

b) an overview of all the risks to which the factoring company is exposed or may be exposed in its business operations;

c) the tendency to risk underwriting.

(4) When determining risk underwriting, the factoring company shall take into account, beside quantitative information, qualitative information, professional assessments and other factors from the macroeconomic environment which influence or may influence the relation of the factoring company toward the risks to which it is exposed or to which it may be exposed.

(5) The factoring company shall ensure the compliance of the strategy with the regulations and requirements of the Agency and other supervisory bodies.

### **Article 4**

(1) The risk management policy (hereinafter: the policy) consists of one or more documents defining a minimum of the following:

a) the manner of risk management organisation, including a clear division of responsibilities of the employees for risk management in the factoring company,

b) the manner of assessment of the factoring company's risk profile of and the methodology for identification and measurement, i.e. the assessment of risks to which the factoring company is exposed or may be exposed;

c) the manner of monitoring and controlling individual risks, including the establishment of adequate limits,

d) procedures and measures in the event of deviations when applying the adopted strategies, policies, procedures and proceedings provided for by the internal acts of the factoring company, as well as in the event of extraordinary and crisis situations.

(2) Risk management procedures should enable timely and comprehensive risk identification, an analysis of the reason for the risk's occurrence, risk measurement, i.e. assessment, including the qualitative and quantitative methods based on which the factoring company identifies changes in the risk profile, the occurrence of new risks, a description of the procedures for risk monitoring, control and mitigation, etc.

(3) Policies, procedures and other internal acts for risk management must be clearly defined, documented, and available to all employees of the factoring company who are involved in the risk underwriting and management process.

(4) The factoring company shall ensure an overview of the strategy, policy and other internal acts for risk management at least once a year and update them, if needed, in the event of any significant change in the risk profile of the factoring company.

#### **Article 5**

(1) The factoring company shall establish a risk culture based on high professional standards and ethical norms of business operations, and ensure that employees on all organisational levels are familiar with the assigned authorisations, roles and responsibilities in the risk management process.

(2) The factoring company shall establish such an internal organisation, i.e. organisational structure, whose application shall implement an accurate division of the roles and responsibilities of employees in the risk management process, as well as prevent employees' conflict of interests by that division.

(3) In accordance with the scope, type and complexity of business operations, the factoring company shall include in the risk management system an adequate number of employees who possess adequate expertise and professional experience, including an adequate level of specialisation in the risk management process, ensuring a continuity in the implementation of the risk management strategy, policy, procedures and other internal acts.

#### **IV Responsibility of the Supervisory Board and Management of the factoring company regarding risk management**

#### **Article 6**

(1) The Supervisory Board and Management of the factoring company must be adequately involved in the risk management process of the factoring company.

(2) For the purpose of paragraph (1) of this Article, the Management of the factoring company shall be responsible for the following:

a) the establishment of a risk culture in the factoring company;

b) the establishment of clear and consistent lines of authorisation for risk management and underwriting, including a division of authorisations and responsibilities between the Supervisory Board and other appointed boards in the factoring company on the one hand, and the Management and other employees involved in the risk management process on the other hand.

c) the establishment of adequate communication, exchange of information and cooperation at all organisational levels of the factoring company in the interest of implementing the risk management strategy, policy, procedures and other internal acts;

d) ensuring an adequate number of employees with professional expertise and experience in the management system for all risks, tasks of valuation of the factoring company's assets, methodologies

for identification and measurement, i.e. the assessment of risks to which the factoring company is exposed, stress testing;

e) a periodical overview, i.e. adjustments to the risk management internal strategy, policy, procedures and other acts as needed;

f) adequate and timely undertaking of measures in the risk management process in accordance with the risk management strategy, policies, procedures and other internal acts, etc.

(3) The factoring company shall establish a risk management methodology which shall determine the criteria, manner and risk management procedures, as well as adequately document the risk management process.

#### **Article 7**

(1) The factoring company shall regularly identify, measure and assess the identified risks, as well as monitor and report on them.

(2) The factoring company shall ensure that reports on the risks to which it is exposed are:

a) transparent (containing clear, understandable and precise information regarding risk exposure);

b) comprehensive (complete in terms of covering all significant risks in business operations);

c) usable (in terms of containing important information regarding risk-based decision making);

d) comparable (in terms of the uniformity of information they contain);

e) timely (enabling the undertaking of measures in real time).

(3) The factoring company shall define the content, scope, details of the reports referred to in paragraph (2) of this Article in its internal act (risk management strategies, policies, procedures and other internal acts).

(4) The factoring company shall ensure the full and timely availability of internal risk reports upon the Agency's request.

### **V The internal controls system and IT support to risk management processes**

#### **Article 8**

(1) The factoring company shall also define adequate IT support to the risk management process, which ensures comprehensive, reliable, timely and accurate data processing, i.e. an IT basis for efficient risk management.

(2) The factoring company shall apply and maintain adequate IT flow which enables an efficient implementation of the risk management strategy, policies, procedures and other internal acts, which are an integral part of the factoring company's IT system.

#### **Article 9**

(1) The factoring company shall, in accordance with the provisions of this Decision, enable the regular, adequate and timely involvement of the control functions in the risk management process, in particular:

a) the risk management function;

b) the compliance function, for the purpose of ensuring the factoring company's compliance with regulations and internal acts, and for the purpose of the assessment of risks to which the factoring companies are exposed or may be exposed in its business operations; and

c) the internal audit function, for the purpose of an independent and comprehensive overview and assessment of the risk management system's adequacy, including an assessment of the adequacy and efficiency of other control functions in this segment.

#### **IV Transitional and final Provisions**

##### **Article 10**

This decision shall enter into force on the eighth day following its publication in the "Official Gazette of the Federation of BiH".

**Number: U.O.-86-8/16**

**Sarajevo, 30 August 2016**

**Chairwoman of the Management Board**

**Rajka Topčić, BSc in Economics, m.p.**