The expanding scope of supervision, also vis-à-vis the external accountant

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I. Mission and supervisory objectives

**Mission**

“To maintain the confidence in the financial system of Aruba by promoting the (financial) soundness and integrity of the supervised sectors and institutions.”

**Objectives:**

- To prevent financial institutions from taking excessive risks that could harm the interests of depositors, policyholders, and other creditors.
- Maintain stability, soundness, and integrity of the financial system.
- Assess compliance with the supervisory laws and regulations, including the existence and proper implementation of policies, procedures, and measures in the areas of governance, risk management, and compliance.
## II. Legal framework and scope

<table>
<thead>
<tr>
<th>Sectoral Supervisory State Ordinance</th>
<th>Scope</th>
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</table>
| State Ordinance on the Supervision of the Credit System (SOSCS) | ✓ Banks (including bank-like institutions)  
 ✓ Electronic money institutions  
 ✓ Article 48 institutions (including pawnshops) |
| State Ordinance on the Supervision of the Insurance Business (SOSIB)/ State Decree on the Supervision of Insurance Brokers (SDSIB)/State Decree Captive Insurance Companies | ✓ Insurance companies  
 ✓ Insurance brokers  
 ✓ Captive Insurers |
| State Ordinance on Company Pension Funds (SOCPF) | ✓ Company pension funds |
| State Ordinance on the Supervision of the Securities Business (SOSSB) | ✓ Securities brokers  
 ✓ Portfolio Managers  
 ✓ Collective Investment Schemes  
 ✓ Operators of Stock Exchange |
| State Ordinance Supervision Money Transfer Companies (SOSMTC) | ✓ Money transfer companies |
| State Ordinance on the Supervision of Trust Service Providers (SOSTSP) | ✓ Trust service providers |
## II. Legal framework and scope (cont’d)

<table>
<thead>
<tr>
<th>AML/CFT framework</th>
<th>Scope</th>
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<tbody>
<tr>
<td><strong>AML/CFT State Ordinance</strong></td>
<td>✓ Banks (including bank-like institutions), credit unions, electronic money institutions, article 48 of the SOSCS institutions (including pawnshops)</td>
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<td>✓ Money transfer companies</td>
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<td>✓ Designated non-financial service providers (DNFBPs) (lawyers, notaries, tax advisors, accountants, real estate agents, jewelers, car dealers, casino’s)</td>
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<tr>
<td><strong>Sanctions State Decree</strong></td>
<td>✓ Banks (including banklike institutions), electronic money institutions, article 48 of the SOSCS institutions (including pawnshops)</td>
</tr>
<tr>
<td></td>
<td>✓ Company pension funds</td>
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<tr>
<td></td>
<td>✓ Trust service providers</td>
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II. Legal framework and scope (cont’d)

Major developments in the legislative framework:

⇒ State Ordinance on the Supervision of the Securities Business (SOSSB): entered into force on January 1, 2017. The SOSSB introduces licensing requirements and ongoing supervision on securities brokers, portfolio managers, collective investment schemes, and operators of stock exchange. Also, a prospectus obligation for the issuance of securities and market abuse prohibition form part of said legislation.

⇒ State Ordinance on Consumer Credit: legislative proposal has been submitted to the Minister of Finance and Government Organization (MFGO).

⇒ Deposit Guaranty Scheme (DGS): legislative proposal was revised by the CBA and has been submitted to the MFGO on May 5, 2017.

⇒ The revision of the actuarial guidelines for company pension funds. Important revisions concern the mortality tables to be applied and inclusion of minimum conditions that recovery plans must meet.
II. Legal framework and scope (cont’d)

Major developments in the legislative framework:

⇒ Increase of the risk-weighted solvency ratio for banks from 14 percent to 16 percent.
⇒ Enhanced quarterly reporting requirements for insurance companies and company pension funds.
⇒ Draft supervisory directive on the outsourcing of services.
⇒ In the coming years, efforts will be intensified in order to ensure sound governance, well-embedded risk management policies and practices, as well as a highly ethical culture at the supervised institutions.
⇒ Reference is made to the Financial Sector Supervision Report 2016 for further information (www.cbaruba.org).

Centrale Bank van Aruba
III. Supervision departments

Prudential Supervision Department
Overseeing compliance with the stipulations of the sectoral state ordinances, especially with respect to the prudential requirements in the areas of solvency and liquidity, as well as with the implementation of sound corporate governance and risk management policies and procedures.

Integrity Supervision Department (2011)
Overseeing the integrity risk controls at the financial institutions, including but not limited to the policies, procedures, and measures in place to prevent money laundering and combating terrorist financing (“AML/CFT”). In addition, integrity supervision strives to promote ethical behavior, an ethical corporate culture, and the prevention of conflicts of interests.

Enforcement, Market Entry and Legal Advisory Department (2017)
- Assessment of breaches of the supervisory legislation
- Advising on enforcement measures
- Assessment of licensing and dispensation requests
- Assessment of requests regarding intended changes in qualifying holdings
- Legal advice on supervisory issues
IV. Main supervisory activities

- Periodic **on-site examinations** to assess key risks and compliance with the prevailing laws and regulations.

- Ongoing **off-site surveillance**, including the review of the mandatory periodic financial and regulatory reports submitted by the supervised institutions.

- Yearly stress testing exercises.

- Regular meetings with ABA and IAA to discuss relevant topics.

- Participating in technical meetings of the College of Supervisors of the Kingdom of the Netherlands.

- Advising on and designing of supervisory directives, policy papers and guidance notes.
V. Supervisory powers

Informal measures
- Strong letter
- Normative conversation with senior management and/or Supervisory Board

Formal measures (based on the different laws)
- Imposing a formal Direction (“formele aanwijzing”)
- Imposing a penalty charge order (“last onder dwangsom”)
- Imposing an administrative fine (“bestuurlijke boete”)
- Appointing a silent receiver (“stille curatele”)
- Deciding that an auditor is no longer authorized to make the required statement with respect to a credit institution, an insurance company or a money transfer company.
- Requesting the judge to declare emergency regulations and to appoint one or more administrators.
- Revoking a license or cancellation of a registration

The CBA applies a strict enforcement policy. Non-compliance is not tolerated and acted upon (“Er wordt niet gedoogd”).
V. Supervisory powers (cont’d)

**CBA is authorized to:**

- Request all necessary information
- Inspect books and records and make copies
- Enter offices (on-site examination)

**Supervised institutions, but also third parties must:**

- Grant all cooperation requested
VI. CBA vis-à-vis the external auditor

Tasks and responsibilities of the external auditor vis-à-vis the CBA (example SOSCS)

1. Appointment of an external auditor
   - Section 1 of the SOSCS provides the definition of an external auditor.
   - With the latest amendments made to the State Ordinances on the Supervision of credit institutions, insurance companies and pension funds, that entered into force on January 1, 2017, only accountants registered at the Royal Dutch Institute of Charted Accountants (“Nederlandse Beroepsorganisatie van Accountants” or NBA) are allowed to certify the annual filings of these institutions. Therefore, as of the reporting year 2017, only accountants registered at the NBA are allowed to certify the annual filings of these institutions.
   - According to supervisory directive III.5 “Appointment of an External Auditor”, the external auditor shall be properly licensed and have relevant experience and competence.
   - For any appointment or change in the external auditor, the CBA’s prior written approval is required. The CBA must be informed on the reasons of the intended change.
1. Appointment of an external auditor (cont’d)

- Documents to submit with a request for a change or approval of the external auditor are as follows: formal request, draft engagement letter, resume, proof of registration at the NBA, specific experience in financial sector, disclosure of any disciplinary measure that has been taken/or of disciplinary complaints filed, but still pending a decision.

- Section 21a of the SOSCS: If the CBA is of the opinion that an external auditor does not provide or no longer provides the necessary guarantees that he or she can fulfill his or her tasks properly in relation to a credit institution, the CBA may decide with respect to this auditor that he or she is no longer authorized to sign the reports referred to in this State Ordinance in relation to credit institutions.

2. Engagement letter

- Section 23, sub 2, of the SOSCS includes four provisions that must also be included in the engagement letter. When requesting for the approval of an external auditor, the supervised institution must also provide the CBA with the draft engagement letter.

- The engagement letter must also specify all deliverables (including regulatory reports - CBA format).
VI. CBA vis-à-vis the external auditor (cont’d)

3. Certified financial statements (FS)
   - Section 22, sub 2, of the SOSCS: supervised institutions must yearly submit their certified FS to the CBA within 6 months after the end of the financial year.
   - Section 23, sub 1, of the SOSCS: the FS of a credit institution shall be provided with an auditor’s report (unqualified opinion), signed by an auditor.
   - In case of adverse developments (qualified opinion and contingency issues), the external auditor must inform the CBA without delay (section 23, sub 2, of the SOSCS).
   - Supervisory directive III.6: publication of the audited FS.
   - Audit opinions must be signed off with the name of the audit partner (and not only the name of the audit office).
   - Each page of the certified FS must be stamped or signed off.

4. Certified monthly statement (MS)
   - Section 30 and 31 of the SOSCS: supervised institutions must yearly submit their certified MS to the CBA within 6 months after the end of the financial year.
   - Each page of the MS needs to be stamped or signed off as proof that the pages of the submitted certified MS were the ones audited by the external accountant.
5. **Overview of documents to submit 6 months after the end of the financial year**

Annual statements: Certified FS, certified MS, signed management letter, group FS, proof of the filing of the FS at the Chamber of Commerce of Aruba and, reconciliation in case of differences in total assets, equity and result between the certified MS and the certified FS.

6. **AML/CFT Ordinance**

Accountants fall under the scope of these ordinances. The ISD has organized several information session on the subject matter. On-site examinations will start soon to assess compliance with these ordinances. Note that the CBA applies a zero tolerance policy in case of breaches.

7. **Frequently asked questions**

- GAAP to use
- Financial year does not match the calendar year
- Requests for extension
- Whether the external auditor or the audit office needs to be approved.
8. Future developments with regard to regulatory reporting
- New Charts of Account (NCoA); expected implementation date is January 1, 2018.
- Fame (Forecasting, Analytics, Modelling Environment): big data warehousing and analytics project: started in 2016 and will be launched on January 1, 2018. This digital platform will streamline existing data processing and analytics across the data value chain, encompassing external reporters, in order to provide economic intelligence efficiently, reliably, and instantly.

9. Other relevant projects
- Introduction of a DGS
- Introduction of a state ordinance regulating consumer credit
- Harmonization sectoral ordinances
- Issuance of policy papers on outsourcing and technology risk management
Thank you for your attention!