Regional Workshops in Fiscal Year 2019

Banking Supervision

Regulatory and Supervisory Approaches to Managing Cyber Risks in the Financial System

The International Monetary Fund (IMF)'s Middle East Regional Technical Assistance Center (METAC) and the IMF Monetary and Capital Markets Department organized a joint regional workshop on "Regulatory and Supervisory Approaches to Managing Cyber Risks in the Financial System" during October 23-25, 2018 in Amman. Jordan. Eighteen senior bank supervisors from 9 METAC member countries (Afghanistan, Djibouti, Egypt, Iraq, Jordan, Libya, Morocco, Tunisia, and West Bank and Gaza) attended the workshop.

The workshop reported on emerging cyber security trends and measures to handle them. It also provided hands-on capacity building to financial sector supervisors of METAC constituent jurisdictions on preparing quality regulation and efficiently supervising cyber risk.

The workshop provided a forum to exchange views and share country, regional, and international experience on cyber security management. Discussions covered a number of related topics such as the systemic dimension of cyber risk and its potential impact on financial stability, the cyber regulatory frameworks internationally, cyber and third-party risk management, cyber security and the cloud, role of security reviews in building cyber resilience, strategies to promote domestic and cross-border information-sharing, supervision techniques for IT risk and cyber, on-site cyber and IT examinations, including practical experience on inspection in FinTech companies, and the IMF approach to provide technical assistance in that field. The practical case studies provided during the workshop provided an opportunity to build hands-on expertise in understanding and managing cyber-attacks and their management.

Strengthening Regulations and Supervision of Institutions Offering Islamic Financial Services (IIFS)"

The IMF's Middle East Center for Economics and Finance (CEF), Monetary and Capital Market Department, and Middle East Regional Technical Assistance Center (METAC), concluded a joint workshop on "Strengthening Regulations and Supervision of Institutions Offering Islamic Financial Services (IIFS), in Kuwait City during December 17-20, 2018. The workshop attracted 33 senior bank supervisors from 11 Arab League countries (Iraq, Jordan, Kuwait, libya, Mauritania, Morocco, Saudi Arabia, Syria, Tunisia, United Arab Emirates, and West Bank and Gaza) and two from Afghanistan.

Islamic finance instruments have grown substantially in value over the past two decades, from less than USD 500 million in 2001 to close to USD 319 billion in 2016.[1] METAC countries, and others, have stepped up their efforts to build an effective regulatory framework that balances the growth needs of the sector while ensuring its soundness, and enhancing financial stability. The key purpose of the workshop was to assist countries to achieve this objective by presenting and discussing several relevant thematic topics related to establishing and improving an effective regulatory and supervisory regime for IIFS. These topics included: (i) core principles for Islamic finance regulations; (ii) risk-based supervision framework; (iii) activities and inherent risks in IIFS; (iv) capital adequacy standards and determination of alpha in the calculation of capital adequacy ratios; (v) liquidity management; (vii) market risk management; and (viii) rate of return risk.

Participants in the workshop acquired practical methods for identifying and measuring risks, sharing their countries' experiences, and working on case studies to enhance their practical knowledge of capital adequacy ratios, and determine alhpa for calculating the displaced commercial risk born by the IIFS sharholders.

"International Financial Reporting Standard 9 (IFRS 9) Implementation and Key Supervisory Issues"

The International Monetary Fund's Middle East Center for Economics and Finance (CEF) and the Middle East Regional Technical Assistance Center (METAC), concluded a joint seminar on "International Financial Reporting Standard 9 (IFRS 9) Implementation and Key Supervisory Issues", in Kuwait City during April 22-25, 2019. The workshop attracted 38 senior bank supervisors from 12 Arab League countries.

The implementation of IFRS 9 addresses shortcomings identified during the global financial crisis of 2008. Several countires in the METAC and CEF region have implemented IFRS 9, to improve financial sector soundness and stability. The improvements introduced by IFRS 9 include a new model for classification and measurement of financial assets and liabilities, a single forward-

1 Rafisah Mat Radzi, 2018, "Evolution in the Sukuk (Islamic Bonds) Structure: How do Market Demand and Shariah (Islamic Law) Solutions Shape Them?", Journal of Islamic Banking and Finance, Vol. 6, No. 1.

looking ‘expected credit loss’ (ECL) impairment model, and a substantially-reformed approach to hedge accounting. Enhanced credit risk management policies and practices are needed to address the new ECL approach and, in particular, banks need to carefully monitor whether a “significant increase in credit risk” has occurred since this will require a movement from Stage 1, measured at 12-month ECL, to Stages 2 or 3, measured at lifetime ECL. There are also important implications for calculating regulatory loan loss provisions, general provisions, and special provisions for risk-based capital purposes.

The seminar covered conceptual issues and practical challenges in implementing IFRS 9, which where organized by thematic topic and included: (i) classification and measurement of financial instruments under the prior standard, International Accounting Standard No. 39 (IAS 39), and IFRS 9, (ii) the movement from the IAS 39 incurred loss model for provisioning to the new IFRS 9 ECL model, (iii) interrelationships between ECL loan loss provisions and regulatory general and specific provisions, (iv) an introduction to derecognition and hedge accounting rules, along with new international auditing requirements, (v) Basel Committee on Banking Supervision guidance on credit risk and accounting for expected credit loss and related capital rules, and Pillar 3 reporting issues, (vi) Financial Stability Board guidance on enhanced risk disclosures, and (vii) supervisory concerns about IFRS 9 treatment of accrual of interest on nonperforming loans.

Participants in the seminar received extensive information about IFRS 9 and supervisory guidance, shared their countries’ experiences, worked on case studies, and performed a role play exercise to enhance their practical knowledge of IFRS 9 and related key supervisory issues.