

Financial Supervision and Regulation

Capacity Development Activities in Fiscal Year 2024

Algeria

July 23-27, 2023: METAC supported the Banque d'Algérie (BA) in developing new regulation for banks and financial institutions to regulate their outsourcing activities. The regulation was developed in line with EBA (European Banking Authority) guidelines and was tailored to the Algerian banking sector characteristics and legal framework. The regulation defines the essential outsourced activities and develops the minimum expectations regarding the outsourcing process. This includes the internal governance arrangements, risk management, and controls that should be in place to manage and control the risks related to outsourcing activities. It also addresses considerations related to conflict of interests, cross border relationship, and business continuity plan. The mission also provided capacity building to the supervisors on the risks and challenges related to outsourcing arrangements to enhance their understanding, awareness, and their capacity to assess these risks.

October 15-19, 2023: The mission's objectives were to (i) propose final enhancement to the risk rating methodology (ii) advise on the framework that relates the risk rating category of banks to an array of supervisory measures for early intervention, and (iii) review the documentation of the rating architecture, processes, and procedures. It reviewed the quantitative aspect of the methodology and introduced new indicators for each type of risks as well as individual risk weights to improve the overall rating. The mission also advised on the types of supervision, the process, tools, and intervention measures for each rating category taking into consideration the size and systemic importance of the bank. It further reviewed the documentation of the rating methodology, including the composition and role of the committee responsible for the validation of risk ratings.

Egypt

December 17-21, 2023: The mission assisted the Central Bank of Egypt (CBE) on the development of consolidated supervision. It built on a previous mission in October 2022, which discussed the main aspects of consolidated supervision of the banking sector, including international standards and practices. The mission's focus was on the development of internal guidelines to support CBE's supervisors in the implementation of consolidated supervision. The guidelines set out the nature and purpose of consolidated supervision and the application of key regulatory requirements and supervisory practices and crisis preparedness. They highlight the importance of a good understanding of group structures, to construct a comprehensive view of all group risks, and to ensure that bank groups are adequately supervised in practice.

February 11-15, 2024: Based on the request of Central Bank of Egypt (CBE) to assist the Licensing Sector (Governance Unit) on the development of the CBE's work on banking sector corporate governance, the mission (i) presented an overview on topics of conflicts of interest in bank governance, the role and composition of board sub-committees, approaches to assessing governance in practice and fit and proper requirements applied to banks' Boards of Directors and senior managers, highlighting international standards and practices, (ii) shared comments on the CBE's governance regulations, and (iii) provided advice on the enhancement of banks' corporate governance regulations, assessment processes and the next steps.

Iraq

September 18-22, 2023: The mission conducted a workshop with the objectives to (i) build the capacity of the CBI supervisors to effectively monitor, supervise and regulate the Domestic Systemically Important Banks (D-SIB) and (ii) review the framework recently developed by the CBI to deal with D-SIBs. The workshop presented the concepts, the principles, the framework, the assessment methodology relating to D-SIBs and the supervisory measures recommended by the Basel Committee on Banking Supervision (BCBS) guidelines and best international practices. It also focused on how to supervise State-Owned Banks (SOB) and the challenges faced in dealing with these banks. This is highly relevant to the CBI banking system given that most of the D-SIBs are SOBs. The mission proposed enhancements to the framework with respect to classifying D-SIBs in line with BCBS guidance and experience of other jurisdictions.

April 14-18, 2024: A remote mission assisted the Central Bank of Iraq (CBI) in enhancing its supervisory reporting for Islamic banks and building the capacity of its supervisors. The mission helped (i) amending the Financial Position (FP) & Income Statement (IS) of Islamic banks reported to CBI for supervisory purposes; (ii) developing reporting guidelines related to these statements; (iii) reviewing the existing supervisory templates and developed additional ones to supplement the revised FP and IS; (iv) providing a comprehensive capacity building training on the components of the amended FP, IS and templates and their use in supervision; and (v) providing an overview of relevant AAOIFI accounting standards while highlighting the similarities and differences with IFRS standards where applicable. The goal of the mission was the development of a well-structured reporting for Islamic Banks, which helps in building a coherent database. Such a database is an essential element for enhancing risk-based supervision and understanding Islamic banks' risk profiles.

Jordan

July 16-20, 2023: METAC assisted the Central Bank of Jordan (CBJ) in implementing the first step of the multi-step roadmap devised in November 2022 for the implementation of the Supervisory Review and Evaluation Process (SRP) framework. The mission involved Q&A sessions and discussions of CBJ's ongoing projects on the risk rating framework's various blocks, global SRP architecture, and its related processes. The mission provided

advice on the first versions of the associated quantitative (Key Risk Indicators) and qualitative (questionnaires framing expert judgment) aspects of the framework. It recommended to streamline the CBJ initial proposals and refocus the analysis to fully cover the main risks faced by the Jordanian banking system. The mission recommended that additional risks should be added in the SRP (e.g., IRRBB) at a later stage, stress testing results and ICAAP analysis should be also incorporated to reinforce the forward-looking aspect of the framework in addition to establishing a matrix linking between the main SRP scoring and a range of capital and liquidity add-ons (Pillar two Requirement P2R).

November 1-3, 2023: Upon the request of the Central Bank of Jordan (CBJ), METAC conducted a desk review of the draft regulation on loan classification and loan loss provisioning prepared by the CBJ's team, which amended the old regulation no. 24/2009. The regulation was revised based on the last FSAP recommendations to close important gaps in the existing regulation. The mission provided a list of recommendations to further enhance the amended regulation, address the gaps and align with international best practices, notably in the areas of loan restructuring, loan provisioning, write-off, and assets acquired in settlement of debts.

Morocco

January 16-20, 2024: METAC assisted the Bank Al Maghrib (BAM) in reviewing the requirements of Basel III Fundamental Review of the Trading Book (FRTB) and identifying the main gaps in BAM's current market risk framework. The mission presented to BAM the major enhancements to the market risk framework provided by FRTB and how the European Union (EU) incorporated these new requirements in its regulatory framework and addressed certain implementation issues. The mission discussed the various simplified, standard, and advanced approaches of FRTB, outlined several specificities of the Moroccan banking system that would require more investigations to assess the implications of FRTB and recommended BAM to decide on the most appropriate approach. It also discussed the structure of the regulation and developed a roadmap for FRTB implementation.

April 15-19, 2024: METAC assisted Bank Al Maghrib (BAM) in preparing the implementation of the Fundamental Review for the Trading Book (FRTB) requirements under Basel III market risk capital requirements, achieving the first actions defined with BAM in the roadmap set in January 2024. The mission developed (i) a draft circular on the boundary between the Trading Book (TB) and the Banking Book (BB), (ii) a methodological guide for calculating capital requirements under the standard approach and Excel templates for calculating standard approach sensitivities for the Generalized Interest Rate Risk (GIRR) instruments, including the calculations of delta, vega, and curvature sensitivities under three scenarios.

West Bank and Gaza

June 18-July 3, 2023: In response to a request from the Palestine Monetary Authority (PMA), METAC conducted a virtual mission to review the PMA's current regulatory and supervisory frameworks for credit classification and provisioning under IFRS 9. It identified the gaps in the current regulatory framework that are causing the variances between the regulatory and accounting provisioning. The mission proposed a list of recommendations to address the regulatory gaps, enhance the classification of loans and the definition of restructuring and the criteria for the curing period of restructured loans. It proposed enhancing the IFRS 9 model risk management and governance. The mission also provided the examiners with a set of examination procedures to guide them in performing their supervisory review process tasks of IFRS 9 implementation.

April 21-25, 2024: The mission assisted the Palestine Monetary Authority (PMA) in enhancing the risk-based supervision (RBS) of banks and discuss a follow-up TA project on transitioning to a single risk assessment methodology. The mission provided a detailed overview of the Supervisory Review Process (SRP) using the EU Supervisory Review and Evaluation Process (SREP) framework as an example. Over five days, participants were introduced to various elements of SREP, including its basics, objectives, Risk Matrix, management of Interest Rate Risk in the banking book (IRRBB), Business Model and internal governance and risk management assessment. The mission highlighted the importance to use SRP results to determine additional capital and liquidity requirements, as well as to devise the SRP to allocate the supervisory work on a risk basis. An action plan was developed to provide subsequent RBS TA.

Yemen

September 24-26, 2023: The mission developed a Technical Assistance (TA) workplan in supervision and regulation for the Central Bank of Yemen, Aden (CBYA). The mission had extensive discussions with senior representatives from CBYA who presented the current landscape of the banking system, risks and challenges, the regulatory and supervisory frameworks (current and planned) and helped to clarify the TA priority needs. The mission team also met with the other main TA providers in Yemen (USAID-Pragma and World Bank) to ensure close coordination of CD provided to the authorities. The mission produced a medium-to-long-term workplan identifying and prioritizing TA topics and allocating them among potential TA providers. The workplan was designed to strike a balance between addressing imminent risks and advancing the implementation of international requirements and best practices, with the aim to foster a more resilient banking system.

November 8-10, 2023: Upon the request of the Central Bank of Yemen (CBJ), METAC conducted a desk review of the draft regulation on the appointment requirements for board members and senior positions at banks. The purpose of this regulation is to (i) determine the senior positions in banks that require CBY's written prior approval for appointment; (ii) set out the minimum criteria in education and expertise that the

candidates should possess to be appointed to senior positions; and (iii) set out the minimum fit and proper criteria and disclosure requirements that the banks should adopt to assess the fitness and propriety of candidates. The mission provided a list of recommendations to further enhance the draft regulation in line with best practices with due care to proportionality consideration and to the special conditions of the Yemeni banking and financial system.

January 6-11, 2024: METAC conducted a workshop with the objectives of (i) building the capacity of Central Bank of Yemen's (CBY) supervisors on assessing of banks' licensing applications and fitness and propriety of board directors (BOD) and Senior Management (SM), and (ii) finalizing the draft regulation prepared by the CBY on fit and proper criteria requirements for BOD and SM. The mission took place in Amman, Jordan, with six participants from CBY's licensing department, including the deputy head of supervision and the head of the licensing department. It presented the licensing and fit and proper assessment and highlighted the importance of having in place an adequate due diligence as a first line of defense to new licensed players in the financial system. The mission also presented METAC's recommendations on the draft regulations for licensing of micro-finance banks and the fit and proper criteria for BOD and SM, explained the rationale behind and the proposed measures to align with best practices with proportionality consideration. It discussed the challenges faced by CBY's licensing staff in the process of licensing new banks and assessing the appropriateness of the BOD and SM. The participants expressed great satisfaction with the outcome of the mission and revealed preparedness to implement the mission's takeaways.