

**Council of Arab Central Banks and Monetary
Authorities Governors**

Regulatory Developments and Basel III Implementation in the Arab Region

Arab Committee on Banking Supervision



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**Regulatory Developments and Basel III
Implementation in the Arab Region**

**The Secretariat of
The Council of Arab Central Banks and
Monetary Authorities Governors**

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Implementation in the Arab Region**

**Arab Committee
on Banking Supervision**

Arab Monetary Fund

Abu Dhabi - UAE

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The **Arab Committee on Banking Supervision (ACBS)** was established in 1989 by the Council of Governors of the Arab Central Banks and Monetary Agencies. Membership of the ACBS consists of the managers of banking supervision departments in the Arab countries. A representative of Basel Committee regularly attends the annual meetings of the ACBS.

The Arab Monetary Fund takes the responsibility of the technical secretariat of the committee. The Committee aims at:

- Ensuring the continuous development of banking supervision practices in the Arab region in accordance with the international standards.
- Following-up and identifying challenges that may face the Arab central banks in their endeavors to comply with the international standards especially Basel Committee standards.
- Supporting coordination and cooperation between Arab central banks through exchanging views and experiences on banking supervision issues and practices.

This document highlights the recent regulatory developments and the status of Basel III implementation in the Arab region in 2016.

Regulatory Developments and Basel III Implementation in the Arab Region in 2016 ¹

Summary

The Arab Central Banks have exerted continuous efforts in 2016 to ensure the soundness of the banking sectors and to comply with the relevant international standards especially Basel III requirements.

Within this context, a number of important issues related to the banking supervision and the development of the banking sector have been addressed during the year including:

1. Strengthening the banking supervision of Islamic banks.
2. Assessing the impacts of the International Financial Reporting Standards (IFRS) on the banks and banking supervision.
3. Enforcing effective corporate governance.
4. Ensuring Cyber Security.
5. Updating and revising the central bank and banking laws.

As for **Strengthening Banking Supervision of Islamic Banks**, The Arab region is the home for around 60 to 65 percent of the global Islamic banking assets². Islamic banks are domestically systematically important in six Arab countries. Furthermore, Islamic banks in two Arab Jurisdictions (The Kingdom of Saudi Arabia and

¹ This document was prepared by Dr Heba Abdel Monem and benefited from the contributions and the discussions of the members of the Arab Committee on Banking Supervision during the committee regular meetings in 2016 and also from the regulatory circulars released by the Arab Central Banks and Monetary Authorities in the same year.

² Islamic Financial Services Board (IFSB).

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the United Arab Emirates) are considered globally systemically important according to the definition of the IFSB.

In this context, Sharia Supreme Boards/Authorities have been established in a number of Arab countries (UAE, Bahrain, Morocco, Sudan), as national regulators responsible for setting standards for Islamic financial products and ensuring their compliance with Sharia principles.

In addition, some central banks (Bahrain, Kuwait, and Jordan) have focused on the development of Islamic corporate governance and identified some disclosure requirements for Islamic banks. According to these regulations, Islamic banks are requested to have independent sharia supervisory boards.

Moreover, some of the Arab central banks (Morocco) have set rules to regulate the provision of Islamic financial services by conventional banks to ensure the level playing field between conventional and Islamic banks.

Assessing the Impacts of International Financial Reporting Standards (IFRS) on the Banking Sector was also among the priorities of some Arab central banks (Jordan). The central banks in Jordan, Oman, and Kuwait have initiated dedicated teams to address this issue and requested the banks to provide the central bank with their plan to comply with these new standards especially IFRS 9. They have also requested banks to assess the impact of this compliance on capital adequacy ratio, provisions, assets, and expected loss as well as the implication of applying these new standards to the banks' business model.

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On **Ensuring Effective Banking Supervision and Corporate Governance**, the Arab central banks (Qatar, Morocco, Mauritania, and Jordan) have set rules during the year related to the corporate governance in accordance with international best practices particularly in terms of the appointment of the board members and the external auditors.

As for **Ensuring Cyber Security**, some Arab central banks like Bahrain has issued modifications to the operating risk management framework related to cyber security and IT related risks to ensure cyber resilience. On the other hand, the Central Bank of Jordan has issued the governance and management of information and related technology regulations which include clear objectives, principles, policies, services, infrastructure, code of conduct, as well as the associated internal and external audit mechanisms to ensure cyber resilience.

During the year 2016, some Arab central banks (Tunisia, Algeria, and Mauritania) have focused on **Updating and Revising the law of the Central Bank and the Banking law** to ensure the central bank independence, the soundness of the banking sector, and the effectiveness of the banking supervision mechanisms. In addition, a new authority for financial stability has been established in some Arab countries (Tunisia).

On **Basel III implementation**, notable progress has been achieved in a number of Arab countries including GCC countries, Lebanon, Morocco, Jordan, Tunisia, and Egypt.

Basel III capital regulations have been implemented in all the GCC countries. In addition, they have been implemented in Egypt, Jordan,

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Lebanon, and Morocco since 2012 with progressive implementation till 2018. The same frameworks are expected to be finalized in the near term in Tunisia.

The framework for **Domestic Systemically Important Banks (DSIBs)** has been finalized in Saudi Arabia, Qatar, Kuwait, Oman, Bahrain, and Egypt and it is expected to be finalized in Jordan and UAE and in the near term. Some Arab central banks (Qatar and Jordan) have required additional qualitative requirements on domestic systemically important banks in terms of corporate governance, the accepted level of risk, stress testing, recovery plans and some particular supervision requirements.

The regulatory framework for **Countercyclical Capital Buffer (CCyB)** has been issued in Saudi Arabia, Qatar, Oman and Jordan while, Lebanon, and Morocco are now working on a framework to introduce the countercyclical capital buffer. Also, Kuwait implemented the Countercyclical Buffer in 2014.

With regard to **regulatory liquidity requirements**, the liquidity coverage ratio (LCR) has been introduced in all the GCC countries, while it is being phased in Morocco and Tunisia. In addition, the implementation of the LCR and NFSR has been finalized in Egypt, whereas Jordan is in the process of finalizing the Basel III liquidity framework. As for the leverage ratio, it has been implemented in most of the GCC countries in addition to Jordan.

On **Basel III implementation challenges**, it is mostly agreed that Arab countries will not face huge challenges regarding the implementation of capital requirement as the weighted average of the minimum capital adequacy for Arab countries reached around 17

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percent by the end of 2015, and it is mainly composed of common equity.

However, a number of Arab countries face challenges with respect to the implementation of the Liquidity Coverage Ratio (LCR) and this is mainly due to the need to develop large, active and deep capital markets.

Islamic banks also face some challenges due to the shortage of Shariah-compliant highly qualifying liquid assets, which does not ensure a level playing field with conventional banks. This issue is very relevant to the Arab region as it accounts for the lion's share ranged between of global Islamic banking assets as mentioned earlier.

The Central Bank of Jordan

- The Central Bank of Jordan has issued the Basel III regulatory capital framework. Within this context, the definition of the regulatory capital and the components of the leverage ratio have been modified. In addition, the standardized approach for assessing operation risks has been added. Banks are requested to maintain an additional capital of 2.5 percent as a capital conservation buffer, 2.5 percent for the countercyclical capital buffer (CCyB) and 2.5 percent for systemically important banks.
- The Bank is in the process of issuing Basel III liquidity regulatory framework.
- The bank is working now on issuing the regulatory framework for the domestically systemic important banks (DSIBs) according to Basel III requirements. Additional capital

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requirements will be imposed on these banks ranged between (0.5-2.5 percent) gradually over four years. In addition, these banks should abide by some qualitative requirements related to corporate governance, accepted levels of risks, recovery plans, stress testing and some special supervision requirements.

- The bank has issued a circular to assess the compliance of the banks with the new International Financial Reporting Standards especially IFRS 9. As per the circular, banks should provide the central bank with their plans to adopt this standard, and the quantitative impact assessment of the impact of the compliance with this standard on capital adequacy ratio, provisions, assets, as well as business model. Also, banks should ensure the availability of internal credit assessment system capable of calculating expected loss in case of insolvency.
- The Central Bank of Jordan has issued some instructions related to corporate governance to ensure the flexibility in the appointment of the independent member of the Board of Management of banks and to assure that the board members allocate sufficient time to follow up banks' activities. In addition, banks should inform the central bank of the reasons behind their intention to terminate the service of any audit, compliance, and risk management officers before taking any decisions in this regard.
- During 2016, the bank has issued the governance and management of information and related technology regulations which include the objectives, principles, policies,

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services, infrastructure, code of conduct and the internal and external audit mechanisms required to ensure cyber resilience.

The Central Bank of the UAE

- The Central Bank of UAE has issued Basel III Liquidity regulatory framework to be effective starting from the mid of 2015 according to a transitory period that has started in Jan. 2016. The guidance manual will be kept under constant reviewing during the transition period.
- The UAE Cabinet has approved the launch of a Supreme Sharia Authority in 2016, a national regulator to set standards for Islamic financial products. The board will oversee the Islamic financial sector; approve financial products and set rules and principles for banking transactions in accordance with Sharia principles. The Central Bank will oversee and select the members of the new board. Financial institutions will contribute to the running of the board by paying fees to the Central Bank.

The Central Bank of Bahrain

- The Central Bank of Bahrain (CBB) has issued a consultation paper on Basel III leverage requirements. Comments received were studied and discussed and currently the CBB is updating its requirements in accordance with the recently revised Basel Paper issued in April 2016.
- The Central Bank of Bahrain has issued modifications to the credit risk management framework specifically the large

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exposure framework in accordance with the Core Principles for Effective Banking Supervision.

- The bank has issued modifications to the operating risk management framework related to cyber security and IT related risks to ensure cyber resilience. The new instructions include a comprehensive approach to cyber security risk management including not only information technology functions but also other related business activities. This approach confirms the importance of the adoption of a clear definition of the responsibilities, in addition to conducting regular assessments of cyber risks and identifying security measures to ensure business continuity. According to these instructions, banks are requested to provide the central bank with regular reports on the procedures and undertaken measures to ensure cyber resilience.
- The CBB has issued in May 2016 Public Disclosure requirements in its final form for Islamic banks in accordance with IFSB requirements and it will start receiving the financial reports according to these requirements from December 2016. In May 2016, the CBB has issued new amendments to the Public Disclosure Requirements Module and started receiving half-yearly financial reports according to these requirements from conventional banks in June 2016.
- The Central Bank of Bahrain has received bank's comments on the consultative paper on Sharia Governance. The paper aims at setting the principles for corporate governance in the Islamic industry and confirms the importance of the existence of sharia supervisory board in these banks to ensure the

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compliance of all Islamic financial services with sharia principles and to provide sufficient protection to all the customers. Banks should set a system for the appointment of these boards, defining their responsibilities, evaluating their performance, and defining their relations with the board. The paper also identifies the disclosure requirements for Islamic banks.

- The CBB has made new amendments in October 2016 to the Business and Market Conduct Module as part of the quarterly updates that include notifying the CBB when new products or changes are introduced later that will add an additional financial cost to customers.
- Resolution No. (20) of the year 2016 relating to the administration of Real Estate Development Escrow account Agent was issued on 23rd June 2016 in the Official Gazette. The Resolution sets controls for the management of real estate development projects by retail banks in accordance with the Law of Real Estate Development No. (28) of 2014 and its implementing regulation.
- The CBB has issued new directives in July 2016 on hiring relatives of approved persons in banks. These directives require the CBB's prior approval for members of the board of directors and others who occupy controlled functions.
- The CBB has issued in October 2016 new changes to Credit Risk Management Module (CM) which include widening the scope of obtaining the CBB's prior written approval before writing-off any exposure that is more than BD100,000 or

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equivalent in foreign currency to include all branches of foreign banks operating in the Kingdom, which was previously applied only to locally incorporated banks. The new changes also include the requirement of obtaining the CBB's prior written approval for approved persons' exposures within the licensees.

- The CBB issued in May 2016 new directives on offering banking services to customers with special needs in the CBB Rulebook Volumes 1 and 2 for conventional and Islamic banks respectively. The new directives include special measures and procedures to deal with such customers to safeguard their rights of accessing banking services on an equal basis with others, using appropriate methods of communication, and by creating the appropriate environment according to their needs.
- As part of the CBB's objectives to protect the depositors and customers of financial institutions, the CBB has issued in May 2016 new directives to retail banks with regards to ATMs physical security measures which are in-line with international best practices as part of the security measures for retail banks after the completion of the consultation in this regard.
- The CBB has issued in July 2016 new directives for retail banks and financing companies that include rules regarding outsourcing of services which contains customers' information. Such directives prohibit retail banks and financing companies from outsourcing any services that include private customer information to non-licensee service providers or to service providers operating outside Bahrain.

The Central Bank of Tunisia

- The new central bank law has been approved to ensure the independence of the bank. The new law has four main objectives as follows:
 1. Identifying the central bank role which is concentrated on price and financial stability.
 2. Strengthening the central bank authorities to achieve its main objectives.
 3. Ensuring the bank's structural and functional independence.
 4. Establishing a new authority for financial stability.
- In addition, the new banking law has been approved. In accordance with the international best practices with a special focus on financial stability. The law aims at increasing the transparency and competitiveness of the banking sector to support economic growth, filling the legislative gap in regulating the Islamic banks, enforcing good corporate governance and ensuring financial stability through focusing on recovery mechanisms and the establishment of financial safety nets to deal with the restructuring process of any financial institutions specially the domestic systemically important banks (DSIBs) as well as establishing a deposit guarantee scheme.

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- The Central Bank of Tunisia has moved to the adoption of risk-based supervision to better evaluate and assess banking activities, discover vulnerabilities, identify additional capital requirements and increase the efficiency of banking supervision.
- The central bank requested banks to maintain a capital adequacy ratio not less than 10 percent. Based on that approach, the regulatory capital requirements to cover the operational risks are set at 15 percent of the average net income of the bank in the last three years.
- The central bank has instructed banks to set mechanisms for credit internal rating as a minimum requirement to help banks taking the right decisions when extending loans and credit facilities to their clients.

The Central Bank of Algeria

- The central bank of Algeria has focused in 2016 on issuing new regulations and instructions within its continuous efforts to strengthen the legal and regulatory framework to ensure the efficient supervision of banks and different financial institutions.
- Within this context and to ensure sufficient liquidity in the banking system, the central bank has issued for the first time a new instruction related to the financing and refinancing transactions backed by the government securities in the wake of the liquidity shortage resulted from the decline in oil and gas revenues.

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- The central bank of Algeria has revisited the regulation of onsite supervision in accordance with the international best practices particularly with regard to the corporate governance of the banks.
- The bank is in the process of issuing a new law regulating financial disclosure to ensure the harmonization of accounting standards between banks and financial institutions.

The Saudi Arabian Monetary Agency

- The Basel document on capital requirements for banks' equity investments in funds issued by SAMA (applicable from 1 Jan 2017) outlines the policy framework for equity investments in funds. This document improves the framework by following a look-through approach to identify the underlying assets whenever investing in funds and introduces three different approaches i.e. Look-Through Approach (LTA), Mandate-Based Approach (MBA) and the Fall-Back Approach (FBA). It further enhances the framework by:
 1. Taking account of a fund's leverage when determining risk-based capital requirements associated with banks' investments in a fund;
 2. Clarifying the application of the IRB approaches for credit risk; and
 3. More appropriately reflecting the risk of a fund's underlying investments, including the use of a 1250% risk weight for situations in which there is not sufficient transparency regarding a fund's investment activities.

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- The Basel document on capital requirements for bank exposures to central counterparties issued by SAMA (applicable from 1 Jan 2017) addresses the following requirements:
 1. Including a single approach for calculating capital requirements for a bank's exposure that arises from its contributions to the mutualized default fund of a Qualifying CCP (QCCP);
 2. Employing the standardized approach for counterparty credit risk (as opposed to the Current Exposure Method) to measure the hypothetical capital requirement of a CCP;
 3. Including an explicit cap on the capital charges applicable to a bank's exposures to a QCCP;
 4. Specifying how to treat multi-level client structures whereby an institution clears its trades through intermediaries linked to a CCP; and
 5. Incorporating responses to frequently asked questions posed to the Basel Committee in the course of its work on the final standard
- The Basel requirements put emphasis on LCR calculation on an ongoing basis to help monitor and control liquidity risk. The LCR is reported to SAMA on a monthly basis, with the operational capacity to increase the frequency to weekly or even daily in stressed situations at the discretion of SAMA. The time lag is as short as feasible and ideally does not surpass two weeks. Keeping in view the BCBS requirements, SAMA

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issued a circular according to LCR paragraph 13 of the Liquidity Coverage Ratio Disclosure Standard whereby LCR must be calculated on a daily basis from 1 January 2017.

- The Basel framework on monitoring tools for intraday liquidity management issued by SAMA (applicable from 1 Jan 2017) introduces a new reporting framework that will enable banking supervisors to better monitor a bank's management of intraday liquidity risk and its ability to meet payment and settlement obligations on a timely basis along with providing supervisors with a better understanding of banks' payment and settlement behavior. This framework includes:
 1. The detailed design of the monitoring tools for a bank's intraday liquidity risk;
 2. Stress scenarios;
 3. Key application issues; and
 4. The reporting regime.
- Saudi Arabian Monetary Authority has issued a circular regarding the Counter Cyclical Capital Buffer (CCyB) in 2016 which indicated that the buffer will be pre-announced by SAMA at least one year in advance. This buffer rate for the year 2016 is 0%. Any increase in the buffer rate will become effective one year after the announcement. While the decrease will take effect immediately as of the date of the announcement. SAMA has chosen Credit to GDP gap as the main indicator for the calculation of the countercyclical capital buffer. However, in the future SAMA could also include

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additional indicators related to the financial system and may revise the current methodology, if needed. The CCyB is calculated as the weighted average of the buffers in effect in the jurisdictions in which the banks have a credit exposure and could vary between 0 to 2.5%.

- The Domestic-Systemically Important Banks are banks that are not significant from an international perspective but nevertheless, could have an important impact on their domestic financial system and economy compared to other institutions. In this regard, SAMA has issued a circular in August 2014 explaining the D-SIBs framework that requires an extra cushion of Common Equity Tier 1 Capital for systemically important banks with the primary objective to cover for macroprudential risks associated with the build-up of system-wide risk. The framework also emphasizes that other policy tools, such as more intensive supervision, can play an important role in dealing with D-SIBs. The D-SIBs buffer varies between 0% and 2.5% of total risk-weighted assets and is calculated specifically for each bank. SAMA, based on DSIBs framework (issued in August 2014) using various factors and discretionary measures, has determined 6 Saudi banks as D-SIBs for the year 2016 and set their buffer rates ranging from 0.5 to 1%.
- Basel Conservation Buffer at 0.625% is applicable in Saudi Arabia from 1 January 2016 which will slowly be increased to 2.5% by the year 2019.
- SAMA has issued standards relating to margin requirements for OTC derivatives, which requires initial and variation

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margin from counterparties applicable from 1 March 2017 on all non-centrally cleared OTC derivative transactions.

- During the year 2016, SAMA has also issued various guidelines i.e. Frequently Asked Questions on Net Stable Funding Ratio, Leverage Ratio, Counterparty Credit Risk, CCyB, Pillar 3 disclosures and Leverage Ratio.
- During the year 2016, SAMA has also issued various standards on Total Loss-Absorbing Capacity (TLAC) holdings and Simple, Transparent and Comparable Securitization (STC) to provide clarification regarding holding of TLAC instruments and development of securitization products.
- SAMA has also concluded on a consultation process with the banking sector related to the Interest Rate Risk in the Banking Book and Market Risk and has issued the final standards applicable from 1 Jan 2018 and 1 January 2019.

The Central Bank of Sudan

- Updating the banking regulation law to match with the recent developments in the industry.
- Initiating a division to serve the consumers of banking services and to raise awareness, and dispute resolution.
- Developing a plan to implement Basel 3.
- Amendment of central bank policies to achieve maximum benefit from the resources of the banking system to finance priority sectors.

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- Putting a several regulatory and supervisory procedures to organize banks and non-banking financial institutions, establishment risk-based supervision system to deal with the AML/TF.
- Adopting of an integrated strategy for microfinance to combat poverty and achieve social development, and the establishment of secure funding institution to provide guarantees for banks and financial institutions so as to encourage them to provide microfinance for vulnerable groups and finance sector.³
- Issuing guidelines to regulate the acceptance of documents comprehensive insurance issued by the insurance companies as collateral for microfinance.
- Preparing a general framework for the management of liquidity.

The Central Bank of Iraq

- The Central Bank of Iraq issued the control regulations of managing liquidity risks according to Basel III Decisions that include adopting liquidity coverage rate (LCR) and net stable funding rate (NSFR).
- In order to keep up with the developments of the world banking system and to reach what has been confirmed by Basel III Committee's Decisions, banks shall be obliged to fulfill minimum limits prescribed to calculate each of (Liquidity Coverage Ratio) and (Net Stable Funding Ratio) starting from 1/1/2017 as stated hereunder:

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Gradual Applying the Rates by the Banks

Year	2017	2018	2019
LCR	80%	90%	100%
NSFR	100%	100%	100%

- Which means that banks must apply Liquidity Coverage Ratio (LCR) gradually according to the above timeline, as for the Net Stable Funding Ratio (NSFR), the banks will be obliged to fulfill a percentage of (100%) minimum as from 1/1/2017.
- In addition to the foregoing, and in case the bank was unable to fulfill minimum limits for both (LCR and NSFR) according to the schedule of grading (1), then the bank shall be required to take actions to ensure raising both rates which supports the minimum limits of the Central Bank of Iraq, and these actions include:
 - Provide external resources for the bank equal to the size of deficit occurring in (LCR), and equals to the deficit in the numerator of (LCR).
 - Diversify the bank's own resources by creating or allocating additional capital that is equal to the size of the deficit in the numerator of (NSFR).

The Central Bank of Oman

- The Central Bank of Oman enhanced the capital surcharge (CET1 only) for the D-SIB by 1% which was enforced in 3 phases i.e. 40 basis points, 30 bp and 30 bp effective from the beginning of 2017, 2018 and 2019 respectively.”
- “Banks are requested to make provisions of 15% on restructured loans on a portfolio basis which is phased out at a rate of 5% (2016), 10% (2017) and 15% (2018).
- The bank has initiated teamwork for assessing the readiness of banks for the application of IFRS.

The Palestine Monetary Authority

- The Palestine Monetary Authority (PMA) issued the framework for Domestic systemically important banks, which requires the banks to build up additional capital upon the classification of the bank as systemically important (1%-3.5%). Additionally, the PMA requests from these banks to make adjusted stress testing, offering internal early warning system, and crisis management plans.
- The PMA completed the project for developing a comprehensive new Risk Based Supervision manual to be used by the PMA supervisors. The manual enables the PMA to keep abreast with international best practices and standards in banking supervision and the continuous developments in that respect. In particular, the standards published by the Basel Committee on Banking Supervision.

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- The RBS manual reflects forward-looking supervisory procedures and tools that seek to identify activities and practices that expose banks to high risks and undermine soundness and robustness. The manual also seeks to optimize the employment of available supervisory resources and capabilities for the purpose of assessing the bank's management efficiency in the identification, assessment, monitoring, and control of risks. Consequently, any shortcomings or vulnerabilities can be detected and rectified at an early stage through the appropriate corrective measures.
- Adopting the International Financial standard number (IFRS) 9 for the banks and microfinance institutions, which requires banks to develop the related information system, and conduct the quantitative effect on financial data as provisions, capital adequacy ratio, and assets.
- Drafting instructions that require banks to establish systems of internal ratings for clients upon their risk profile.
- The Banks are required to apply internal capital adequacy assessment process (ICAAP), which will assist them in assessing their required additional capital.
- Continues enhancements and updating the instructions of banks and establishing the Law of Central Bank of Palestine, also reinforcing the framework of financial stability and macro- prudential supervision.

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- Reinforcing the framework of supervision on Islamic Banks, by keep updating with new related issues which compatible with Sharia principles.
- For organizing the process of housing and mortgage facilities and reducing the credit risk, the PMA issued instructions for banks which related for these topics: Housing Finance, Microfinance Institutions, and protecting borrowers' rights.
- Reinforcing the framework of Anti-Money Laundering and Combating terrorist financing (AML- CTF) by issuing (AML- CFT) instructions, circulars, and complying with FATF and MENA FATF.
- Establishing framework for organizing the relations with corresponding banks.
- Enforcing the infrastructure of the financial sector in Palestine by developing the system of credit registry and activation of the national key and other issues.

The Central Bank of Qatar

- The Central Bank of Qatar has released the regulatory framework for the capital requirement. As per these instructions, the capital adequacy ratio has been raised to 12.5 percent including the implementation of capital conservation buffer (2.5 percent).
- As for Islamic banks and based on Basel III and the IFSB 15 principle, the capital adequacy ratio has been raised to 12.5

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percent including the implementation of capital conservation buffer (2.5 percent).

- Starting from 2016, the domestic systemically important banks are requested to hold additional capital requirement ranges between 0.5 - 2.5 percent according to the degree of their domestic systemic importance. The relative importance of these banks will be assessed twice a year in June and December.
- The regulatory framework for the countercyclical capital buffer has been issued in 2016 to mitigate the impact of the fluctuations in the credit cycle. The central bank will continue to follow up all the related economic indicators to assess the need to form or release this buffer which stands currently at zero percent and it is expected that it would not exceed 2.5 percent. The central bank will take into consideration any countercyclical buffer imposed on the bank group outside Qatar when setting the value of the domestic buffer
- Within the ICAAP procedures, all banks are required to have a capital plan. In addition, the systemic importance banks are requested to have a recovery plan.
- The central bank asked the banks to undertake the ICAAP assessment process based on the instructions and guidance provided by the central bank to identify the additional capital requirement (with a minimum level 1 percent). Accordingly, the additional capital requirements would be applied starting from the end of the year.

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- To strengthen the onsite supervision and to ensure the efficiency of risk management procedures, the bank instructed the banks to appoint a second accounting auditor approved by the Central Bank in accordance with the conditions set forth in the circular to work within an agreed inspection program and provide his reports directly to the Central Bank.
- As for corporate governance, the central bank has updated the corporate governance instructions according to the latest international standards.
- Special instructions have been incorporated within the Corporate Governance instructions issued in 2015 to appoint an independent member of the Board of Management of banks according to the certain requirements and conditions.
- Qatar central bank has issued a circular related to Mutual Funds Established as Per Law No. (25) of the year 2002, indicating that:
 1. Any bank that has established or is a manager of a mutual fund, whether via the bank or any subsidiary thereof, shall own up to a maximum of 10% of the fund's total investment shares.
 2. There should be a separation between the activities of the bank or any of its subsidiaries if it has established or function as a manager of mutual funds, and the activities of the said fund. No direct or indirect transactions (sell, purchase or others) related to the assets and liabilities of both, may be conducted and

instructions on investment management for others shall be complied

3. Banks currently exceeding the limit set under item no. (1) mentioned above should avoid any excess over this limit in shares during the current year.

The Central Bank of Kuwait

- The Central Bank of Kuwait (CBK) has continued its intensive efforts to provide the necessary environment to further the development of the Islamic banking in Kuwait.
- The Central Bank has issued instructions on “Shariah Supervisory Governance for Kuwaiti Islamic Banks”.
- The issuance of these instructions is in line with the continuing efforts exerted by the CBK to promote Islamic banking activities in the State of Kuwait and accordingly to develop Shariah Supervisory Regulations for Islamic banks as per applicable best practices.
- The aforesaid instructions replace the CBK’s instructions regarding “Rules and Conditions for the appointment and Responsibilities of the Shariah Supervisory Board in Islamic Board in Islamic Banks” issued on June 15th and June 19th, 2003 and complement the instructions related to “Rules & Standards of Corporate Governance in Kuwaiti Banks” issued in 2012.
- The issuance of these instructions is in light of the substantial developments in the Islamic banking industry. In particular,

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the growth of the Kuwaiti Islamic banking sector in terms of its size and quality of operations since the issuance of the previously mentioned instructions in June 2003 has increased the importance of the role of Shariah supervision governance in Islamic banks. Furthermore, the growth in Islamic banking in Kuwait has made this topic a vital component of financial stability.

- One of the major challenges facing the development of Islamic banking is the necessity of according importance to ensuring that Shariah principles are complied with, otherwise known as “Shariah auditing”.
- Shariah auditing is considered an integral part of the Shariah supervisory system and governance in an Islamic bank. Accordingly, the new instructions provide a comprehensive framework, clearly outlining the duties and responsibilities of the Shariah Supervisory Board, Internal Shariah Audit, and External Shariah Audit.
- The new instructions are organized and divided into the following sections on Shariah supervision governance: definitions, general requirements of the Framework, Principles of Shariah supervision governance including oversight, accountability and responsibility, roles of the board of directors, executive management and Shariah supervisory board, independence requirements, “Fit and Proper” requirements for the board members, confidentiality of information, and requirements for consistency among board members in their decision-making and in providing advice to the bank.

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- These instructions incorporate both internal and external Shariah auditing, including the scope and objectives of the audit, and the qualifications required of Shariah auditors.
- According to these instructions, Kuwaiti Islamic banks would be given until December 31th, 2017 to fulfill the requirements as the instructions shall take effect starting from January 1st, 2018. Therefore, Kuwaiti Islamic banks are required to provide the CBK with a quarterly report including policies, procedures, and actions taken by the respective Islamic bank in order to comply with the above-mentioned instructions.
- It is important that this quarterly status report demonstrates that the bank is making tangible progress in its compliance with these instructions according to the given timeline.
- On the other hand, the implementation of these instructions by Kuwaiti Islamic banks is an integral part of corporate governance and will instill confidence in the Kuwaiti banking system both domestically and internationally. Hence, the implementation of the Shariah Supervision Governance instructions will result in an improved operating environment for Kuwaiti Islamic banks and the banking system, and thus further improve Kuwait's macroeconomic performance.
- The issuance of the new instructions on Shariah Supervision Governance will provide employment opportunities for Kuwaiti youth in the Islamic banking sector. Accordingly, Shariah financial education centers such as the Faculty of Shariah at Kuwait University play an important role in

providing the competencies required to implement the instructions in Sharia Supervisory Governance. Therefore, the CBK has initiated a dialogue with Kuwait University in this respect.

- In addition, the new instructions in Sharia Supervision Governance along with the Kuwaiti banks' increased attention to Sharia Supervision play an important role in strengthening the position and the professionalism of the Sharia audit and ensuring its pre-eminence locally and internationally.

The Central Bank of Lebanon

1. Capital Adequacy:

- The capital adequacy framework in Lebanon sets out the minimum regulatory capital requirements at which banks are expected to operate, in order to ensure that banks hold enough capital to cover their risk exposures, which include exposure to Pillar I risk, primarily credit risk, market risk, and operational risk, as well as exposure to Pillar II risks which include interest rate risk in the banking book, concentration risk, systemic risk, strategic risk, and any other bank specific uncertainties.
- The framework also sets out the general requirements for eligibility of capital instruments³ in computing the regulatory capital adequacy ratios, and the detailed requirements for

BDL (Banque Du Liban) Circular No. 44 sets the criteria for inclusion of capital³ instruments in the calculation of regulatory capital, and includes 14 criteria for inclusion in Common Equity Tier 1 Capital, and 12 criteria for inclusion in Additional Tier 1 Capital, and another 8 criteria for inclusion in Tier 2 Capital.

computing risk-weighted assets. The framework is in line with Basel III international standards on capital adequacy.

- Banks are required to internally assess their capital adequacy through the Internal Capital Adequacy Assessment Process (ICAAP), in order to identify measure and control risks to which the bank is exposed, and to identify capital needs to cover for these risks and any future capital needs in light of the bank's strategy and result of stress testing.
- The Internal Capital Adequacy Assessment Process (ICAAP) conducted by banks is complemented by the Supervisory Review and Evaluation Process (SREP), where the BCC reviews and evaluates the qualitative and quantitative components adopted by banks in their Internal Capital Adequacy Assessment Process, and may as a result of this assessment impose additional capital buffers on any bank.

1.1 Building-Up Capital Buffers

- Banks in Lebanon are required to meet a set of target capital ratios well above the capital adequacy ratios required by Basel III. Up to November 2016, Banks were required to meet a Total Capital ratio (including the Capital Conservation Buffer) of 12% by year-end 2015 and had been phased in gradually since year-end 2012.
- In November 2016, the minimum regulatory capital ratios required from banks were amended in order to reach a new target Total Capital ratio (including the Capital Conservation

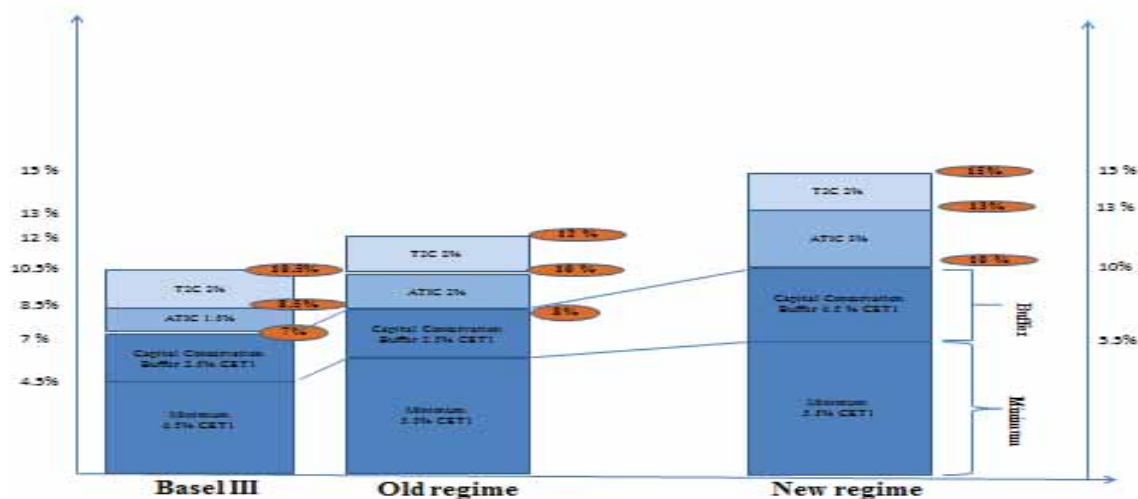
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Buffer) of 15% by year-end 2018, to be phased in gradually starting year-end 2016.

- The following table summarizes the changes that were adopted in November 2016 to BDL Circular 44 to the minimum capital requirements and to the Buffers, in comparison with the previous regime and the Basel III capital requirements:

	Basel III	Lebanon- Previous Regulatory Ratios	Lebanon- New Regulatory Ratios
Minimum CET1 Capital	4.5%	5.5%	5.5%
Minimum Tier 1 Capital	6%	7.5%	8.5%
Minimum Total Capital	8%	9.5%	10.5%
Minimum CET1 Capital + Capital Conservation Buffer	7%	8%	10%
Minimum Tier 1 Capital + Capital Conservation Buffer	8.5%	10%	13%
Minimum Total Capital + Capital Conservation Buffer	10.5%	12% [*]	15% ^{**}

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* included an additional capital of 4% above the required minimum Capital under Basel III, and comprised of the following:

- 1.5% Lebanon's additional Buffer (of which 1% in the form of Common Equity Tier1 and 0.5% in the form of Additional Tier1 Capital).
- 2.5% Capital Conservation Buffer in the form of Common Equity Tier1.

** includes an additional capital of 7% above the required minimum Capital under Basel III, and comprised of the following:

- 2.5% Lebanon's additional Buffer (of which 1% in the form of Common Equity Tier1 and 1.5% in the form of Additional Tier1 Capital).
- 4.5% Capital Conservation Buffer in the form of Common Equity Tier1.

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Changes that were adopted in November 2016 to the minimum capital requirements and to the Buffers requirements

- Starting year-end 2016, banks are required to submit the details of their capital adequacy ratios and leverage ratios on a quarterly basis instead of semi-annual basis, as a move to better monitor and analyze the changes to capital and to risk-weighted assets composition of banks.

1.2 Phase-In Implementation

- Banks are expected to meet the regulatory capital ratios well before the dates of full implementation of Basel III capital ratios. The following table summarizes Lebanon's Phase-in Implementation for the Minimum Capital Requirements (the ones required by year-end 2015 and the new targets required by year-end 2018) in comparison with the Basel III Minimum Capital Requirements:

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		2012	2013	2014	2015	2016	2017	2018	2019
Common Equity Tier 1 (CET1)									
Basel III	MCR*		3.5%	4%	4.5%	4.5%	4.5%	4.5%	4.5%
	CCB**					0.6250%	1.25%	1.875%	2.5%
	MCR + CCB		3.5%	4%	4.5%	5.125%	5.75%	6.375%	7%
BDL	MCR				5.5%			5.5%	
	CCB				2.5%			4.5%	
	MCR + CCB	5%	6%	7%	8%	8.5%	9%	10%	
Tier 1 Capital (T1C)									
Basel III	MCR*		4.5%	5.5%	6%	6%	6%	6%	6%
	MCR + CCB		4.5%	5.5%	6%	6.625%	7.25%	7.875%	8.5%
BDL	MCR*				7.5%			8.5%	
	MCR + CCB	8%	8.5%	9.5%	10%	11%	12%	13%	
Total Capital (TC)									
Basel III	MCR*		8%	8%	8%	8%	8%	8%	8%
	MCR + CCB		8%	8%	8%	8.625%	9.25%	9.875%	10.5%
BDL	MCR*				9.5%			10.5%	
	MCR + CCB	10%	10.5%	11.5%	12%	14%	14.5%	15%	

1.3 Internal Capital Adequacy Assessment Process (ICAAP)

- BCC (Banking Control Commission) Circular No. 283 was issued during October 2015 requiring banks to submit on a yearly basis starting year-end 2015 the results of their internal capital adequacy assessment process (ICAAP). The circular requires banks to assess their capital adequacy based on 2 approaches, the Pillar I plus approach and the Internal Approach.
- Prior to the issuance of BCC Circular No. 283, the BCC had received 2 submissions of ICAAPs from banks, in year-end 2011, and year-end 2013.
- BCC conducted several Supervisory Review and Evaluation Process (SREP) missions to analyze the results of ICAAP submissions to assess banks' resilience to shocks and to account for any shortage or surplus in capital to cover both Pillar I and Pillar II risks that entail credit risk, market risk, operational risk, interest rate risk in the banking book, concentration risk, systemic risk, strategic risk, future capital needs and any bank specific uncertainties.

2. Liquidity Adequacy

- The liquidity adequacy framework in Lebanon is in the process of being formalized, and is expected to be finalized during the year 2017, and will be in line with Basel III recommendations on liquidity. The framework includes both short-term liquidity adequacy assessment by use of the Liquidity Coverage Ratio (LCR) and long-term liquidity

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adequacy assessment by use of the Net Stable Funding Ratio (NSFR) and is complemented by a liquidity gap analysis.

- BCC has to-date conducted 4 Quantitative Impact Studies (QIS) on the Liquidity Coverage Ratio (LCR) of banks as of 30/9/2013, 30/9/2014, 30/9/2015, and 30/9/2016.
- BCC is in the process of working on issuing the first quantitative impact study (QIS) on NSFR to be submitted by banks during the year 2017.

3. Stress Testing

- BCC conducts regular stress tests to complement the risk-based capital framework and the short-term liquidity metric (LCR).
- BCC conducted jointly with the IMF Financial Sector Assessment Process (FSAP) team the top-down and bottom-up stress tests in their latest mission during the year 2016. Stress tests and single-factor sensitivity analysis were conducted in order to measure and assess the resilience of the Lebanese banking sector against severe yet plausible adverse scenarios and included solvency and liquidity stress tests. The stress scenarios that were used covered several risk factors, primarily sovereign risk, credit risk, interest rate risk, and funding and liquidity risks.

The Central Bank of Egypt

- The Central Bank of Egypt is continuously updating, enhancing and improving its regulatory framework especially

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Basel II & III implementation framework coping with the best banking and supervisory international practices and to make sure that all the Egyptian banks hold adequate capital to support the relevant risks in their business models to be able to develop and enhance their risk management techniques in monitoring and managing their risks.

1. Capital Conservation Buffer

- The capital conservation buffer regulation was issued by the CBE to ensure that banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. The requirement is based on simple capital conservation rules designed to avoid breaches of minimum capital requirements.
- Outside of periods of stress, banks should hold buffers of capital above the regulatory minimum. When buffers have been drawn down, one way banks should look to rebuild them is through reducing discretionary distributions of earnings.
- A capital conservation buffer of 2.5%, comprised of Common Equity Tier 1, is established above the regulatory minimum capital requirement. Capital distribution constraints will be imposed on a bank when capital levels fall within this range. The constraints imposed only relate to distributions, not the operation of the bank.
- The distribution constraints imposed on banks when their capital levels fall into the range increase as the banks' capital levels approach the minimum requirements.

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- **Transition Period:** The capital conservation buffer will be phased in started from 1st of January 2016 becoming fully effective starting from 1st of January 2019. It will begin at 0.625% of RWAs in 2016 and increase each subsequent year by an additional 0.625 %, to reach its final level of 2.5% of RWAs in 2019.

Item	Jan 2016	Jan 2017	Jan 2018	Jan 2019
Common Equity Tier one	4.5%	4.5%	4.5%	4.5%
Conservation Buffer (CB)	0.625%	1.25%	1.875%	2.5%
Additional Common equity	1.5%	1.5%	1.5%	1.5%
Tier One Capital	6.625%	7.25%	7.875%	8.5%
Tier Two Capital	4%	4%	4%	4%
Capital Adequacy Ratio	10%	10%	10%	10%
Capital Adequacy Ratio + (CB)	10.625%	11.25%	11.875%	12.5%

2. Liquidity Risk

- CBE issued the liquidity risk regulation in July 2016 which included also qualitative requirements for managing this risk.

2.1 Liquidity Coverage Ratio (LCR)

- The LCR is intended to promote the short-term resilience of banking organizations, absorb shocks from financial and economic stress, and improve the measurement and management of liquidity risk. To achieve these goals, the LCR requires a bank to hold enough “high-quality liquid assets” (HQLA) to meet net cash outflows over a stressed 30-day period.

Stock of HQLA	≥ 100%
Total net cash outflows over the next 30 calendar days	

2.2 Net Stable Funding Ratio (FSR):

- The Net Stable Funding Requirement (NSFR) requires that available stable funding (equity and liability financing expected to remain stable over a one-year time horizon) at least equals the matching assets. It is calculated by the available amount of stable funding over required amount of stable funding not less than 100%.

$$\frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} \geq 100\%$$

3. Internal Capital Adequacy Assessment Process (ICAAP)

- In March 2016, CBE issued the Internal Capital Adequacy Assessment Process "ICAAP" regulation under Pillar II of Basel II framework as an additional step to reassure that banks have in place internal procedures and processes to guarantee that they hold adequate capital resources to cover all of its risks.
- Under ICAAP requirements CBE requires banks to have in place internal procedures and processes to ensure that it possesses adequate capital resources in the long term to cover all of its material risks. Also, it aims at enhancing the linkage between banks risk profile and its capital (economic capital).
- ICAAP should be reviewed at least annually and includes two major components:
 - The internal process to identify, measure, manage and report risks to which the bank is exposed to or could be exposed to in the future.
 - The internal process to plan and manage its internal own funds so as to ensure sufficient capital adequacy.

Being more conservative CBE issued three regulations above Basel requirement which are:

4. The Rules and Regulations of Acquisition Finance:

- 4.1 The regulation is applicable to banks' financing Transactions for the purpose of Full or partial acquisitions

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of companies. “Acquisition” here is the case where the acquiring company will own more than 50% of the shares of the company acquired or any ownership percentage that might give the acquirer direct or indirect control on the board decisions or the general assembly of the acquired company.

- 4.2 Any bank interested in performing acquisition finance transactions should have an approved policy from its BOD for that and it should conduct a fully legal and financial due diligence on the acquired company. The bank should conduct its own financial analysis of the acquisition finance in light of the results of the financial and legal due diligence, along with preparing its assessment/valuation report.
- 4.3 For the purpose of calculating the bank's capital adequacy; the risk weights applicable should be as follows:
- a. 200% for the acquisitions by strategic investors, i.e. the acquiring company works in the same field of activity as the company acquired or integrates with it vertically.
 - b. 400% for the acquisitions carried out by investment companies or direct investment funds or any special purpose vehicle incorporated for this purpose or venture capital companies.
- 4.4 The total acquisition finance portfolio should not exceed 2.5% of the total bank's loan portfolio upon granting the

facility, and the lending limit to one obligor and his related parties should not exceed 0.5% of this aggregate percentage.

The Concentration of Bank Credit Portfolios

In an attempt to encourage banks to diversify their credit portfolios and avoid concentration in a limited number of large corporates, the following regulation was issued:

5.1 Amendment of the issued regulation on the legal lending limits to be reduced as follows:

- For one obligor to be 15% (instead of 20%) of the bank's capital base (First limit).
- For related parties to be 20% (instead of 25%) of the bank's capital base (second limit).

5.2 Higher risk weights should be applied in case the total facilities granted to the largest 50 borrowers of a bank exceed 50% of the bank's credit portfolio, as follows:

- 200% in case the excess is greater than 50% to 70% of the bank's total credit portfolio.
- 300% in case the excess is over 70% of the total credit portfolio of the bank.

As for foreign branches of banks, this excess should not exceed 50% of the bank's capital base.

Country and Counterparty Limits Regulation

1. Country Limits:

- Each bank should prepare a **comprehensive strategy** to identify the risks of its exposure to each country. In addition to setting policies and procedures to guarantee the soundness of the strategy.
- The regulation sets specific **definitions for the different types of exposures**, including high-risk exposures, and financial groups.
- Each bank should set a **ceiling for the total exposure** in each country, taking into account the concentration limits decided by the central bank- depending on its strategy, policy, and risk appetite for each country.
- The following are examples of the standards considered in determining the ceiling of each country's exposure:
 - The country's rating according to the international rating agencies.
 - The size of the country's economy.
 - The bank's capital base.
- The regulation identifies the **concentration limits of each country** on the basis of classifying the countries into seven groups according to the countries rating based on the four international rating agencies (Standard and Poor's, Fitch, Moody's, and Capital Intelligence)

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- Banks should obtain **prior approval** from the Central Bank of Egypt **to exceed the concentration limits** mentioned in the above table. Taking into account that higher risk weights are applied to such excess.
- In case the rating of a country is **downgraded** to the extent that the total exposures' amount exceeds the concentration limit; the bank should provide the Central Bank of Egypt with a corrective action plan to reinstate the situation.
- Moreover, the regulation takes into account the **country's GDP** as criteria for calculating the country limits.
- **Banks with branches abroad** are allowed to raise the concentration limits of that country by 25%, in order to give the bank the opportunity to expand in that specific country.
- The regulation sets the limits to **high-risk exposures** as follows:
 - The total high-risk exposure for each country should not exceed 40% of the concentration limit of that country.
 - The total high-risk exposures for all countries should not exceed 100% of the bank's capital base.

2. Financial Institution and Financial Group Limits:

- The regulation also clearly defines the financial groups and sets the following limits, to avoid exposure concentration in one financial group:

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- 1) The maximum exposure limit, in a bank abroad, is 10% of the local bank's total exposures invested abroad or 40% of the bank's capital base whichever is less.
- 2) The maximum bank's exposure limit, in a financial group, is 50% of the bank's capital base.
- 3) The branch of a foreign bank is allowed to invest in its head office, branches, and affiliated banks and institutions in all countries till 100% of its capital base.

The Central Bank of Morocco

- The Central Bank of Morocco has finalized the capital regulatory framework and has modified risk weights in accordance with Basel III requirements. In addition, it has finalized the financial leverage regulatory framework.
- The Central Bank has licensed 14 Islamic banks including some Islamic windows for conventional banks. The bank set rules to regulate the provision of Islamic financial services by conventional banks to ensure the level playing field between conventional and Islamic banks as the Islamic assets of the conventional banks shouldn't assets 10 percent of their total assets.
- A Supreme Sharia board has been established to approve the Islamic financial services. Islamic banks should submit requests for the provision of the new Islamic financial products to the central bank.

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- In addition, the banking law includes a clear distinction between conventional and Islamic banks regarding many issues among which the macroprudential measures.

The Central Bank of Mauritania

- The central Bank has focused in 2016 on updating the legal framework for the banking sector. The new law sets rules that govern the relationships between the banks and their related groups so that any bank shouldn't give any related loans groups of more than 25 percent of its own funds.
- In addition, the bank has issued regulation related to corporate governance requested banks to have a clear separation between the various governance bodies in the banks, to ensure full transparency in the management of banks. According to these regulations, the board is not allowed to interfere in the daily banking activities while the audit committee is totally independent of the general management of the bank.
- There are ongoing efforts to revisit the central bank law and banking law in order to strengthen the independence of the central bank and tightening of the conditions required for issuing new licenses for banks.
- Bearing in mind the special characteristics of the Islamic banks the legal framework which is being amended now will take into consideration the specificities of the Islamic Banks in accordance with technical assistance provided by the Islamic Development Bank and the International Monetary Fund.

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