



Creating a world class central bank

Central banking services

Financial Services

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Best of the best

Central banks must evolve to keep pace with economic, technological and marketplace developments. Nowhere is this truer than in the world's high growth countries, which face a race against time to modernize as local economies expand rapidly.

Central banks are crucial to a nation's economic wellbeing, tasked with developing and implementing policy within its mandate, including monetary policy, currency and funds management. Many also regulate and supervise the commercial banking system and stand ready to act as a lender of last resort — a scenario all too familiar during the latest global financial crisis.

Although the range of responsibilities of central banks can differ widely between countries, all share a common goal of maintaining the highest possible standards, to preserve the stability of the economy and retain public trust.

In high growth markets, central banks also face a race against time to modernize, in order to keep pace with the rapid expansion of their national economies and the increasing sophistication of their financial services sectors.

KPMG's Central Banking practice engages actively with the world's central banks, helping formulate and implement strategies and improve performance.

Five major priorities for central banks

1. Stepping up governance, risk management and internal controls
2. Supervising stability and regulatory compliance
3. Overseeing payment systems
4. Cyber security and digital disruption implications
5. Accountability and transparency through external assurance services

Case Study

Implementing major change

Following the global financial crisis, the central bank of a European nation was asked to deliver a broader mandate with more vigorous regulation. KPMG helped the central bank prioritize its objectives, and bring in new technology and business processes, along with appropriate governance. With this assistance, the bank revamped its technology function, introduced online regulatory returns and updated security policies, and set up a new, outsourced credit register. KPMG's role in stress testing and loan assessment was vital in assessing commercial banks' capital requirements and collateral. In addition to improving its regulatory capabilities, the central bank has saved an estimated €10 million in annual operating costs.



1. Stepping up governance, risk management and internal controls

Good governance is not just a box-ticking exercise for central banks; it underpins the integrity and stability of a country's financial system.

Eager to avoid a repeat of the financial meltdown, the financial sector as a whole has had a big push on governance in recent years. As the standard bearers of quality, central banks need to visibly raise the bar in terms of independence, expertise and professionalism, not just as an example to other institutions but to help ensure the smooth running of the wider economy. In addition to robust policies and systems, the governor and the executive and non-executive board members should possess exceptional skills and independence in order to manage and oversee the bank's activities.

Like any organization, central banks have to manage performance, approve budgets, use resources efficiently, and build strong teams with the right capabilities. They need clear reporting frameworks and benchmarking of performance against comparable institutions.

The public and other stakeholders expect full accountability and transparency, to uphold political independence, and demonstrate that central bank policies are contributing to lasting economic growth.

Not all central banks are yet equipped to meet such demands, while others are undergoing fundamental changes — such as increasing/decreasing their scope of responsibilities and introducing new organizational processes. This may call for new organizational design and policies, as well as training and recruitment to bring in new skills.

How KPMG can help

KPMG member firms' banking professionals work with central banks of varying degrees of size and sophistication, to advance governance, risk management and overall operating standards, including:

- **rethinking the organizational structure, including core processes and systems for banking activities and reserves management**
- **refining the operation of the audit committee, executive management or risk management roles**
- **assessing the quality of internal audit**
- **enhancing financial reporting processes and associated internal controls.**

Case Study

Rehabilitating the national banking system

In a substantial exercise to value the assets and liabilities, KPMG assisted the central bank and two commercial banks in the country to recapitalize. KPMG mobilized a cross-border team of specialists in valuations, real estate, insurance and accounting, whose work has underpinned discussions between international creditors, the Ministry of Finance and the central bank. The subsequent full recapitalization (via the conversion of uninsured deposits into shares in the commercial banks) has formed a vital part of the restructuring and rehabilitation of the national banking system.

2. Supervising stability and regulatory compliance

Since the financial crisis, central banks have been at the heart of discussions and new rules on regulating and supervising commercial banks.

Commercial banks face a huge increase in regulatory demands for liquidity, capital requirements, recovery and resolution planning and customer-centric operations. Not surprisingly, many struggle to cope with the organizational and cultural change and the associated reporting and data aggregation requirements.

Central banks often have regulatory and supervisory authority over financial institutions, to ensure they are safe and operating in a stable financial environment, to retain the trust of customers and the wider financial markets.

Central banks may assess which banks (if any) pose a risk to financial stability, and work more closely with these institutions. They also coordinate with central banks and financial supervisors of other countries when managing international financial crises and overseeing multinational groups.

Regulatory oversight has taken on new urgency in the wake of the global financial downturn, and central banks want to be confident that they can perform this task competently, spot systemic or institutional weaknesses and reassure financial markets.

The recent crisis starkly demonstrated the need for stability in the economy, the currency, the financial sector and within individual financial institutions. Through monetary policy and macro- and micro-supervision, central banks can steady the economic conditions. To achieve this, they may also have to redesign their internal processes and systems.

How KPMG firms can help

KPMG's outstanding Regulatory Centers of Excellence offer telling insights into the implications of regulatory change and the direction of developments around the world, including Basel III, Solvency II, EU initiatives and the Dodd-Frank Act. This expertise is invaluable in:

- **improving regulatory supervision, to ensure that commercial banks adapt their structure, conduct and culture, data and reporting, and risk governance**
- **providing up-to-date knowledge and understanding of regulatory changes around the world.**

Case Study

Getting up to speed with Basel

Basel compliance is a critical objective for all commercial banks, and an emerging markets central bank asked KPMG to carry out a comprehensive training program for all the country's banks. KPMG prepared and delivered country-specific training, covering necessary reforms, risk management and regulatory reports. Through a mix of classroom and breakaway sessions, the participants made huge progress ahead of a January 2014 deadline, giving far greater confidence in the banks' ability to meet the new standards.

3. Overseeing payment systems

A national economy could be severely damaged if key processes such as money issuance and central payments systems fail to run smoothly.

Payments form the heart of the banking industry and contribute to an efficient means of exchanging goods and services. Any weaknesses can impact the stability of the national economy and reduce confidence in the overall financial system. A range of stakeholders are involved, including retail banks, major corporations and payment schemes. Strategic retail and wholesale payment infrastructures must adhere to recognized standards, with payments increasingly made in real-time. In addition to the national payment network, some central banks also oversee commercial banks' payment systems, although the level of oversight varies from country to country.

The flurry of new payment systems is taxing the abilities of even the most sophisticated central bankers, who must keep on top of a continual pipeline of innovations such as mobile phone-based payments (e.g. M-Pesa), peer-to-peer lending (e.g. Zopa), and digital currencies (e.g. Bitcoin).

How KPMG firms can help

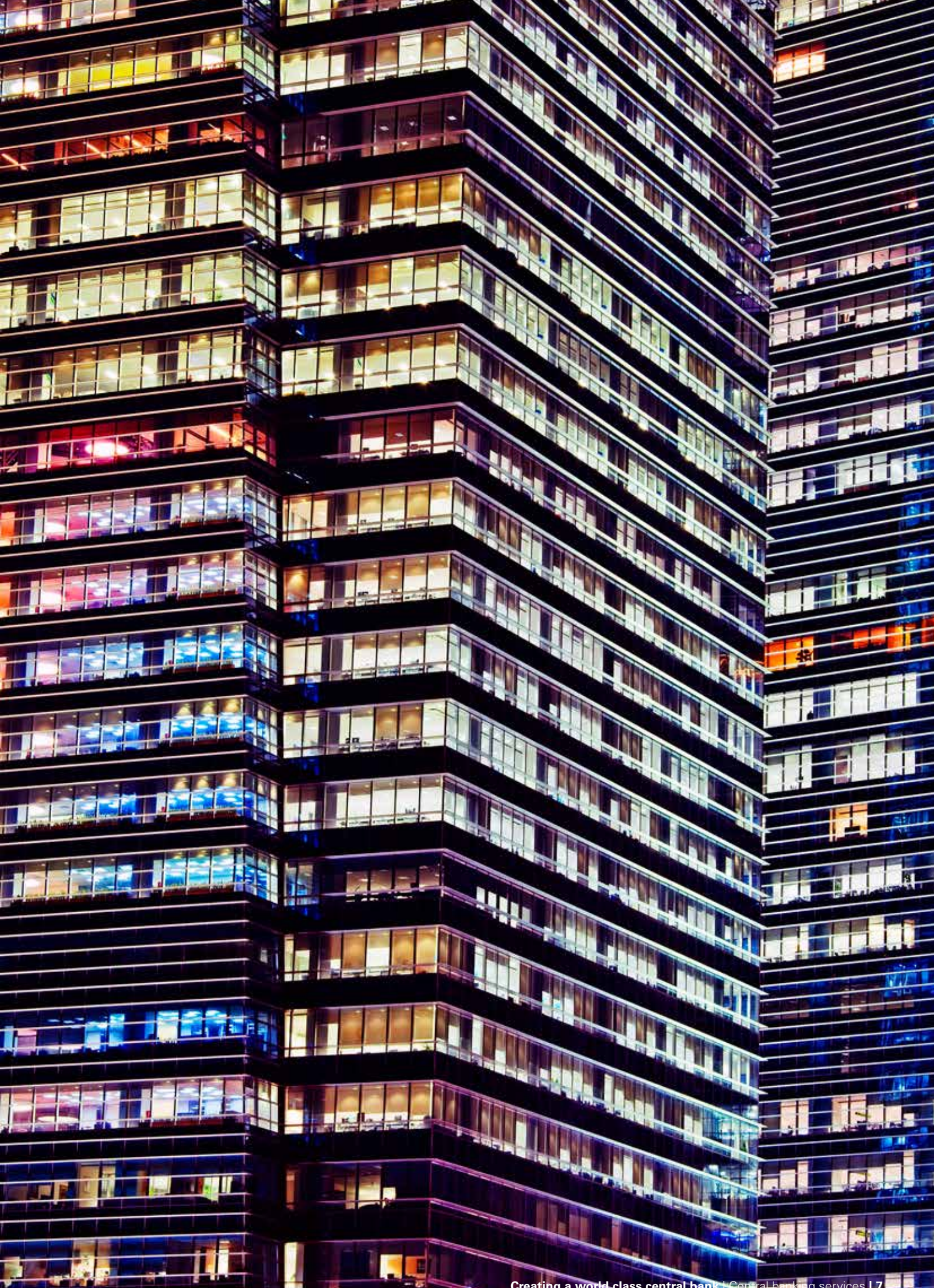
KPMG member firms have worked across global, regional and local markets to develop an understanding of the complexity of the payments industry. Firms have advised a number of central banks on their payments systems, with expertise in people and processes and, crucially, the ability to come up with sound technical solutions. With a strong track record in delivering real-time gross settlement (RTGS) systems solutions, KPMG firms can help clients with:

- **strategic advice and support, as well as business process reengineering and information technology (IT) solutions for new payment systems**
- **workshops and training on payment systems.**

Case Study

A new era in payments

KPMG in the UK supported the UK banking industry through the successful launch of the UK Faster Payments Service, putting it at the forefront of the world's financial sectors. The biggest payments change in over two decades involved a huge, industry wide, exercise requiring complex changes to the banks' systems. KPMG was contracted by the Association for Payments Clearing Services (APACS) and worked with 13 major banks, an infrastructure provider and payments scheme operator — with the Bank of England as an important stakeholder. KPMG brought transparency, clarity and discipline to the program, coordinating essential industry testing of end-to-end payments and ensuring participants were ready to process the high volumes of payments expected to go through the system. Their efforts made a significant impact in meeting the regulatory deadline.



4. Cyber security and digital disruption implications

How digital disruption in Financial Services is changing the cyber-security posture of central banks

Like all organizations, central banks are heavily reliant upon technology for operational continuity. A reliable, uninterrupted process gives the central bank, the government, financial market counter-parties, and the wider population confidence that transactions (increasingly in real time) will proceed smoothly. Those central banks that oversee commercial banks' payment systems need to have the necessary skills, and IT and reporting structures in place to identify systemic risks.

The risks are increasing, with new threats and attacks targeting several banks worldwide in recent times. An increase in the adoption of technology together with new structures and processes has been a challenge for all central banks, and they need to establish additional methods to identify and protect themselves against cyber threats and to detect, respond to and recover operations during or after cyber-security incidents.

Organizations can no longer rely on traditional techniques to protect themselves adequately against new threats because the attackers know what works. There are state and non-state actors present who possess significant resources to create complex attacks which are neither easy to detect nor contain. The sophistication of attacks is increasing along with the expectations of counter-parties, the general public, management and data protection requirements.

Central banks work closely with commercial banks and other financial institutions, and engage outsourced commercial service providers to enhance operational efficiency and effectiveness. These relationships often require the exchange of sensitive information and connection to external systems that introduce an assortment of risks. An external party's failure to restrict access to its IT environment could render connected central bank systems vulnerable to intruders.

Several initiatives have started to demonstrate commitment to cyber-security risk management and to provide ways to reduce central banks exposures. For example, The Bank for International Settlements (BIS) has carried out important initial work in this area over the past 2 years. The European Central Bank has recently started to collect information from 18 of the Eurozone's biggest banks, which will be obliged to inform regulators of "significant" cyber-attacks, the main objective being to identify trends and to inform banks of possible impending events.

Given the highly sensitive nature of central banks, any kind of negative incident could attract unwelcome publicity and undermine trust and confidence, and management will be keen to develop strong defenses against external threats. KPMG firms have assisted central banks in developing a preventative approach to protect the digital environment. With improved threat detection, security analytics and response capabilities in all digital initiatives, banks can better identify, investigate and respond to incidents in order to limit and reduce the impact of undesired events.

How KPMG firms can help

Developing a clear digital strategy that fully supports central banks' objectives, and a focus on the economic and business impact of technology. With organizational continuity as a key objective, the main risks facing organizations are addressed. As trusted advisors to governments and industry around the world, KPMG member firms work to find creative and forward-thinking ways to address cyber-security and enhance internal controls during the digital transformation. This includes:

- **establishing digital and technology strategies**
- **project management, vendor selection and system testing**
- **carrying out business process reengineering and recommending new IT infrastructure and applications for existing and new payment systems**
- **assessing and developing strategies to mitigate external party risk**
- **carrying out digital risk assessments including full cyber-security transformation assistance**
- **evaluating and improving controls over insider trading, money laundering and procurement**

Case Study

Transforming core banking services

Over 3 years, KPMG worked closely with the central bank in one of the largest developing economies to produce a step-change in efficiency, improving transaction processing, introducing real-time reporting, internet banking for customers and automated settlements, and enhancing liquidity management processes. KPMG's team led the business process reengineering, helped with tenders and subsequent vendor evaluation, contracts and service level agreements, and project managed the transition. The client now provides a far more effective core banking service to its stakeholders, with better funds flow.

A step change in IT performance

Through an understanding of the unique challenges of IT in central banking, along with KPMG's commercial banking experience, KPMG was able to help a major European central bank with a wide range of important programs. KPMG worked on IT strategy (including infrastructure architecture), IT management (such as process optimization and IT compliance) and systems design. The central bank now has a far more comprehensive reporting and analysis capability, and greater confidence in managing the monetary infrastructure, with higher levels of resilience, continuity and security.

Providing cyber-security assessments

KPMG in Qatar was selected by the central bank of Qatar to conduct a cyber-security maturity assessment ('CMA') across the banking sector. Working with the support of KPMG in India, the firm worked closely with the Qatar Central Bank to design a framework for the assessment that comprised leading cyber security standards. All banks were individually assessed across various parameters, and each bank was then provided with a view on their CMA and a holistic view across the banking sector was provided to the central bank with recommendations and a roadmap.

Providing cyber-security transformation

KPMG in Brazil has been working together with complex clearing organizations, helping clients transition from a reactive to the proactive operating mode required for transformative change. KPMG assists clients to manage technological and system vulnerabilities, and to address the core people processes, culture and behaviors related to the cyber-security posture needed to properly manage cyber threats and risks. By bringing together specialists in information protection and business continuity, risk management, organizational design and digital, KPMG tailors strategies relevant to our clients. Using their extensive experience they were able to design, structure and implement programs that deliver sustainable benefits.

5. Accountability and transparency through external assurance services

Central banks have specialized auditing and assurance requirements that call for a high level of technical expertise.

High quality, external financial reporting is a vital tool to help central banks demonstrate their accountability and transparency. Audited financial statements — prepared in accordance with recognized standards — can show the market, external organizations (such as the IMF) and the public how a central bank's activities and policies are impacting the national and international environments.

Central banks may also be required to provide other types of external reports to stakeholders, or they may wish to have internal reports prepared for the board or senior management, where accountability and transparency is enhanced by an independent expert giving assurance on the contents of the report. This may be in such diverse areas as cost accounting and the use of funds, compliance with rules and regulations or the proper functioning of information systems.

How KPMG firms can help

KPMG's network of member firms has extensive experience in providing external assurance services to central banks around the world. Member firm professionals combine the experience required to audit a central bank with significant technical know-how in International Financial Reporting Standards (IFRS), the Eurosystem Accounting Guidelines and other recognized standards. Member firm services can increase the value of external audit and assurance, including:

- **helping prepare financial statements for the external audit (e.g. when the audit is performed by the government auditor)**
- **technical accounting assistance with complex matters**
- **assistance with reporting to other organizations such as the IMF**
- **assurance on reports covering cost accounting and the use of funds**

KPMG firms currently audit or have audited (in the last 3 years) many central banks in the world's largest economies and have extensive experience in emerging markets. KPMG firms' external audit clients include:

- **The Federal Reserve Bank System**
- **Deutsche Bundesbank**
- **Bank of England**
- **Banque de France**
- **Reserve Bank of Australia**
- **Banco de España**
- **Swiss National Bank**
- **National Bank of Austria**
- **Central Bank of the United Arab Emirates**
- **Bank of Greece**
- **Qatar Central Bank**

- **assurance on compliance with rules and regulations, such as rules on insider information, anti-money laundering regulations and minimum standards for risk management**
- **assurance on information systems**
- **assistance in converting to the IFRS framework**
- **helping to transform the processes and organization of the finance function**
- **assistance in integrating risk and accounting processes.**

KPMG's Central Banking practice

KPMG's Global Central Banking practice brings together knowledge and experience from KPMG member firms around the world to help central banks deal with their unique challenges.

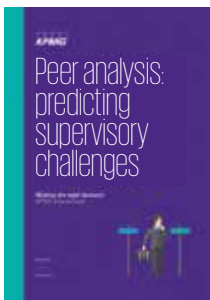
The practice has a wealth of industry experience and specialist knowledge, tapping into a global network of audit, tax and advisory services. We have worked with central banks in mature and emerging economies and have close relationships with many of the major market players, regulators and leading industry bodies.

Member firm specialists engage closely with central banks around the world, advising them and providing input on key strategic challenges. In addition, the practice's advisory

group regularly considers emerging issues and studies central bank accounting practices through benchmarking studies and other thought leadership publications.

KPMG's Regulatory Centers of Excellence help drive and shape the latest regulatory developments and provide cutting-edge advice and support in supervising compliance. For central banks in fast growing economies, our Financial Services High Growth Markets network champions new innovations, and coaches and challenges financial institutions and their regulators on strategies and operations.

Additional KPMG publications



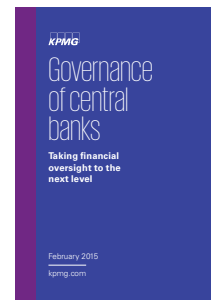
May 2016

Peer analysis: predicting supervisory challenges



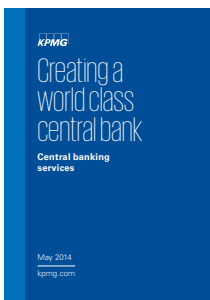
February 2016

Evolving banking regulation part five



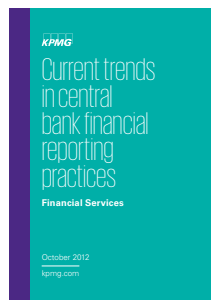
February 2015

Governance of central banks



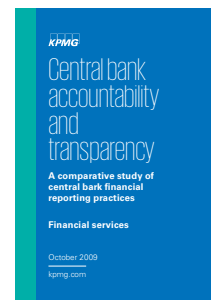
May 2014

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October 2012

Current trends in central bank financial reporting practices



October 2009

Central bank accountability and transparency

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