



For Your Information

Volume 6, Number 4

October 2001

The Internal Audit Function in Banking Organizations

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The Basel Committee on Banking Supervision has issued a paper entitled "Internal Audit in Banks and the Supervisor's Relationship with Auditors." Although there has been concern that external auditors of a client may have a conflict of interest with the client if they perform consulting services for that client, the Basel Committee said "the need for objectivity and impartiality, especially important for the internal audit department within the banking industry, does not necessarily exclude the possibility that the internal audit department is involved in advising or consulting" as long as the internal auditors are free to criticize the internal controls that they advised should be implemented.

A bank's directors are responsible for ensuring that senior man-

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EX-IM Legislative Update

The Export-Import Bank of the U.S. (Ex-Im Bank) is now entering into one of the most important periods of the year. Over the next few weeks Congress will finalize its debate on reauthorization of the Bank's charter, which is set to expire on September 30, and will set the Bank's appropriations for FY2002, which begins on October 1. Both issues have initiated strong debate that has resulted in a series of amendments to both bills, which, if adopted, would have a significant negative impact on the Bank and U.S. exports.

Foreign Operations Appropriations Bill (H.R. 2506)

On July 24, the House of Representatives passed the Foreign Operations Appropriations Bill, which sets the appropriations level for Ex-Im Bank for FY2002. The Administration's request to Congress was for just over \$698 million, down from \$927 million in the

current year. The House Appropriations Committee recommended the Administration number be increased to just over \$816 million, which when taken with an anticipated \$90 million budget carryover from this year, should be sufficient for the Bank to operate effectively during the next fiscal year. The full House, in its July 24 action, reduced the Appropriations Committee's request by \$18 million, the amount of a controversial transaction approved late last year. Thus the final House Appropriations number for the Bank is just over \$738 million for program budget purposes and \$60 million for administrative purposes (total \$798 million).

The Senate has yet to take up its version of the Foreign Operations Appropriations Bill. The Senate Appropriations Committee has recommended \$816 million be appro-

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BAFT PLATINUM SERVICE PARTNERS



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priated for Ex-Im Bank. It is unclear when the full Senate will take up the bill.

It is unclear how the events of September 11 will affect the appropriations for Ex-Im Bank and other programs covered by H.R.2506.

Ex-Im Bank Reauthorization

Senate -- The Senate Banking, Housing and Urban Affairs Committee passed its version of the Ex-Im reauthorization bill in mid-July (S. 1372). The Committee recommended that the Senate approve a five-year extension of the Bank's charter to September 30, 2006. It also included language that will allow the Bank to match, in certain instances, "market window" transactions, and clarified the rules regarding matching Tied Aid transactions. The proposed Bill also recommends an increase in the set-aside for small business from 10 percent to 18 percent of the dollar volume approved by the Bank during any fiscal year.

The Committee set aside the controversial Bayh amendment that would require Ex-Im Bank to deny

any transaction to a foreign entity that has had a final judgment against it under U.S antidumping/counter-vailing duty (AD/CVD) laws or Section 201 of the Trade Act of 1974. While this aspect of the amendment is not troublesome, more importantly and damaging to U.S. competitiveness, the amendment would require the Bank to undertake costly and time consuming analyses if any party initiated an AD/CVD/Section 201 investigation against a potential Ex-Im Bank foreign borrower. It is very easy to initiate such an investigation, which often takes over a year before a final judgment is rendered. Over the past ten years, fewer than half of the investigations have resulted in any judgment.

The Senate Committee Chair, Paul Sarbanes (D-MD), promised that he would support the Bayh amendment on the Senate floor if a compromise could not be reached in the interim. At present, negotiations are going on in an attempt to find a compromise that would not necessitate the Bayh amendment. However, no compromise has been reached to date. Ex-Im Bank

announced its revised domestic impact procedures on September 21. It is unlikely that the revisions to its domestic impact procedures will satisfy Senator Bayh to the point that he will withdraw his amendment. It is doubtful that the Senate Committee will allow this bill to go to the Senate floor without some compromise being reached.

House of Representatives -- The Ex-Im reauthorization bill (H.R. 2517) was marked-up in the International Monetary Policy and Trade Subcommittee of the House Financial Services Committee on September 17. The bill calls for a four-year extension of Ex-Im Bank's charter to September 30, 2005. It includes market window/tied aid language similar to, but not identical with, that contained in the Senate version. The small business set-aside in the draft House bill is 20 percent of dollar volume, versus the 18 percent in the proposed Senate bill.

Importantly, the draft House bill would require an 8 percent set-aside, by dollar volume, for small businesses with 100 or fewer

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A MESSAGE FROM BAFT

Our hearts go out to those who suffered the tragedy of Tuesday, September 11. To our friends, colleagues, their families and everyone who have been personally affected, we extend our deepest sympathy.


BAFT commends all of our member banks, service members, and others from around the world who have opened their pockets to donate millions to the disaster relief efforts, that are going on in New York and Washington D.C.

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employees. This requirement would be impossible to meet, and would stop the Bank from supporting a number of important transactions.

The subcommittee rejected a number of potentially damaging amendments. It did agree to an amendment by Rep. Schakowsky (D-IL) that would require the Bank to establish an Office of Human Rights Impact Assessment. Ex-Im Bank would be required to conduct an extensive human rights assessment on transactions in excess of \$10 million.

The subcommittee acted to require the Bank to take into account the extent of a foreign country's cooperation (or lack thereof) with the new U.S. anti-terrorism campaign. There was a generally hostile sentiment among many subcommittee members toward U.S. firms that are expanding overseas. Members believe some way must be found to more closely link Ex-Im Bank financing to keeping plants and jobs in the U.S. There is little doubt that we have not heard the last of this issue.

This bill should be taken up in the full House committee shortly. There is no way that the Ex-Im reauthorization will be completed by September 30, the date their charter expires. It is expected that a series of continuing resolutions will be passed that will allow the Bank to continue in business until a longer reauthorization can be passed. 

International Risk Consultants Reports on Claims and Reschedulings

Easing of global economic woes during late 1999 resulted in a substantial reduction of year 2000 claim activity.

Claims decreased in both number and dollar amounts while the spread of countries experiencing claim activity reduced, but not as significantly. The number of claims filed by International Risk Consultants (US) clients decreased 55% from last year to this (78 to 35) returning to 1998 levels, which at the time, were record numbers. Dollar volume of claims also reduced nearly 57% (\$23.8 million to \$10.3 million). The one constant factor was that the average claim size remained in the \$200,000-\$300,000 range for the fourth year in a row.


The 2000 claims were highlighted by individual approvals on claim filings of \$4.0 million in the United States by NCM; \$1.9 million in the United States by Euler/ACI; \$1.2 million in Brazil by AIG; \$570,000 in Mexico by CNA and \$230,000 in Colombia by FCIA.

The United States overtook Latin America as the region in the world in which our clients experienced the most difficult payment experience under insurance cover. While claim activity declined significantly around the world claims filed against debtors in the United States remained the same while the dollar amount increased nearly 100%.

European claim activity remained stable with Russia notable by its absence.

Latin America, while having fewer and smaller claims, nonetheless remained a fertile region for claim activity. European claim activity remained stable with Russia notable by its absence. This is due primarily to insurers having appetite for only the strongest transactions in Eastern Europe. Asia continued its slow emergence from its 1998 economic troubles and saw little claim activity as a result. Like Eastern Europe, insurers have shown a cautious view when approached with Asian risk.

Reschedulings

The improved global economic conditions, which reduced claim activity, also provided a similar dramatic reduction in the number of reschedulings. During 2000 IRC clients requested just 14 reschedulings for a little over \$7 million dollars compared to 57 requests amounting to over \$51.5 million dollars in 1999. Even though our insureds found the need to reschedule debt less often, there were still several instances, particularly in Latin America, where large debts needed to be rescheduled while the buyer continues to attempt to payoff the outstanding debt. 

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agement maintains and reviews yearly internal controls, a risk assessment system for the bank's activities, a system for relating risks to the bank's capital level, and appropriate methods for monitoring legal, regulatory, and procedural compliance. Senior management is responsible for developing processes that identify, measure, monitor, and control risks incurred by the bank.

“From a general point of view, the scope of internal audit includes:

- the examination and evaluation of the adequacy and effectiveness of the internal control systems;
- the review of the application and effectiveness of risk management procedures and risk assessment methodologies;
- the review of the management and financial information systems, including the electronic information system and electronic banking services;
- the review of the accuracy and reliability of the accounting records and financial reports;
- the review of the means of safeguarding assets;
- the review of the bank's system of assessing its capital in relation to its estimate of risk;
- the appraisal of the economy and efficiency of the operations;
- the testing of both transactions and the functioning of specific

internal control procedures;

- the review of the systems established to ensure compliance with legal and regulatory requirements, codes of conduct and the implementation of policies and procedures;
- the testing of the reliability and timeliness of the regulatory reporting; and
- the carrying-out of special investigations.”

To ensure a permanent internal audit function, the bank should have a continual adequate internal audit function appropriate to its size and to the nature of its operations, by providing appropriate resources and staffing.

To ensure the independence of the audit function, it should have an appropriate standing within the bank and be able to carry out its assignments with objectivity and impartiality. The professional competence of every internal auditor and of the internal audit function as a whole is essential for the proper functioning of the bank's internal audit function. Every activity and every entity of the bank should fall within the scope of the internal audit. The internal auditor should regularly review the risk management system developed by the bank to relate risk to the bank's capital level and the method established for monitoring compliance with internal capital policies. Internal audit includes drawing up an audit plan, examining and

Every activity and every entity of the bank should fall within the scope of the internal audit.

assessing the available information, communicating the results, and following up recommendations and issues.

“There are different types of internal audit, which may include but are not limited to:

- the financial audit, the aim of which is to assess the reliability of the accounting system and information and of resulting financial reports;
- the compliance audit, the aim of which is to assess the quality and appropriateness of the systems established to ensure compliance with laws, regulations, policies and procedures;
- the operational audit, the aim of which is to assess the quality and appropriateness of other systems and procedures, to analyse the organisational structures with a critical mind, and to evaluate the adequacy of the methods and resources, in relation to the assignment; and
- the management audit, the aim of which is to assess the quality of management's approach to risk and control in the frame-

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work of the bank's objectives."

Regulators should evaluate the work of the bank's internal audit department and periodically consult with the bank's internal auditors to discuss the risk areas identified and the measures taken, review the collaboration between the bank's internal audit department and the bank's external auditors, and encourage consultation between internal and external auditors in order to make their cooperation as efficient and effective as possible.

Work performed for a bank's supervisory authority by an external auditor should have a legal or contractual basis. Any tasks assigned by the supervisory authority to the external auditor should be complementary to his/her regular audit work and should be within his/her competence.

The creation of a permanent audit committee should be used to ensure the existence and maintenance of an adequate system of controls and to reinforce the internal control system and the internal and external audit.

The board of directors and senior management remain ultimately responsible for ensuring that the system of internal control and the internal audit are adequate and operate effectively.




TRADECARD Successfully Completes \$25.5 Million Equity Round Led by Warburg Pincus

TradeCard, Inc, the financial supply chain service provider, announced that it has raised an additional \$25.5 million of equity capital. TradeCard has raised a total of \$70 million of equity capital since inception. Warburg Pincus, the private equity investment firm and majority shareholder in TradeCard, led and guaranteed the successful completion of the round. In addition, a number of other TradeCard shareholders also participated in the financing.

TradeCard Chairman and CEO Kurt Cavano said: "This funding comes at a point when the company

is growing its member base, dramatically increasing transaction volume, and moving on a path to profitability. This round ensures that we get there sooner rather than later." Continuing, Cavano added: "Our investors' expanded commitment to TradeCard is one of the best validations of a company in the current market environment. This environment requires companies to think smarter about their businesses.

TradeCard has the tools that enable companies to collaborate online with their trading partners resulting in improved efficiencies and lower costs." 

Have You Renewed Your Membership?

It's that time of year when you need to renew your commitment to BAFT so that we can continue to serve you. We do so in a variety of ways. First, as a "first alert" on developing issues affecting the industry and as your advocate on legislative/regulatory matters. Second, as a medium for networking with your colleagues. Third, as a provider of professional education. Over the past year BAFT held (4) highly targeted conferences in the U.S. and overseas.

Your membership provides access to our network of international bankers worldwide, participation in committees and task forces addressing critical industry issues, assistance from our staff in getting answers to difficult questions, substantial discounts on selected publications and telephone services, and participation in BAFT conferences and education programs at a reduced fee.

None of this can be done without your support. If you have overlooked sending in your membership renewal for 2001-2002 we urge you to send it in today so that we can continue to serve you. If you have already renewed your membership for 2001-2002, we thank you and look forward to working with you in the coming year.

If you are not a member and would like information regarding BAFT membership, please contact Bruce Portillo at (202) 452-0952 or bruce@baft.org.

MEMBERS CORNER

- **Allianz Group and AGFT Create EULER & HERMES:** Allianz AG, Munich, and its group company AGF, Paris, intend to combine their credit insurance activities. At present AGF holds 58.6% of EULER Group and Allianz AG owns 89.6% of Hermes Group, Hamburg. Both EULER and HERMES have closely co-operated for the past years. EULER & HERMES will have a unique position in credit insurance, factoring and bonding businesses. Due to the perfect geographical fit of the two companies' operations, EULER & HERMES will have leading positions in major existing and emerging credit insurance markets in Europe, North America as well as in the rapidly growing markets of Latin America and Asia.
- **Proponix Appoints Executive Management Team,** Bill Graham, President and CEO of Proponix, announced the appointment of members of the Proponix Executive Management Team. Proponix is the first independent company of its kind to offer a unique outsourcing model and state-of-the-art technology that will provide online transaction processing for global trade banks around the world. Neil Richardson, Managing Director, Global Operations and Technology; Andrea Matheson, Managing Director, Global Human Resources; John Kwong, Managing Director, Global Sales and Marketing; and Cynthia Bliss, Managing Director, Global Corporate Services.
- **Johnstone Downey Klein, Inc. (JDK),** headquartered in Columbus Ohio, announces the completion of its merger with Indemnity & Risk (InR), based in Glasgow Scotland, and the creation of the first fully integrated, global, political risk and credit insurance brokerage firm, International Risk Consultants Inc. (IRC). In 1999, JDK and InR formed a joint venture to serve its global customers base. The success of this arrangement led to the formal merger and name change. As one of the largest and the fastest growing political risk and credit insurance brokerage firms in the world, IRC is proud to provide global, around-the-clock service to its clients.
- **NCM and Gering Credit Join Forces:** Gering NCM Credit's regional presence will enable the new combination to optimise further its information and risk portfolio as well as its credit insurance and other trade receivables services such as debt collection, factoring, guarantees, financial solutions including securitisations, and interim credit management services. Joint eBusiness products, building on existing advanced systems and expertise, will also be further developed. Combining the two companies will also strengthen their financial power, reinsurance structure and asset management in addition to enlarging the capital base.
- **Group Financiero Scotiabank Inverlat Update:** Since the acquisition in November Scotiabank Group, Canada's most international bank increased an existing stake in Mexico's Grupo Financiero Inverlat from 10 to 55 per cent. Today, Grupo Financiero Scotiabank Inverlat S.A. de C.V. is one of the principal financial groups in Mexico, with more than 400 branches and almost 1,000 ATMs throughout Mexico. The Group employs approximately 7,200 people across its three main affiliates, banking arm Scotiabank Inverlat, investment unit Scotia Inverlat Casa de Bolsa, and foreign exchange unit Scotia Inverlat Casa de Cambio. Together, these companies offer an integrated suite of financial products and services for the entire spectrum of customers—from individuals and small businesses up to the most sophisticated multinational corporations. 

We'd like to know what is happening in your company. If you wish to have an item printed in the December issue, please contact Nathan Allen at 202/452-0956 or email nathan@baft.org.

Calendar of Events


- **October 24, 2001**
Commercial Banking Committee Meeting
Small Business Committee Meeting
Trade Banking Committee Meeting
Hotel Inter-Continental
Chicago
- **October 25-26, 2001**
11th Annual Conference on International Trade and Finance
Hotel Inter-Continental
Chicago
- **October 31 – November 1, 2001**
BAFT Board Meeting
BAFT Office
Washington, D.C.
- **December 4-7, 2001**
BAFT/CLAA/USMCO
25th Annual Miami Conference on Caribbean and Latin America—Free Trade and Integration Implications for the Caribbean Basin
Hotel Inter-Continental
Miami, FL
- **February 8-9, 2002**
Midwinter Strategic Issues Conference
The Monarch Hotel
Washington, DC
- **April 7-8, 2002**
80th Annual Meeting
The Fairmont Hotel
New Orleans, LA
- **To Be Determined:**
 - European Oversea Conference
 - Regional Conference – New York

FIRST UNION AND WACHOVIA COMPLETE MERGER TO BECOME THE NEW WACHOVIA

Charlotte, N.C. – First Union Corporation and Wachovia Corporation announced that they have formally completed their merger of equals to create the new Wachovia Corporation. The new Wachovia began trading under the ticker symbol WB on the New York Stock Exchange beginning on September 4, 2001.

The combined company, which is known as Wachovia Corporation, is the largest financial holding company in its Southeast/East Coast region and the fourth largest nationwide with total assets of approximately \$322 billion and a market capitalization of \$46 billion. The company offers its 19 million customers corporate banking, retail banking, asset and wealth management, capital markets and securities brokerage services and products. The company is headquartered in Charlotte.

“This is a defining moment for Wachovia and First Union, providing the opportunity to create one of the finest companies in the world,” said L.M. Baker Jr., chairman of Wachovia. “We look forward to leveraging combined strengths to realize the potential of our new company and to build sustained value for our shareholders, customers, employees and communities.”

“The closing of the merger marks the culmination of months of hard work,” said G. Kennedy Thompson, Wachovia’s chief executive officer. “We are creating a powerful new force in the industry with the size and scope to offer the very best in financial services to our customers. Our immediate focus is on the thoughtful, deliberate integration of our two companies in a way that best serves our customers, presents new opportunities for our employees and continues to grow our businesses.” 

Network with other trade practitioners at the 11th Annual Conference on International Trade and Finance October 25-26, Chicago, IL

The Chicago conference is going on as scheduled. In light of the tragedies in New York and Washington, the program agenda will be timely and discuss some of the critical issues facing the industry—insuring global trade and evaluating country risk.

In addition to insurance and country risk, the Conference will cover highlights from the Brendan Wood International (BWI) 2001 North American Trade Study—current research that all attendees will find useful.

The Study sheds light on how knowledgeable banks are in their handling of client relationships. The typical trade bank is the beneficiary of only 40% of the volume of trade that its corporate clients generate—the other 60% of business is not being handled by your bank. In addition, some 40% of the larger corporates use another bank for term loans and operating lines—even though this borrowing is a substantial portion of how corporates finance their trade.

The Study's findings also address the issue of FX hedging, an integral part of risk management in trade, and questions how well bankers know their clients

when 50% of your client base may be going elsewhere for FX. In addition, two other issues that the Study addresses are your limited ability to know your clients.

Most changes in trade relationships are invisible to you—a trade volume slide from 40% to 30% may go unnoticed by you and may result in another bank gaining the trade volume you lose.

Findings from the Study show that a significant proportion of clients are dissatisfied—in the past two years the increase in account manager turnover is considered by your clients to be a large part of the problem.

The Study also covers the commonly held claim made by bankers that they are a “relationship bank”. Current findings show that every bank claims to be a relationship bank, but ultimately the relationship is a client decision. As before, electronic transactions are eroding those relationships and making it harder to maintain contact. The client relationship is a constant struggle to deal with people not data and large corporates are putting a

higher value on local branch contact. Regardless of how you view your client relationships, many of your clients view your relationship as easily replaced.

In the Study, one out of three companies solicited by a new bank last year either added or plan to add another bank to their trade relationship. Most of these changes in trade relationships are invisible to you—a trade volume slide from 40% to 30% may go unnoticed by you and may result in another bank gaining the trade volume you lose. Even when trade business is not lost, other collateral business lines may be moved to another bank without any awareness on your part.

What can you do about these losses? How can you attract the clients that other banks are losing? These and other topics will be addressed at the Trade Finance Conference in late October. We look forward to seeing you there.