

Banking Supervision

Technical Assistance in Fiscal Year 2018

Afghanistan (July 9-13)

METAC continued its support to Da Afghanistan Bank (DAB) on how to supervise weak banks, and address poor governance practices in the banking sector, based on the Basel Committee on Banking Supervision (BCBS) Guidelines for Identifying and Dealing with Weak Banks. The mission developed a framework's structure to deal with weak banks together with guidelines on corrective actions that DAB may take against these banks. It also advised reorganizing DAB's Financial Supervision Department to improve the supervision of weak banks. DAB officials, will start drafting the framework and guidelines back in Kabul as to send the completed parts to METAC for review and comments.

Algeria (October 8-12, April 8-12)

As part of its assistance to Algeria in implementing the Pillar 2 of Basel II/III, METAC helped Banque d'Algérie (BA) develop a framework for ICAAP. The framework focused on assessing capital adequacy on solo and consolidated bases under normal and stressful situations, while recognizing the principle of proportionality regarding its scope, frequency of reporting, reference, and remittance dates. The mission advised BA to discuss with banks' management and external auditors the draft ICAAP framework prior to its formal release, to test banks' readiness for its implementation and detect its impact on banks' capital adequacy. The mission also reviewed the applicable regulations/instructions enforced by BA related to Pillar 2 of Basel II, and advised BA to develop additional regulations necessary for assessing banks' risk profiles.

A follow-up mission examined the comments received from banks on the guidelines on ICAAP that BA circulated earlier, and discussed with the authorities ways to overcome the implementation challenges. The mission also followed up on the implementation of the remaining recommendations of METAC's TA report of October 2017, including regulations on Pillar 2 of Basel II/III.

Djibouti (October 22 – November 2, March 4-15)

METAC continued its TA program to the Central Bank of Djibouti (CBD) aimed at improving the regulatory and supervisory framework for conventional and Islamic banks, considering Djibouti's specifics. In this context, it organized two missions in FY18:

The first mission, undertaken jointly with MCM, helped the CBD integrate sections on Shari'ah compliance in the draft instructions, developed during METAC's February 2017 mission, on loan classification and provisioning, and on transactions with related parties. It also assisted the CBD in upgrading the regulations on capital adequacy ratio by aligning the components of the equity part of this ratio to Basel II and III, and by proposing a standardized approach for calculating credit and market risk's capital charge. Last, the mission carried out a quantitative impact analysis to assess the impact of the implementation of these proposed draft regulations on banks.

The second mission focused on addressing the gaps identified in the CBD's medium-term action plan to strengthen banking supervision in Djibouti. It worked with the authorities on developing new prudential guidelines on: (i) credit risk management; (ii) inter-bank risk management; (iii) FX

risk management; and (vi) corporate governance, which also address the particularities of Shari'ah compliant activities. The mission adapted its working agenda by giving priority to assessing and fostering the implementation of past recommendations, and following up on the progress made by the CBD in enforcing the draft guidelines proposed in previous missions.

Egypt (August 21-24, September 11-14, November 5-9)

Over the last few years, the Central Bank of Egypt (CBE) has made steady efforts towards the implementation of Pillar 2 of Basel II/III, with the continued assistance of METAC. Milestones include the issuance of regulations on interest rate in the banking book (IRRBB), concentration risk, ICAAP guidelines, capital planning frameworks, and supervisory review and evaluation process (SREP).

In FY18, METAC delivered TA on Disclosure Requirements of Pillar 3 of Basel II and III. A mission reviewed and assessed draft guidelines developed by the CBE on risks disclosures that banks in Egypt should disclose to market participants, and provided recommendations to align these guidelines with the Basel Committee on Banking Supervision's Standards.

The Center also provided capacity development on Total Loss Absorbing Capacity (TLAC) to help shape the CBE thinking in this respect. The mission recommended the CBE to consider implementing TLAC on domestic-systemically important banks (D-SIBs) to improve the stability of the Egyptian financial system, and advised on the processes that the authorities could implement to resolve D-SIBs in times of financial stress, establishing a resolution authority with the power to take over and reorganize any D-SIBs; establishing eligibility criteria for TLAC instruments; and requiring D-SIBs to draw up a resolution plans.

Furthermore, the Center organized a five-day training to the CBE supervisors on securitization, including the origin of securitizations, their main purposes and role in market developments. It focused on types of securitizations and the underlying assets, including traditional/true sale securitizations, synthetic securitizations, and asset-backed commercial papers. Case studies allowed the CBE supervisors to understand the structure of typical securitization transactions, and develop their knowledge of capital requirement calculations under the standardized and external ratings-based approaches.

Iraq (June 23-29, February 5-9)

During FY18, METAC continued to assist the Central Bank of Iraq (CBI) in aligning their prudential regulations with BCBS guidelines, taking into accounts the needs and priorities of the Iraqi banking sector.

The first mission drafted four regulations on (i) licensing criteria, which focuses on the assessment of the ownership structure and governance of a bank, including by conducting fit and proper test for board of director members, senior management and branch managers; (ii) market risk management requiring banks to adopt appropriate market risk management policies and processes, with risk limits consistent with individual banks' risk appetite and profile; (iii) operational risk management, which considers individual banks' risk appetite and risk profile, and requires them to implement policies and procedures approved by the board of directors; and (iv) interest rate risk in the banking book, which defines the criteria for classifying financial instruments in the banking book or in trading book, and the boundary between them. The latter also requires banks to implement an appropriate interest rate risk strategy, policies and

procedures approved by the bank board of directors to identify, measure, monitor, and report material sources of interest rate risk.

The second mission discussed with the CBI four draft prudential regulations on Licensing and Change of Control Requirements; Market Risk Management; Operational Risk Management; and Interest Rate Risk in the Banking Book that were drafted with METAC's assistance in June 2017, and prepared them to oversee the implementation of these regulations and train other CBI supervisors in that regard. The mission also reviewed the comments provided by operating banks in Iraq on other draft prudential regulations that have been circulated to them by the CBI for comments.

Jordan (Jul 16-20, November 19-30)

As part of its support to the Central Bank of Jordan (CBJ), METAC assisted the CBJ supervisors on the use of the Next Generation Liquidity (NGL) 's model, and helped identify and set up the data for some sections of the model, which had remained unused. The mission also provided training on the interaction between liquidity and solvency in a single bank and multi bank scenarios, as well as on stress testing interest rate risk in the banking book (IRRBB) and on stress testing Domestic Systemically Important Banks (DSIBs). Last, the mission explained how to incorporate the stress test results of DSIBs in the solvency and liquidity stress-test of the banking sector.

In preparation of the upcoming transfer of the insurance supervision from the Ministry of Industry (Mol) to the Central Bank of Jordan (CBJ), METAC also delivered a course on insurance regulation and supervision to staff from CBJ and Mol. The mission also reviewed the draft insurance law, and accordingly the draft law is expected to be revised before being endorsed by Parliament.

Libya (August 27-31)

With the aim of enhancing the regulatory framework of the Central Bank of Libya (CBL), METAC held an off-site training to CBL officials on Islamic finance risks, and assisted them in drafting prudential guidelines for Islamic banks on risk management, credit risk management, and liquidity risk management, in line with the applicable recommendations set out by the Islamic Financial Services Board (IFSB) and within the context of Libyan's industry. The mission also provided the CBL team with recommendations for a smooth implementation of these guidelines.

Morocco (September 4-8)

METAC continued its technical assistance to Bank-Al Maghreb (BAM) on strengthening risk-based supervision (RBS), in preparation of the authorities' plan to move to a more flexible foreign exchange (FX) rate regime. To this end, it organized two missions in FY18:

- The first mission focused on the new Basel Committee on Banking Supervision (BCBS)'s framework related to IRRBB and the adjustments needed in terms of adaptations to be brought to the Moroccan regulatory context. The mission proposed changes to BAM's Directive on IRRBB management, the Circular on Internal Control, and the Directive on Governance. The mission also organized training presentations followed by a workshop to 16 supervisors, to help them address upcoming regulatory and supervisory challenges. A

subsequent mission is planned for later in the year to help the authorities implement effectively the internal capital adequacy assessment process (ICAAP).

- The second mission dealt with the effective implementation of internal capital adequacy assessment process (ICAAP) and how banks supervisors should challenge and make use of the collected information to build up their supervisory judgment on the banks' risk-profiles.

Sudan (May 21– Jun 1, Jul 17-19, Aug 7-9, Aug 14-16, Aug 21-23, Dec 10-14)

METAC continued its assistance to the Credit Information and Scoring Agency (CIASA), which is owned by the Central Bank of Sudan (CBoS), to help them improve the credit registry system, develop a credit scoring system, and strengthen the authorities' capacity to monitor credit risk concentration and to detect non-performing loans at an early stage. In this context, a mission followed up on the implementation of METAC's recommendations provided in December 2016, determined the status of the effectiveness of the CIASA credit scoring system, and advised on some key technical components related to credit scoring. The credit scoring system was rolled out to banks and micro finance institutions on August 1, 2017.

In FY 18, METAC also assisted CBoS in upgrading its inspection manual and examination procedures, to align them with risk-based supervisory practices. Four remote missions developed procedures covering corporate governance, internal and external audit, and regulatory compliance. These procedures form important building blocks for a sound risk management system, and are the basis for examiners' capacity in evaluating bank risk management practices. A timetable of milestones was developed relative to the revision of the inspection manual and examination procedures.

In December, a follow-up on-site mission reviewed progress in implementing these examination procedures. The mission discussed ways to address the problems encountered in implementing these new procedures. It provided recommendations to enhance risk-based supervision, which include the restructuring of CBS Banking Supervision Department to (i) promote collaboration between on- and off-site functions and (ii) develop teams of supervisors responsible for all aspects of supervisory activities in a set of banks. The mission also advised modifying some procedures to reflect Sudanese banking practices.

Tunisia (November 20-24, February 26 – March 2, April 16-20)

METAC supported the Central Bank of Tunisia's (CBT) efforts in two reforms:

- Consolidated supervision: A mission delivered training on consolidated supervision to 16 supervisors from the CBT Banking Supervision Directorate. The mission also worked with Banking Supervision Directorate on analyzing the structure of the financial system in Tunisia, assessing the adequacy of the current legal and regulatory frameworks for consolidated supervision, and identifying the aspects of the regulations that need to be developed or updated. Accordingly, the mission assisted the CBT in developing a medium-term road map to implement consolidated supervision. This road-map covers a time-frame of 18 months and could be piloted by a dedicated task force from the CBT. This mission helped in achieving one of the objectives for enhancing the supervisory framework in Tunisia and realized one milestone intended to upgrade Tunisia's prudential regulations.
- Implementation of Pillar 2 of Basel II/III: In February, METAC trained 15 supervisors of the banking supervision department at the CBT the staff on the objectives of the ICAAP, its

framework and design, and stress-testing as an essential element in assessing capital needs under stressful conditions. The training presented the methodology and techniques to quantify risks, and the elements to be considered by supervisors in reviewing and assessing ICAAP as part of their supervisory review process. In April, METAC assisted the CBT in developing an ICAAP framework, which focused on assessing capital adequacy on solo and consolidated bases under normal and stressful situations, and emphasized on the principle of proportionality in assessing banks' capital vis-à-vis their risks in term of scope, frequency of reporting, and remittance dates. The mission recommended the CBT to discuss with banks' management and external auditors the draft ICAAP framework prior to its formal release, to test banks' readiness for its implementation. The mission also recommended developing regulations on IRRBB and for assessing banks' risk profiles, as needed.

West Bank and Gaza (September 24 – October 3, February 25 – March 8)

METAC provided TA to the Palestine Monetary Authority (PMA) on the implementation of the IFRS 9 of the International Accounting Standards Board. To this end, it organized two missions in FY18:

The first mission helped the PMA upgrade its supervisory guidance on “loan loss provisioning” considering IFRS 9's requirements. It also assessed the preparations of banks, auditors, and PMA supervisors with respect to IFRS 9's “classification and measurement” as well as provisioning rules, and provided several recommendations for the smooth and robust implementation of IFRS 9.

The second mission focused on the new loan loss provisioning requirements, based on expected credit losses effective in 2018. The mission assisted the PMA in implementing the new guidance on “loan loss provisioning”, and integrating it into the PMA's RBS manual. Per the authorities' request, the mission also delivered a seminar to 70 professionals from 15 banks and their audit firms, as well as the PMA supervisors and inspectors. The seminar focused on the IFRS 9's new loan classification and measurement and the expected credit losses provisioning requirements, as well as on the new guidance.