



FEDERAL RESERVE BANK
OF DALLAS

ROBERT D. McTEER, JR.
PRESIDENT
AND CHIEF EXECUTIVE OFFICER

DALLAS, TEXAS
75265-5906

October 13, 1998

Notice 98-92

TO: The Chief Executive Officer of each
financial institution and others concerned
in the Eleventh Federal Reserve District

SUBJECT

**Framework for Internal Control Systems
of Banking Organisations**

DETAILS

As part of its ongoing work to improve risk management standards in banks, the Basle Committee on Banking Supervision has issued a paper entitled *Framework for Internal Control Systems of Banking Organisations*. In this paper, the Basle Committee presents the first internationally accepted framework for supervisors to use in evaluating the effectiveness of the internal controls over all on- and off-balance sheet activities of banking organizations.

ATTACHMENT

The Board of Governors' press release further describing the paper is printed on the reverse side of this Bank's notice. You may obtain a copy of the Basle Committee's press release and the paper at the following Internet address:

<http://www.bis.org>

MORE INFORMATION

For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely yours,

A handwritten signature in cursive script that reads "Robert D. McTeer, Jr.".

For additional copies, bankers and others are encouraged to use one of the following toll-free numbers in contacting the Federal Reserve Bank of Dallas: Dallas Office (800) 333-4460; El Paso Branch *Intrastate* (800) 592-1631, *Interstate* (800) 351-1012; Houston Branch *Intrastate* (800) 392-4162, *Interstate* (800) 221-0363; San Antonio Branch *Intrastate* (800) 292-5810.

FEDERAL RESERVE press release



For use Tuesday, September 22, 1998
12:00 am GMT (7:00 am EDT)

As part of its ongoing work to improve risk management standards in banks, the Basle Committee on Banking Supervision (Basle Committee) issued a paper today entitled *Framework for Internal Control Systems of Banking Organisations*. In this paper, the Basle Committee presents the first internationally accepted framework for supervisors to use in evaluating the effectiveness of the internal controls over all on- and off-balance-sheet activities of banking organizations. The paper describes elements that are essential to a sound internal control system, recommends principles that supervisors can apply in evaluating such systems, and discusses the role of bank supervisors and external auditors in this assessment process. It also comments on the lessons learned from recent internal control failures.

The internal control framework described in the paper is designed for international banking organizations. The guidance is broadly consistent with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) document, *Internal Control – Integrated Framework*, that is extensively used by larger U.S. banks. The paper is being distributed to supervisory authorities around the world, to banks and to other interested parties.

The paper was previously issued as a proposal for public comment in January 1998. Prior to this proposal, the Basle Committee's guidance had discussed internal controls in specific areas of bank activities, such as interest rate risk and trading and derivatives activities.

The Basle Committee's press release and the paper can be obtained from the Internet (<http://www.bis.org>) or from the Basle Committee Secretariat at the Bank of International Settlements.