

Banking Supervision

Technical Assistance in Fiscal Year 2019

Afghanistan (September 16-20, January 21-24)

METAC trained a team of Da-Afghanistan Bank (DAB) on corporate governance issues. The training covered international bank corporate governance topics, such as the corporate governance principles, internal control and internal audit functions' frameworks issued by Basel Committee on Banking Supervision, as well as the guidance on strengthening governance framework issued by the Financial Stability Board and included walk-throughs of related key policy guidance, reports, and assessment tools. The training was an opportunity to discuss with the DAB team the difficulties that DAB supervisors encounter while inspecting banks, and the possible measures that could be implemented for a sound bank corporate governance framework. The mission was held in Amman, Jordan.

METAC assisted the Da Afghanistan Bank (DAB) in enhancing the capacity of their supervisors in assessing weak banks, including their contingency and recovery plans. A hands-on training was organized, focusing on sharing lessons learned from the experience of other countries and best practices. This capacity development activity is expected to increase the knowledge, skills and expertise of banking supervisors, and hence reduce the risks that weak banks pose to the financial system.

Djibouti (October 21-November 1)

METAC continued its TA to the Central Bank of Djibouti aimed at upgrading its regulatory framework. This entailed updating the regulation on capital adequacy ratio in line with the requirements of Basel II/Basel III with respect to the calculation of risk-weighted assets, and following-up on the implementation of the draft regulations proposed during the March 2018 mission on corporate governance, credit risk management, interbank risk management, and foreign exchange risk management. The mission also assessed progress made by the authorities in implementing the recommendations identified in METAC's TA report of October 2016.

Egypt (June 24-28, July 29-August 2, November 5-8)

In response to the Central Bank of Egypt (CBE) request, METAC provided capacity development on the implementation of the International Financial Reporting Standard (IFRS) 9 of the International Accounting Standards Board. IFRS 9 defines the accounting approach for recording the impairment of financial assets, based on expected credit losses instead of incurred losses. The mission introduced to the CBE how supervisory guidance could be improved on loan-loss provisioning in line with the requirements of the IFRS 9. It also discussed with the CBE, two international external audit firms, and one large bank in Egypt their preparedness to implement this standard and the challenges they face, particularly with respect to loan classification, measurement, and provisioning, and provided several recommendations.

In response to the CBE's request, METAC provided training to the CBE supervisors on Market Risk. The objective of this training was to build the CBE capacity to upgrade and update the

capital adequacy regulation and better capture and measure the risks of financial instruments in the trading book in line with the Standard on Market Risk issued by Basel Committee on Banking Supervision in January 2016.

To assist the CBE in implementing Basel III requirements, METAC delivered a training to its supervisors on the “Revised Standardized Approach for Credit Risk” published by Basel Committee on Banking Supervision in December 2017. The training included explanation and discussion of this approach and the necessity to exercise due diligence by supervisors for individual exposures in addition to the recognition of external ratings. The training also presented in an excel sheet analysis of the impact of the new credit risk measurement framework on banks’ profit, and accordingly on their capital adequacy ratio.

Iraq (September 9-13, November 13-16)

METAC supported the Central Bank of Iraq (CBI) in addressing the shortcomings in their regulatory framework and improving prudential regulations in banking supervision to align them with Basel Committee on Banking Supervision standards and guidelines, while considering the appropriate Iraqi context. This included assisting a team of the CBI staff in drafting supervisory guidelines on bank internal audit and compliance functions. The mission was held in Amman, Jordan.

METAC delivered a training in Amman, Jordan to a team of supervisors from the CBI on early identification of banks risks and how to deal with weak banks. The training included early intervention of supervisors, corrective actions and their enforcement, banking crisis management and the supervisor’s role, and techniques of liquidating unviable banks. Case studies of how weak banks were dealt with in some countries were provided as practical examples.

Jordan (September 16-20)

METAC continued its capacity development to the Central Bank of Jordan (CBJ) on stress test techniques, to allow the supervisors to better identify situations where a bank may face risks that might jeopardize its solvency and liquidity. The training also covered micro stress-testing and solutions to issues the CBJ staff are facing with respect to their use of the Next Generation solvency and liquidity models, as well as the correlations between risks and their impacts on stress-test outcomes.

Lebanon (January 14-18, February 18-22)

METAC assisted the Banking Control Commission of Lebanon (BCCL), Risk Assessment Department, in selecting and preparing the data to be used in undertaking solvency and liquidity stress testing and setting up the groundwork for building a stress test model. This assistance, when completed and the stress test model is set-up, is expected to increase BCCL’s capacity in assessing individual bank vulnerabilities as well as that of the banking sector.

METAC assisted the BCCL in building capacity in multi-period solvency stress testing, and single period contagion testing. Whereas previous assistance focused on assembling and validating the required data for the tests, this activity dealt with residual data issues, start-date analysis (i.e. to rigorously assess the position of the banks as at the date set for the start of the tests), scenario building, stress assumption development, and model configuration for the tests. The mission

culminated with preliminary tests designed to flush out problems prior to conducting full tests. The mission collaborated with the Risk Assessment Department, which has principal responsibility for the tests, the Macro Studies Department, which develops the macroeconomic assumptions for the tests model, and the Electronic Data Processing Department, which is building a streamlined data gathering process.

Libya (August 27-31)

With the aim of enhancing the regulatory framework at the Central Bank of Libya (CBL), METAC assisted a working team from the CBL in drafting guidelines for Islamic banks on Market Risk and Rate of Return Risk in the Banking Book for Islamic banks, in line with the requirements of the Islamic Financial Services Board and within the context of Libyan's industry. The mission also provided the CBL team with recommendations for a smooth implementation of these guidelines.

Sudan (June 24-28, September 10-14)

METAC continued its assistance on credit registry to the Credit Information and Scoring Agency (CIASA) of the Central Bank of Sudan. The mission followed up on the progress made by the authorities in implementing METAC's June 2017 recommendations related to credit registry. It also advised on some key technical components to improve the reporting by micro-finance institutions about their borrowers, reviewed a proposal for acquiring a national identification number's software, and proposed changes to the Credit Information and Scoring Act that would allow for the expansion of data contributors to CIASA. This assistance is expected to strengthen the capacity of the Sudanese authorities in monitoring credit risk concentration and detecting non-performing loans at an early stage.

A work-from home mission aimed at further assisting the Central Bank of Sudan in upgrading the current inspection manual and aligning it to a risk-based approach, including by developing a set of examination procedures on Credit Risk Management, Liquidity Risk Management, Market Risk Management, Operational Risk Management, and Capital Adequacy.

Tunisia (October 1-5, November 26-30, February 4-8, April 1-5)

METAC continued its assistance to the Central Bank of Tunisia (CBT) in developing a framework on internal capital adequacy assessment process. Within this framework, METAC helped the CBT supervisors enhancing their bank risk-profile assessment by implementing a risk-based and forward-looking risk assessment methodology and finalized a draft regulation on interest rate risk in the banking book that was developed in April 2018 with METAC assistance.

METAC continued its assistance to the CBT in the implementation of consolidated supervision. It assisted in drafting regulatory guidelines defining the scope and boundaries of prudential consolidation, the methods for determining the entities to be consolidated, and the type of control (exclusive or significant influence). The training also covered methods to distinguish financial entities from non-financial entities.

METAC continued supporting the CBT in developing a framework on internal capital adequacy assessment. Within this framework, METAC helped the CBT supervisors enhance their bank risk-profile assessment and supervisory rating system (SYNTEC). During the mission, two draft

regulations on internal capital adequacy assessment process (ICAAP) and interest rate risk in the banking book (IRRBB) and corresponding supervisory reporting requirements were finalized. They are expected to be issued by the authorities soon. In addition, METAC made proposals to the CBT to enhance the reporting framework by collecting, on a yearly basis, reports aimed at reflecting liquidity transformation and interest rate transformation, which will further support the risk-profile assessment processes and allow for assessing potential adverse developments (notably on liquidity risks) due to unsound transformation of sight deposits. Further training was delivered with the aim of building supervisory capacity on liquidity management, critical review of ICAAP reports, asset and liability management (in line with the IRRBB draft regulation). Workshops were also organized with the different teams in charge of improving and documenting the new SYNTEC methodology, introducing interactions and risk-leverages with regard to their combined actual/potential impacts on the overall liquidity and solvency conditions.

METAC continued its support to the CBT in developing a consolidated supervision framework, including finalizing the scope of the framework and the consolidation methods to be used, and the regulation to implement it. This included updating the capital adequacy rules, defining the process to perform consolidated supervision quantitative impact study, provisions for related-party transactions within consolidated groups, large exposures limits, liquidity requirements, internal control, risk management, and corporate governance and external audit.

West Bank and Gaza (July 1-5, September 23-27 and March 24-28, 2019)

METAC conducted a mission to the Palestine Monetary Authority (PMA) to follow up on the implementation of the recommendations identified in its previous mission. The mission also helped the PMA in reviewing the consultative guidance on bank internal rating systems that has been developed earlier with METAC inputs. In addition, it helped PMA in their discussions with commercial banks on the implementation of the International Financial Reporting Standard 9 of the International Accounting Standards Board, focusing on the new forward-looking loan loss provisioning requirements based on expected credit losses and new hedge accounting requirements, which became effective in January 2018.

To assist the PMA in implementing Basel III, METAC provided capacity building to the supervisors of the PMA on the requirements of the capital adequacy and liquidity standards of Basel III as well as on the latest developments in this regard. This included hands-on training and practical cases. Representatives of the West Bank's banks also attended part of this training.

METAC organized a workshop on the Supervisory Review and Evaluation Process (SREP) for 39 staff of the PMA. The training covered Basel II Pillar 2 principles and requirements, the building blocks of a SREP, the assessment of banks' business model, corporate governance, and risks to capital and liquidity. The workshop addressed, among other things, the challenges encountered with assessing banks' Internal Capital Adequacy Assessment Process, the use of benchmarking information, and the scoring methodology for SREP. As the PMA is in the process of implementing SREP, identification of next steps were addressed through a brainstorming session.

Yemen (September 5-9)

METAC participated in a joint IMF-World Bank mission to diagnose and assess the technical assistance needs of the Central Bank of Yemen. This assessment covered, central bank governance and organization; correspondent banking relations; payment system reform; cash redenomination and currency management; forex reserves management and international payments; banking supervision; monetary policy; and anti-money laundering/combating the financing of terrorism. METAC covered the banking supervision area. The mission was held in Cairo, Egypt.