

# 2005 Supervisory Development Plan

## 2005 Supervisory Plan Executive Summary

The Banking Supervision Department (“BSD”) at the Central Bank of Iraq (“CBI”) is largely non-compliant with the international standards and best practices outlined in the *Basel Committee’s Core Principles for Effective Banking Supervision*. While progress was made towards compliance with the enactment of the Law on the Central Bank of Iraq, the Law on Banking and the soon to be officially published Banking Regulations<sup>1</sup>, significant efforts are needed to ensure the laws are understood and enforced by the BSD. Additional efforts needed to achieve compliance include: training on modern supervisory techniques; training on commercial banking issues and practices; developing supervision manuals with detailed procedures and guidelines; strengthening periodic regulatory reports; and establishing prudential standards.

The Basel Committee has grouped the 25 Core Principles into seven broad topics. The following recaps the primary issues identified during the 2005 Core Principle review.

### Preconditions for Effective Banking Supervision (Principle 1)

Banking laws have been established that provide a basic and effective system of supervision; however, BSD management and staff require training to ensure they understand their roles and responsibilities under the new laws and regulations. In addition, the following needs to be accomplished to ensure a suitable and independent supervisory framework:

- Develop & implement manuals focused on risk-based supervision techniques
- Strengthen the monthly *Regulatory Reports* to be IFRS<sup>2</sup> compliant and capture all relevant financial data for the BSD to perform their oversight responsibilities
- Develop a framework of minimum prudential standards
- Establish a separate BSD budget to ensure adequate resources are available to the BSD.
- Establish a periodic internal CBI review system to ensure the BSD is fulfilling its responsibilities & objectives

### Licensing and Structure (Principles 2 – 5)

The Law on Banking and the implementing regulations have established the minimum legal framework for the BSD to license banks. To ensure the BSD is able to fully perform their role and responsibilities, the following needs to be developed and implemented:

- Licensing and corrective action manuals detailing guidelines, policies and procedures to provide direction to the BSD when performing their duties.
- Monthly *Regulatory Reports* to provide financial data for continued monitoring of new banks’ financial position and progress.
- A financial training program to develop and strengthen the BSD’s analytical skills and understanding of modern banking issues.

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<sup>1</sup> During the review of the Basel Core Principles, the Banking Regulations had been developed and approved by the CBI; however, they had not yet received final approval from the Ministry of Justice and been published in the Official Gazette. CBI management indicated that the Banking Regulations would be published within a few weeks and they were not anticipating any significant changes to the Regulations.

<sup>2</sup> International Financial Reporting Standards, formerly known as International Accounting Standards

### Prudential Regulations and Requirements (Principles 6 – 15)

To properly supervise a banking system and promote sound financial management, the supervisors must have the financial skills as well as detailed written policies, procedures and guidelines. In the last 18 months, numerous training initiatives have improved the BSD's accounting knowledge and basic credit risk management skills and understanding. To continue to enhance compliance to these Core Principles, the BSD must:

- Conduct training on a wide array of financial topics including: the new capital requirements and calculations detailed in the regulations; credit classifications and provisioning; asset/liability management; internal control and auditing; financial analysis of commercial banks; financial accounting; foreign exchange; and BSD ethics and professional behavior.
- Develop and implement an Inspection Manual based on the CAMEL risk-rating system. The manual should include detailed objectives, procedures and questionnaires to assist the supervisor in their review of a commercial bank's operations and financial condition.
- Enhance monthly *Regulatory Reports* to ensure the supervisor has adequate periodic financial data to facilitate their oversight of financial institutions on an individual and aggregate basis.

### Methods of Ongoing Banking Supervision (Principles 16 – 20)

The BSD is divided into five divisions: On-Site; Off-Site; Licensing; Credit Information; and Administration. The BSD conducts annual bank inspections and receives monthly regulatory reports from the banks. The following efforts are needed to deepen and enhance their review of the banks:

- Develop and implement an Inspection Manual, based on the CAMEL<sup>3</sup> risk-based supervision techniques, to provide modern evaluation and verification techniques, including bank management assessments.
- Improve monthly *Regulatory Reports* to strengthen the BSD's ability to monitor, evaluate and supervise the commercial banks' activities on an individual and consolidated basis.
- Develop an Outreach Program to facilitate regular and meaningful contact and communication between the BSD and commercial banks.

### Information Requirements (Principle 21)

Current Iraqi accounting practices do not adhere to international standards. As a result, the BSD receives monthly regulatory reports that are not IFRS compliant and do not provide an adequately detailed picture of the banks' financial condition and performance. The BSD does perform annual inspections, but the procedures do not sufficiently delve into the detailed documents supporting the reported financial data. To begin to achieve compliance with this Core Principle, the following needs to be done:

- Implement improved monthly *Regulatory Reports* that follow IFRS guidelines
- Develop and implement an Inspection Manual that will include procedures to review and verify banks' financial records to ensure they are compliant with IFRS and the Law on Banking
- Conduct training on a wide variety of topics, including: IFRS compliance; legal issues to ensure the BSD understands their role and responsibilities; the new Inspection Manual; and proper asset valuation and loan loss provision procedures.

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<sup>3</sup> The CAMEL risk-rating system is based on the review and analysis of the following components: Capital; Asset Quality; Management; Earnings; and Liquidity.

### Formal Powers of Supervision (Principle 22)

The new Law on Banking provides for adequate supervisory measures to bring about timely corrective actions when needed; however, the BSD management and staff are ill informed of the new supervisory measures and enforcement powers and have been hesitant to implement them. To address this weakness, the BSD needs to:

- Develop and implement a *Progressive Enforcement Action Manual*.
- Conduct training on the new laws, regulations and enforcement manual to ensure the BSD understands their powers, role and responsibilities as bank supervisors.

### Cross-Border Banking (Principles 23 – 25)

Due to sanctions and other issues associated with the prior regime, the BSD and the banking industry have been effectively isolated from the foreign central banks and banking operations. To begin developing formal cross-border banking and banking supervision, the BSD should:

- Establish *Memorandum of Understandings* with foreign regulatory authorities to facilitate cross border information flow and supervisory activities.
- Develop and implement guidelines, policies and procedures for licensing and supervising overseas operations
- Enhance Regulatory Reports to capture the activities of overseas operations

During the development of the Supervisory Plan, several issues were identified that need to be resolved that are outside the BSD's realm of influence and control. To achieve Core Principle compliance, the following issues should to be resolved:

- Iraqi accounting standards need to be revised and strengthened to become IFRS compliant
- Iraqi external audit profession needs enhancement to become compliant with international standards to ensure reliable audited financial data are published
- State owned banks need to be privatized to minimize moral hazard of government ownership

In summary, at this stage the of development, the BSD needs primarily to develop and implement the following: IFRS compliant monthly Regulatory Reports; detailed manuals for on-site inspections, licensing and corrective action programs; and a comprehensive training program on modern risk-based supervision practices and techniques. Executing these programs and documents does not imply that the BSD will become automatically compliant with the Basel Core Principles; however, it will help establish the fundamental basics needed to strengthen a supervisory function that is fully compliant with the standards and best practices detailed in the Basel Core Principles. The ultimate goal is to help establish the CBI as an active and respected member of the international banking community.

# Supervisory Development Plan

## Summary

ACRONYM Definitions		
<b>AC</b>	Additional Criteria	<b>FX</b> Foreign Exchange
<b>AML</b>	Anti-Money Laundering	<b>IAS</b> International Accounting Standards
<b>BOD</b>	Board of Directors	<b>IFRS</b> International Financial Reporting Standards
<b>BR</b>	Banking Regulation	<b>IPS</b> Interbank Payment System
<b>BSD</b>	Bank Supervision Department	<b>ISA</b> International Standards for Auditors
<b>CAEL</b>	Capital Asset Quality Earning Liquidity	<b>IT</b> Information Technology
<b>CAMEL</b>	Capital Asset Quality Mgmt Earning Liquidity	<b>IQD</b> Iraqi Dinar
<b>CBI</b>	Central Bank of Iraq	<b>KYC</b> Know Your Customer
<b>EC</b>	Essential Criteria	<b>LB</b> Law on Banking
<b>FATF</b>	Financial Action Task Force	<b>LCBI</b> Law on the Central Bank of Iraq
		<b>MIS</b> Management Information System
		<b>MLRO</b> Money Laundering Reporting Office
		<b>MOF</b> Ministry of Finance
		<b>MOU</b> Memorandum of Understanding
		<b>NYFED</b> Federal Reserve Bank of New York
		<b>OCC</b> Office of the Comptroller of the Currency
		<b>PCA</b> Prompt Corrective Action
		<b>UST</b> United States Treasury
		<b>VaR</b> Value at Risk

## Supervisory Development Plan - SUMMARY

### Preconditions for Effective Banking Supervision

#### Principle 1

Short-term Goals (<June 2006)	Long-term Goals (>June 2006)
<ul style="list-style-type: none"> <li>• Develop a framework of minimum prudential standards                             <ul style="list-style-type: none"> <li>• Minimum loan loss provisions</li> <li>• Liquidity guidelines</li> </ul> </li> <li>• Establish an MOU between the CBI &amp; MOF for oversight of the state-owned banks</li> <li>• Enhance monthly regulatory reports to ensure they are compliant with IFRS                             <ul style="list-style-type: none"> <li>• Implement stages I &amp; II of the <i>Regulatory Report Improvement Plan</i></li> </ul> </li> <li>• Develop &amp; implement <b>Inspection Manual</b> based on modern risk-based supervision techniques                             <ul style="list-style-type: none"> <li>• First 5 chapters based on the CAMEL risk rating system</li> </ul> </li> <li>• Develop and implement an <b>Outreach Program</b></li> <li>• Develop and implement a <b>Progressive Enforcement Action Manual</b></li> <li>• Establish MOUs with other <i>domestic</i> financial supervisory authorities</li> <li>• Establish MOUs with <i>foreign</i> supervisory authorities</li> </ul>	<ul style="list-style-type: none"> <li>• Develop &amp; implement <b>Problem Bank Resolution Manual</b></li> <li>• Continue to enhance regulatory reports                             <ul style="list-style-type: none"> <li>• Stages III &amp; IV of the <i>Regulatory Report Improvement Plan</i></li> </ul> </li> <li>• Develop &amp; implement <b>Inspection Manual</b> based on modern risk-based supervision techniques                             <ul style="list-style-type: none"> <li>• Additional chapters: Foreign Exchange &amp; Internal Controls and Audit</li> </ul> </li> <li>• Develop a Confidentiality Policy for BSD                             <ul style="list-style-type: none"> <li>• Provide training on BSD ethics and professional conduct</li> </ul> </li> <li>• Establish a separate BSD budget to ensure adequate funding is available to the department</li> <li>• Establish a periodic internal CBI review system to ensure the BSD is fulfilling its responsibilities &amp; objectives</li> </ul>
<b>Continual</b> <ul style="list-style-type: none"> <li>• Legal and regulatory training to ensure the BSD knows and understands their role, powers &amp; responsibilities under the new banking laws and regulations</li> <li>• Develop and implement examiner certification program</li> <li>• Computer training for BSD staff &amp; management to automate their work</li> </ul>	
<b>Other:</b> State-Owned Banks need to be privatized to minimize the MOF and other ministerial interference with the effective supervision of the commercial banks.	

### Licensing and Structure

#### Principles 2 – 5

Short-term Goals (<June 2006)	Long-term Goals (>June 2006)
<ul style="list-style-type: none"> <li>• Develop licensing policies &amp; procedures, based on the laws &amp; regulations, to provide guidance to the Licensing Division</li> <li>• Include qualified legal opinions in licensing approval process to indicate proposed legal &amp; managerial structure will not impede effective supervision</li> <li>• Conduct a commercial bank review to identify prohibited activities                             <ul style="list-style-type: none"> <li>• Develop regulations to clarify &amp; strengthen definitions of prohibited activities</li> </ul> </li> <li>• Develop &amp; implement a <b>Progressive Enforcement Action Manual</b></li> <li>• Enhance monthly <i>Regulatory Reports</i> to provide financial data to facilitate the BSD's continued monitoring of new banks' financial condition &amp; progress</li> </ul>	<ul style="list-style-type: none"> <li>• Develop &amp; implement a <b>Licensing Procedural Manual</b>, that includes all other change of business applications, to allow for subjective BSD judgment of unsafe &amp; unsound banking practices                             <ul style="list-style-type: none"> <li>• Develop a standardized 'Change in Control' application form</li> <li>• Develop a standardized 'Major Acquisition' application form for acquisitions &amp; investments exceeding 20% of a bank's capital plus reserves</li> <li>• Develop &amp; Implement system to monitor for compliance with conditions of approval</li> </ul> </li> <li>• Develop &amp; implement documentation &amp; tracking procedures for 'significant' ownership</li> <li>• Review BSD policies &amp; procedures to ensure they are in line with the new laws &amp; regulations</li> <li>• Refine laws &amp; regulations to ensure all major acquisition &amp; equity investment applications be submitted to BSD Licensing Division for their review &amp; approval</li> </ul>
<b>Continual</b> <ul style="list-style-type: none"> <li>• Training on new Bank Licensing laws and regulations                             <ul style="list-style-type: none"> <li>• Training on modern commercial banking issues &amp; activities</li> </ul> </li> <li>• Include BSD Licensing staff in all AML training, including how to identify suspicious sources of funds</li> <li>• Conduct training (formal &amp; informal) on BSD powers &amp; responsibilities under the new LB</li> <li>• Continued training on various financial topics, such as accounting and asset/liability management, to develop &amp; strengthen the BSD's analytical skills</li> <li>• Develop additional law &amp; regulations, along with supporting training policies &amp; procedures, as new types of investments &amp; acquisitions are introduced to the Iraqi market</li> </ul>	

## Supervisory Development Plan - SUMMARY

### Prudential Regulations and Requirements Principles 6 – 15

Short-term Goals (<June 2006)	Long-term Goals (>June 2006)
<ul style="list-style-type: none"> <li>• Conduct training, to both the BSD &amp; commercial banks, on:                             <ul style="list-style-type: none"> <li>• The new capital ratios and calculations to ensure understanding &amp; compliance</li> <li>• Credit classifications</li> <li>• Loan loss provisioning &amp; write-off procedures (based on credit classifications)</li> <li>• Internal control &amp; audit focusing on authority delegation, separation of duties, accounting procedures, safeguarding of assets &amp; other internal control issues</li> </ul> </li> <li>• Develop credit provisioning policies &amp; guidelines and disseminate to banks</li> <li>• Conduct management training on the new LB and banking regulations to ensure they understand the new BSD role, powers &amp; responsibilities</li> <li>• Enhance regulatory reports to ensure they fully capture: the new capital data, ratios and calculations; large borrowers &amp; credit concentrations                             <ul style="list-style-type: none"> <li>• Implement stages I &amp; II of the <i>Regulatory Report Improvement Plan</i></li> </ul> </li> <li>• Develop an <b>Inspection Manual</b> that will provide inspection objectives, procedures &amp; questionnaires to:                             <ul style="list-style-type: none"> <li>• Assess a bank's internal process in reporting their capital adequacy</li> <li>• Review credit granting &amp; investment criteria, policies, practices &amp; procedures</li> <li>• Provide guidance to ensure the banks disseminate credit assessment &amp; granting standards throughout the bank</li> <li>• Detail information required for BSD to fully &amp; adequately assess a bank's credit risk</li> <li>• Detail the requirements &amp; responsibilities of a bank's Credit Committee</li> <li>• Require banks to produce detailed internal reports on loan &amp; investment portfolios</li> <li>• Provide greater detail on credit classifications</li> <li>• Verify bank management monitors credit extensions to aggregate entities</li> <li>• Ensure the bank has proper oversight of its credit extensions &amp; collections</li> <li>• Assess the guarantors' financial strength</li> <li>• Include review of transactions with connected or related parties</li> <li>• Detail procedures for large credits that include valuation, classification &amp; provisioning</li> <li>• Include review of credit committee policies, procedures &amp; minutes to ensure potential borrowers &amp; related parties are not involved with approval process</li> <li>• To review and assess a bank's board of directors</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Conduct training, to both the BSD &amp; commercial banks, on:                             <ul style="list-style-type: none"> <li>• Country risk &amp; transfer risk</li> <li>• Ethics and professional behavior</li> </ul> </li> <li>• Develop an <b>Inspection Manual</b> that will provide inspection objectives, procedures &amp; questionnaires to:                             <ul style="list-style-type: none"> <li>• Identify, quantify &amp; manage various risk exposures</li> <li>• To determine the effectiveness of a bank's internal control system</li> <li>• To review &amp; monitor the Audit Committee &amp; its functions, responsibilities &amp; independence</li> <li>• Review a bank's compliance to AML requirements</li> <li>• Country risk and transfer risk review to be included</li> </ul> </li> <li>• LB needs to be revised to require banks to calculate capital ratios on a consolidated basis that includes the banks' branches</li> <li>• Continue to enhance regulatory reports to include country risk &amp; transfer risk                             <ul style="list-style-type: none"> <li>• Stages III &amp; IV of the <i>Regulatory Report Improvement Plan</i></li> </ul> </li> <li>• Develop detailed legal &amp; regulatory guidelines for off-balance sheet exposures</li> <li>• CBI needs to develop a policy that requires periodic collateral appraisals that take into net realizable values into consideration</li> <li>• LB &amp; regulations need to be revised to provide clear and consistent guidelines to determine large exposures</li> <li>• IT inspection procedures need to be developed and either incorporated into the Inspection Manual or as a separate manual</li> <li>• CBI needs to issue additional risk management regulations &amp; guidelines to ensure banks are properly identifying &amp; holding sufficient capital against various risks</li> <li>• CBI should issue additional guidelines detailing specific requirements when developing an internal control systems &amp; audit systems</li> <li>• Revise the regulations to stipulate that the bank's Audit Committee must have unfettered access to all business lines and support departments</li> <li>• CBI needs to issue guidance detailing that the internal audit department is required to report to the Audit Committee</li> </ul>
<p><b>Continual</b></p> <ul style="list-style-type: none"> <li>• Conduct training, to both the BSD &amp; commercial banks, on:                             <ul style="list-style-type: none"> <li>• Modern risk-based examination techniques</li> <li>• Modern risk management technique</li> </ul> </li> </ul>	
<p><b>Other</b></p> <ul style="list-style-type: none"> <li>• Iraqi accounting standards are not compliant to IFRS. The Iraqi accounting standards need to be revised and strengthened to become compliant with international standards.</li> <li>• Commercial banks' computer systems need to be updated to produce adequate management information reports</li> </ul>	

## Supervisory Development Plan - SUMMARY

### Methods of Ongoing Banking Supervision Principles 16 – 20

Short-term Goals (<June 2006)	Long-term Goals (>June 2006)
<ul style="list-style-type: none"> <li>• Develop an <b>Inspection Manual</b>, based on the CAMEL risk-based supervision techniques, to provide modern evaluation &amp; verification procedures, including bank management assessments. The manual will include:               <ul style="list-style-type: none"> <li>• Procedures, guidelines &amp; instructions on exchange of inspection information, required corrective action &amp; meetings with management among BSD divisions</li> <li>• Objectives &amp; procedures that give guidance on how to review key supervisory data</li> </ul> </li> <li>• Conduct training on the <b>Inspection Manual</b> &amp; its objectives &amp; procedures</li> <li>• Improve monthly <i>Regulatory Reports</i> to strengthen BSD's ability to monitor, evaluate &amp; supervise the commercial banks' activities               <ul style="list-style-type: none"> <li>• Implement stages I &amp; II of the <i>Regulatory Report Improvement Plan</i></li> </ul> </li> <li>• Develop an <b>Outreach Program</b> to facilitate regular &amp; meaningful contact &amp; communication between the commercial banks &amp; BSD</li> <li>• Develop &amp; implement a <b>Progressive Enforcement Action Manual</b></li> <li>• Conduct training:               <ul style="list-style-type: none"> <li>• Conduct training courses on procedures &amp; issues detailed in the <b>Progressive Enforcement Action Manual</b></li> <li>• Analytical techniques using information from enhanced regulatory reports</li> </ul> </li> <li>• Develop additional guidance on what constitutes an activity that would endanger or jeopardize the financial condition of a bank</li> </ul>	<ul style="list-style-type: none"> <li>• Develop &amp; formalize an internal CBI review process that effectively assesses the on-site &amp; off-site functions &amp; to addresses noted weaknesses</li> <li>• Conduct training:               <ul style="list-style-type: none"> <li>• Ethics &amp; professional behavior</li> <li>• Internal controls &amp; auditing</li> <li>• Proper oversight of non-banking activities</li> <li>• Commercial bank corporate governance</li> </ul> </li> <li>• Continue to enhance monthly <i>Regulatory Reports</i> <ul style="list-style-type: none"> <li>• Stages III &amp; IV of the <i>Regulatory Report Improvement Plan</i></li> </ul> </li> <li>• Develop &amp; implement objectives, procedures &amp; questionnaires detailing non-banking activities for the <b>Inspection Manual</b></li> <li>• Establish arrangements with functional regulators of non-bank activities</li> <li>• With regard to non-bank activities, the BSD needs to:               <ul style="list-style-type: none"> <li>• Identify what non-bank activities are currently being conducted by banks</li> <li>• Identify what potential non-bank activities are being considered by banks</li> <li>• Identify if there is regulatory oversight of current &amp; potential non-bank activities</li> <li>• Establish information sharing agreements with non-bank regulatory bodies</li> <li>• Develop supervisory procedures where there is inadequate regulatory authority</li> </ul> </li> <li>• Strengthen licensing policies &amp; procedures to ensure the BSD understands &amp; supervises the risks associated with licensing foreign entities &amp; how to limit these risks</li> <li>• Conduct training on policies &amp; procedures for licensing foreign entities</li> </ul>
<p><b>Continual Goals</b></p> <ul style="list-style-type: none"> <li>• Improve the BSD staff's knowledge of modern banking issues &amp; techniques, including international standards for accounting, auditing &amp; other financial practices</li> <li>• After issuing the new regulations, inspections using the new manual &amp; improved regulatory reports will help ensure compliance to prudential regulations &amp; legal requirements</li> <li>• Promote communication &amp; coordination among BSD divisions to share information &amp; develop comprehensive risk-based analysis of banks on individual &amp; aggregate basis</li> <li>• Improve BSD's understanding of banks' activities through enhanced inspection procedures &amp; monthly regulatory reporting &amp; increased communications between banks &amp; BSD</li> <li>• Training (formal &amp; informal) on BSD powers &amp; responsibilities under the new LB</li> <li>• Develop additional prudential standards as the need is identified</li> </ul>	
<p><b>Other</b></p> <ul style="list-style-type: none"> <li>• Iraqi accounting standards are not compliant to IFRS. The Iraqi accounting standards need to be revised and strengthened to become compliant with international standards.</li> <li>• Iraqi external audit profession needs enhanced to become compliant with international standards to ensure reliable audited financial information is published</li> </ul>	

## Supervisory Development Plan - SUMMARY

<b>Information Requirements</b>	
<b>Principle 21</b>	
<b>Short-term Goals (&lt;June 2006)</b>	<b>Long-term Goals (&gt;June 2006)</b>
<ul style="list-style-type: none"> <li>• Develop an <b>Inspection Manual</b> that will include procedures to review &amp; verify banks' financial records to ensure they are in compliance with IFRS &amp; the LB</li> <li>• Develop monthly regulatory reports that are in accord with IFRS guidelines, except those standards pertaining to consolidations</li> <li>• Implement loan loss provision guidelines developed by BSD</li> <li>• Conduct training on:                             <ul style="list-style-type: none"> <li>• Accounting &amp; legal issues to ensure BSD understands their role &amp; responsibilities</li> <li>• How to use the new Inspection Manual</li> <li>• Asset valuation &amp; proper loan loss provision procedures</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Develop additional <b>Inspection Manual</b> chapters that will include Internal Controls and Audit</li> <li>• Develop instruction manual for Regulatory Reports to provide clear &amp; concise directions on how to complete the IFRS compliant reports</li> <li>• Develop asset valuation rules &amp; guidelines to ensure banks are accurately, prudently &amp; consistently valuing their assets</li> <li>• Conduct training on:                             <ul style="list-style-type: none"> <li>• Internal controls &amp; audit (both internal &amp; external)</li> <li>• The role &amp; responsibilities of an external auditor</li> <li>• Ethics &amp; professional behavior</li> </ul> </li> </ul>
<p><b>Other</b></p> <ul style="list-style-type: none"> <li>• Iraqi accounting standards are not compliant to IFRS. The Iraqi accounting standards need to be revised and strengthened to become compliant with international standards</li> <li>• Iraqi external audit profession needs enhanced to become compliant with international standards to ensure reliable audited financial information is published</li> </ul>	
<b>Formal Powers of Supervisors</b>	
<b>Principle 22</b>	
<b>Short-term Goals (&lt;June 2006)</b>	<b>Long-term Goals (&gt;June 2006)</b>
<ul style="list-style-type: none"> <li>• Develop &amp; implement a <b>Progressive Enforcement Action Manual</b> <ul style="list-style-type: none"> <li>• Conduct training courses on procedures &amp; issues detailed in the manual</li> </ul> </li> <li>• Conduct training on enforcement measures will include penalties &amp; sanctions against banks &amp; their management &amp; directorate</li> </ul>	<ul style="list-style-type: none"> <li>• Enhance laws &amp; regulations to require supervisors to take specific &amp; timely corrective actions when a violation or an unsafe and/or unsound practice is identified</li> </ul>
<b>Continual Goals</b>	
<ul style="list-style-type: none"> <li>• Legal and regulatory training to ensure the BSD knows and understands their role, powers &amp; responsibilities under the new banking laws and regulations</li> </ul>	
<b>Cross-Border Banking</b>	
<b>Principles 23 - 25</b>	
<b>Short-term Goals (&lt;June 2006)</b>	<b>Long-term Goals (&gt;June 2006)</b>
<ul style="list-style-type: none"> <li>• MOUs need to be signed with foreign regulatory authorities to facilitate cross border information flows &amp; supervisory activities. The MOU should include:                             <ul style="list-style-type: none"> <li>• On-site access to local operations</li> <li>• A clause requiring CBI to give the home country supervisor timely notice of remedial actions to be taken</li> </ul> </li> <li>• Licensing &amp; applications training should include overseas activities procedures &amp; prohibitions</li> </ul>	<ul style="list-style-type: none"> <li>• Develop a manual to provide guidelines, policies &amp; inspection procedures for overseas operations and consolidated supervision</li> <li>• Enhance Regulatory Reports to capture activities of overseas operations</li> <li>• Training program should include supervision techniques for overseas operations</li> <li>• Develop guidelines &amp; procedures to assess the home country's practice of consolidated global supervision</li> <li>• Develop Licensing Procedural Manual that includes appropriate steps &amp; approvals needed for foreign banking activities in Iraq</li> <li>• Training program should include how to analyze a bank holding company's financial condition</li> </ul>

# Supervisory Development Plan

## Detail

**Note:** During the review of the Basel Core Principles for the *Supervisory Development Plan*, the Banking Regulations had been developed and approved by the CBI; however, they had not yet received final approval from the Ministry of Justice and been published in the Official Gazette. CBI management indicated that the Banking Regulations would be published within a few weeks and they were not anticipating any significant changes to the Regulations. Comments made during *Basel Core Principles Assessment* were prior to the start of the approval process.

Comments in Blue are from the Core Principles Assessment conducted in March 2005

Comments in Red are from the Supervisory Development Plan conducted in July 2005 and based on the Core Principles Assessment

ACRONYM Definitions			
<b>AC</b>	Additional Criteria	<b>FX</b>	Foreign Exchange
<b>AML</b>	Anti-Money Laundering	<b>IAS</b>	International Accounting Standards
<b>BOD</b>	Board of Directors	<b>IFRS</b>	International Financial Reporting Standards
<b>BR</b>	Banking Regulation	<b>IPS</b>	Interbank Payment System
<b>BSD</b>	Bank Supervision Department	<b>ISA</b>	International Standards for Auditors
<b>CAEL</b>	Capital Asset Quality Earning Liquidity	<b>IT</b>	Information Technology
<b>CAMEL</b>	Capital Asset Quality Mgmt Earning Liquidity	<b>IQD</b>	Iraqi Dinar
<b>CBI</b>	Central Bank of Iraq	<b>KYC</b>	Know Your Customer
<b>EC</b>	Essential Criteria	<b>LB</b>	Law on Banking
<b>FATF</b>	Financial Action Task Force	<b>LCBI</b>	Law on the Central Bank of Iraq
		<b>MIS</b>	Management Information System
		<b>MLRO</b>	Money Laundering Reporting Office
		<b>MOF</b>	Ministry of Finance
		<b>MOU</b>	Memorandum of Understanding
		<b>NYFED</b>	Federal Reserve Bank of New York
		<b>OCC</b>	Office of the Comptroller of the Currency
		<b>PCA</b>	Prompt Corrective Action
		<b>UST</b>	United States Treasury
		<b>VaR</b>	Value at Risk

## Supervisory Development Plan - DETAIL

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	

**Principle 1:** An effective system of banking supervision will have clear responsibilities and objectives for each agency involved in the supervision of banks. Each such agency should possess operational independence and adequate resources. A suitable legal framework for banking supervision is also necessary, including provisions relating to authorization of banking establishments and their ongoing supervision; powers to address compliance with laws as well as safety and soundness concerns; and legal protection for supervisors. Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place

1 (1): An effective system of banking supervision will have clear responsibilities and objectives for each agency involved in the supervision of banks.

<p>EC1. Laws are in place for banking, and for (each of) the agency (agencies) involved in banking supervision. The responsibilities and objectives of each of the agencies are clearly defined.</p>	<p><b>LCBI Article 4 (i)</b> -The functions of the CBI, as further described in this Law, shall be to issue licenses or permits to banks and to regulate and supervise banks as further specified in the Banking Law.</p> <p><b>LB Article 53</b> - The CBI shall supervise banks on a consolidated basis</p>		<p><b>2004</b> – CBI Responsibilities for supervision are only broadly defined in the draft CBI Law and the enacted LB. The LB dictates the review of documents, authority to request information, conduct on-site examinations, confidentiality requirements and reports examiners should submit to the CBI. The current focus of supervision work is upon checking compliance with laws rather than both a quantitative and qualitative assessment of an institution</p>	<p><b>2004 Recommendation:</b> A regulation should be developed which will specify the role of bank supervision which is to maintain the safety and soundness of the banking system and to protect the interests of depositors. A strategy and mission statement should be developed which will address all the weakness noted in this assessment. Within this statement should be a clear statement as to the responsibilities and objectives of bank supervision.</p>
			<p><b>2005</b> - The Banking law clearly defines that the CBI is the sole supervisor for banks</p>	<p><b>2005 Recommendation –</b> The banking laws &amp; regulations are in place which provide BSD the authority to conduct their supervisory duties; however, their knowledge of the laws &amp; willingness to use these powers need to be strengthened.</p> <p>Training is needed to enhance the BSD's knowledge &amp; readiness to implement the laws and regulations</p>

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EC2. The laws and/or supporting regulations provide a framework of minimum prudential standards that banks must meet.	<b>LB Article 29</b> - Each bank shall develop and maintain internal policies in the form of maximum and minimum ratios, exposure limits, risk-management standards, investment policies and other prudential ratios to be maintained by the bank concerning its assets, off-balance sheet items and various categories of capital and reserves. Such internal policies shall be consistent with regulations on prudential requirements issued by the CBI pursuant to paragraph (3) of this article.		<b>2004</b> – <i>The CBI has not revised the above regulations since the enactment of the new banking law. The 2% profit allocation to reserves is not always complied with and is not a proper method for establishing reserve adequacy, as the quality of assets is not taken into account.</i>	<b>2004 Recommendation</b> – <i>It is recommended that prudential standards be revised in light of the new banking law and the standards expanded. The regulations must also apply equally to both the state owned banks and the privately owned banks. It is recommended that all prudential regulations be included in one document to be issued by the CBI to the Banks. This document should specify the limits, the exact manner of calculation and the frequency.</i>
			<b>2005</b> – No comment made.	<b>2005 Recommendation</b> – <i>The law has established a minimum framework for prudential standards. Further refinement &amp; clarification for these standards is needed. For example, minimum loan loss reserve levels should be established for problem assets. In addition, enforcement of regulations are needed as well as examination procedures enhanced.</i>
EC 3. There is a defined mechanism for coordinating actions between agencies responsible for banking supervision, and evidence that it is used in practice.	<b>LB Article 54</b> - The CBI may exchange information with other financial supervisory authorities in Iraq and with banking supervisory authorities in other countries. The CBI may enter in MOU with supervisory authorities setting out the scope, procedures and further details for the exchange of information.		<b>2004</b> – <i>Rafidain Bank is the only domestic institution that had operations abroad. The Central Bank could not confirm whether an MOU was in place providing for sharing of information. Although it is reported that these offices are now closed, the CBI is currently in the process of reviewing applications for licenses from foreign entities.</i>	<b>2004 Recommendation:</b> <i>The CBI, once the foreign applications are approved, but before the banks or branches are permitted to open, should establish contact with the home country regulatory authorities. From this contact should be developed a Memorandum of Understanding between the CBI and the foreign regulatory body.</i>  <i>In addition, if information sharing is to occur with the MOF, it should be done under a Memorandum of Understanding specifying the type of information and frequency with which the information will be released.</i>

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			2005 – No comment made.	<b>2005 Recommendation –</b> Under the law, the CBI has sole responsibility for supervising the commercial banks; however, the MOF is the owner of the 6 state owned banks, accounting for approximately 90% of the Iraqi banking assets, and has interfered in the past with the CBI's oversight of these banks. An MOU needs to be established between the CBI and MOF. In addition, efforts need to continue to privatize these state owned banks.
EC 4. The supervisor participates in deciding when and how to effect the orderly resolution of a problem bank situation (which could include closure, or assisting in restructuring, or merger with a stronger institution).			<p><i>2004 – In the past, CBI Board members, the Ministry of Finance and the Ministry of Planning participated in the decision processes for problem banks. This has continued to be true with the MOF taking action against a bank manager for an overdraft. Although CPA Order #18 established the independence of the CBI, the CBI continues to struggle with interference from the Ministry of Finance.</i></p> <p><i>Furthermore, the CBI has not developed an appropriate strategy for managing problem situations.</i></p>	<p><b>2004 Recommendation:</b> The CBI should establish a problem bank policy that specifies the criteria to be utilized for determining problem bank status. The banking law specifies when a conservator can be approved for an institution; however, recognition of problem bank status should be decided much earlier. The policy should specify the actions, which will be taken, the authorities which will participate in the decision process, etc.</p>

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<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	<b>Basel 25 Core Principles Assessment</b>			<b>Improvement steps</b>
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			<p><b>2005 - Law on banking gives this power (Section 10: enforcement Measures and penalties, Article 56) However implementing regulations are not in place. Steps 1: CBI must issue regulations concerning resolution. Step 2: CBI must develop a systemic orderly, comprehensive &amp; consistent plan. Step 3: CBI must develop public information program on resolution process</b></p>	<p><b>2005 Recommendation – in addition to the steps noted in the Core Principle Assessment, a problem bank resolution manual should be developed to provide the BSD with adequate guidance on how to identify and react to emerging problems within a bank.</b></p>
EC 5. Banking laws are updated as necessary to ensure that they remain effective and relevant to changing industry and regulatory practices.			<p><i><b>2004 – Central Bank officials attempted to update the banking laws in the past; however, the Hussein regime would not permit this action. Currently, the CPA has backed the development of a new Central Bank Law and a Law on Banking. The latter was enacted September 2003 but the CBI law still remains unadopted. Although there have been considerable efforts made in the development of new laws, the CBI has been lagging in the implementation. Due to that fact, there are numerous Core Principle Essential Criteria which are not being fulfilled and efforts are not underway to achieve compliance.</b></i></p>	
			<p><b>2005 – No comment made.</b></p>	

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AC 1. The supervisory agency sets out objectives, and is subject to regular review of its performance against its responsibilities and objectives through a transparent reporting and assessment process.	<b>LBCI, Article 3:</b> The primary objectives of the CBI shall be to achieve and maintain domestic price stability and to foster and maintain a stable competitive market-based financial system.		<b>2004</b> – <i>The CBI has no history of a regular review of bank supervision performance. However, in discussions with the advisor to the Governor, it was noted that this is being considered. It is possible an Inspector General Office will be established with an internal audit section attached. This section would then audit the performance along with monitoring of performance to be done by the CBI Board of Directors.</i>	<b>2004 Recommendation:</b> <i>The CBI should establish an internal policy, which will describe when the reviews will be performed and the criteria to be utilized in the assessment.</i>
			<b>2005</b> – No comment made.	<b>2005 Recommendation –</b> The BSD needs to develop a year-long examination schedule where all commercial banks receive a full-scope examination.  The CBI needs to develop an internal review process to ensure the BSD is fulfilling its responsibilities and objectives.
AC 2. The supervisory agency ensures that information on the financial strength and performance of the industry under its jurisdiction is publicly available.			<b>2004</b> – <i>Little reliable banking or economic information has been made available to the public in the past or present.</i>	<b>2004 Recommendation:</b> <i>The CBI should rapidly develop and put in place a regulatory reporting regime, which will facilitate providing of information to the public. Once this is in place, the CBI should issue an annual report for the end of each year which will discuss macroeconomic policies, monetary policies, industry information for the banking sector, etc.</i>
			<b>2005</b> - CBI must develop plan for regular dissemination of aggregate systemic information. The recently implemented Monetary Survey will provide some of this information.	<b>2005 Recommendation –</b> Monthly regulatory reports are being enhanced and once they are implemented and data is validated, aggregate industry information will be available for dissemination. The first stage of the enhanced regulatory reports is scheduled to be implemented during 4Q05.

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1 (2): Each such agency should possess operational independence and adequate resources.				
	<p><b>LCBI Article 2 (2)</b> - The CBI shall be autonomous and accountable as provided for in this law. Except as otherwise specified in this law, the CBI shall not take instructions from any other person.</p>		<p><b>2004</b> – CPA Order #18 established the operational independence of the CBI. However, the Ministry of Finance continues to be involved in CBI matters.</p> <p>As to resources, Supervision continues to lack adequate facilities and equipment. The advisor to the Governor indicates that resources will be given to Supervision when the new regulations are in place and the CBI has been able to determine the volume of work that the department will perform.</p>	<p><b>2004 Recommendation:</b> Language within the Central Bank Law and the LB to reinforce the independence issue.</p> <p>It is also recommended that the laws specifically address the establishment of a budget and funding of the Supervision Department. It is only then that the Department will have adequate resources for the job to be done.</p>
			<p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – The status of the MOU and the BSD budget &amp; funding will be followed-up on.</p>
<p>EC 1. There is, in practice, no significant evidence of government or industry interference in the operational independence of each agency, and in each agency's ability to obtain and deploy the resources needed to carry out its mandate.</p>	<p><b>LCBI Article 2 (2)</b> - The autonomy of the CBI shall be respected and no person shall seek improperly to influence any member of a decision-making body of the CBI in the discharge of his duties towards the CBI or to interfere in the activities of the CBI.</p>		<p><b>2004</b> – In practice, the CBI is consulting with the MOF on all significant decisions.</p> <p>MOF Order #49 clearly interferes in the right of the CBI to make decisions on certain matters. MOF involvement in CBI affairs continues with efforts made by the CPA to reduce this influence.</p>	

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			<p><b>2005</b> - the CBI is independent however state owned banks dominate the financial system The MOF through its ownership can control or chose to ignore some aspects of supervision. Step 1: The government of Iraq should review the ownership and structure of the state owned banks with a view toward privatization</p>	<p><b>2005 Recommendation</b> – Continue training efforts to strengthen the BSD’s knowledge of their powers and duties under the new banking laws and regulations to ensure they assert their legally designated independence.</p> <p>An MOU between the CBI &amp; MOF should be established to eliminate ministerial interference regarding effective supervision of commercial banks.</p>
EC 2. The supervisory agency and its staff have credibility based on their professionalism and integrity.			<p><b>2004</b> – Senior Management within the CBI have also indicated staff do not have the requisite skills to supervise banks effectively. This matter is currently being studied within the CBI and arrangements will be made to hire new individuals with the necessary skills. In addition, there is a review underway to determine what skills are already present and can be enhanced.</p>	<p><b>2004 Recommendation</b> – In addition to the efforts of the CBI, advisors will develop and implement a training program, which will address the laws and regulations. It will also focus upon risk-based supervision. Assistance will also be provided in the development of inspection manuals. Given the lack of skills, an accreditation program will also be recommended which will provide basic instruction on all supervision, testing, job descriptions, salary recommendations, etc</p>
			<p><b>2005</b> –Comment: The banking community demonstrates little respect for the supervisory authority of the CBI. Step 1: CBI must train its supervisory staff in up to date practices and procedures. Step 2: CBI must ensue ethical and professional conduct through training and the establishment of standards of conduct. The supervisor is adequately funded for its independence.</p>	<p><b>2005 Recommendation</b> – To establish credibility, training efforts to date have included the role &amp; responsibilities of the BSD, accounting and credit risk. Training efforts will continue to strengthen the BSD’s banking knowledge as well as their ethical and professional obligations.</p> <p>An examiner certification program will be implemented after the series of introductory seminars to modern risk-based supervisory techniques have been taught.</p>

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<p>EC 3. Each agency is financed in a manner that does not undermine its autonomy or independence and permits it to conduct effective supervision and oversight. This includes, inter alia:</p>	<p><b>LB Article 11 (1)</b> – In order to cover part of its expenses associated with bank licensing and supervision, the CBI shall charge and collect an application fee on account of each application for a banking license or permit as well as a maintenance fee for each year that a banking license or permit is in effect.</p>	<p><b>BR: Section 11 - Fees</b></p>	<p><b>2004</b> – The question remains as to how supervision is funded. The department clearly lacks the facilities, appropriate staff, furniture and equipment to do its job. The advisor to the Governor stated this matter is currently under study and will be addressed.</p>	<p><b>2004 Recommendation</b> – There needs to be a stronger provision within the law which will specify the manner in which the budget for Supervision Department will be established and adhered to. This, or a regulation, will then ensure that funding is always available for the department to carry on its supervisory tasks.</p>
			<p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – There is no separate line item funding for the BSD in the CBI budget.</p>
<ul style="list-style-type: none"> <li>• salary scales that allow it to attract and retain qualified staff;</li> </ul>			<p><b>2005</b> – No comment made.</p>	<p>The CBI should establish a separate BSD budget to assure adequate funding and independence.</p>
<ul style="list-style-type: none"> <li>• the ability to hire outside experts to deal with special situations;</li> </ul>	<p><b>LB , Article 60-</b> Appointment of the conservator <b>AND Article 53, Paragraph 3</b> - for the appointment of 3rd parties for banking supervision activities.</p>		<p><b>2005</b> – No comment made.</p>	
<ul style="list-style-type: none"> <li>• a training budget and program that provides regular training opportunities for staff;</li> </ul>			<p><b>2005</b> – No comment made.</p>	
<ul style="list-style-type: none"> <li>• a budget for computers and other equipment sufficient to equip its staff with tools needed to review the banking industry; and</li> </ul>			<p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – During the first phase of the BSD project, computers &amp; other office equipment were provided. Additional computer training is needed to ensure that the BSD fully utilizes the equipment and automates their work where possible.</p>
<ul style="list-style-type: none"> <li>• a travel budget that allows appropriate on-site work.</li> </ul>			<p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – There is a nominal budget for on-site inspections. The BSD needs to ensure that an adequate travel budget is available to conduct their supervisory responsibilities.</p>

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AC 1. The head of each agency is appointed for a minimum term and can be removed from office during such term only for reasons specified in law.	<b>LCBI Article 13 (1)</b> - The Governor, the Deputy Governors and the other members of the Board shall be appointed by the Appointing Authority for a five-year term of office and may be re-appointed upon the recommendation of the Appointing Authority.		<b>2005</b> – No comment made.	<b>2005 Recommendation</b> – No recommendations for improvement needed at this time.
AC 2. Where the head of an agency is removed from office, the reasons must be publicly disclosed.	<b>LCBI Article 14 (4)</b> - Any decision on removal from office shall be made public along with a statement of the reasons for removal, and any written response received from the member concerned; and may be appealed to the Supreme Court of Justice within two months of service of the decision.		<b>2005</b> – No comment made.	<b>2005 Recommendation</b> – No recommendations for improvement needed at this time.
1 (3): A suitable legal framework for banking supervision is also necessary, including provisions relating to authorization of banking establishments and their ongoing supervision.				
EC 1. The law identifies the authority (or authorities) responsible for granting and withdrawing banking licenses.	<b>LCBI Article 16 (d)</b> - The Board shall issue licenses or permits.		<b>2005</b> - The law on Banking clearly defines licensing responsibility	<b>2005 Recommendation</b> – No recommendations for improvement needed at this time.
EC 2. The law empowers the supervisor to set prudential rules administratively (without changing laws).	<b>LCBI Article 16 (e)</b> - The Board shall adopt procedures for prudential regulations. <b>LB Article 104 (1)</b> – The CBI shall have the power to issue regulations, orders, guidance, and information to facilitate the implementation of this Law. Regulations, and any subsequent amendments thereof, shall be published in the Official Publication		<b>2004</b> – The law currently allows drafting of rules and therefore, these criteria is considered fully compliant from a technical standpoint. However, the CBI has not used this right.	
			<b>2005</b> – No comment made.	<b>2005 Recommendation</b> – The first set of implementing regulations have been developed & adopted. The BSD needs to develop additional prudential guidelines for several areas, including: loan loss reserves and liquidity guidelines.

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<p>EC 3. The law empowers the supervisor to require information from the banks in the form and frequency it deems necessary.</p>	<p><b>LCBI Article 41</b> – At the request of the CBI, banks and other entities supervised by the CBI shall provide the CBI with such information or data as the CBI determines necessary to follow foreign exchange, credit, deposit, money and capital markets; establish and publish monetary statistics; establish and publish balance of payment statistics; collect and compile financial data that reflect the risk positions of banks or any other entities supervised by the CBI; and compile financial statistics. <b>LB Article 53</b> – The CBI shall supervise banks on a consolidated basis...(2) and the CBI may request that banks, or any of its subsidiaries or affiliates, provide, and corroborate in writing when it deems necessary, any additional information, reports, documents, clarifications, or proof.</p>		<p><b>2004</b> – <i>Technically compliant because the law is in place permitting the CBI to obtain information. However, the information currently requested is insufficient for the proper supervision of the banking system, it is too limited.</i></p>	<p><b>2004 Recommendation:</b> <i>Regulatory reports need to be revised substantially to provide all of the information needed by Supervision to conduct effective offsite examination and also for the CBI to make informed macroeconomic and monetary policies.</i></p>
			<p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – <i>While the banking laws have established the CBI's ability to request any information they deem appropriate, the BSD continues to believe they must 'ask the commercial banks for permission' if they want additional information. Both formal and informal training efforts will be conducted to strengthen the BSD's knowledge of the laws and regulations and their rights and responsibilities under these laws and regulations.</i></p>
<p>1 (4): A suitable legal framework for banking supervision is also necessary, including ... powers to address compliance with laws as well as safety and soundness concerns.</p>				
<p>EC 1. The law enables the supervisor to address compliance with laws and the safety and soundness of the banks under its supervision.</p>	<p><b>LB Article 53 (3)</b> – Examinations shall review the operations of a bank to ascertain its financial position and the extent to which the bank complies with the provisions of laws and regulations regarding the management of its activities and adheres to internal policies.</p>		<p><b>2004</b> – <i>Previous law and the newly enacted banking law permit supervisors to address compliance. However, even though supervisors noted deficiencies, no effective actions were taken to correct. For example: loans exceeded the lending limit, which was in place. Enforcement powers have now been expanded. Although technically compliant with Basel, this rating of NC is given due to the practice of the institution.</i></p>	<p><b>2004 Recommendation</b> – <i>Compliance checks have been performed and now the CBI needs to utilize the full range of enforcement powers to achieve correction. A clear message needs to be sent to the banking community that all laws and regulations must be adhered to. This will become critical when the new regulations are put in place.</i></p>

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			<p><b>2005 – Step 1:</b> The CBI must issue guidelines to banks concerning what it constitutes as unsafe and unsound practices.</p>	<p><b>2005 Recommendation –</b> In addition to the step noted during the Basel Assessment, efforts to train the BSD in the new law and their role, powers and responsibilities will continue.</p> <p>The law does not include guidelines and/or definitions of safety and soundness issues.</p>
EC 2. The law permits the supervisor to apply qualitative judgment in forming this opinion.	See article 56 above		<p><b>2004 -</b> The new banking law does not specifically address the issue of qualitative judgment. LCBI Article 16(e) states the CBI Board shall adopt procedures for supervision of banks. The current procedures utilized by the CBI supervisors is a quantitative or checklist approach.</p>	<p><b>2004 Recommendation -</b> An inspection manual needs to be developed which will address quantitative analysis, qualitative analysis and safety and soundness issues.</p>
			<p><b>2005 –</b> No comment made.</p>	<p><b>2005 Recommendation –</b> An inspection manual, based on the CAMEL risk-rating system, will be developed to provide guidance to BSD on how to apply qualitative judgment to various situations. Training, based on the CAMEL system, will be coordinated with the manual's development.</p>
EC 3. The supervisor has unfettered access to banks' files in order to review compliance with internal rules and limits as well as external laws and regulations.	<p><b>LB Article 53 (1) &amp; (2) –</b> The CBI shall review the statements, documents, information, clarifications, and proof submitted by banks in the application of this law. In addition, the CBI may request that banks, or any of its</p>		<p><b>2004 –</b> Bankers are continuing to refuse access to certain information such as Board records and the capital plans that are being developed as these are considered business secrets.</p>	<p><b>2004 Recommendation –</b> Bank failure to provide any information should be dealt with swiftly by the CBI through the use of sanctions. Failure to provide information should result in an immediate written request for the data with a short deadline. If not met, the CBI should be informed and actions taken to obtain the information.</p>

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	subsidiaries or affiliates, provide, and corroborate in writing when it deems necessary, any additional information, reports, documents, clarifications, or proof.		2005 – No comment made.	2005 Recommendation – The BSD reports that banks refuse access to their files and that the BSD is hesitant to demand the access. BSD training will be done to improve their knowledge of the laws as well as their duties & responsibilities. An outreach program for the commercial banks is needed on the new banking laws and implementing regulations.
EC 4. When, in a supervisor's judgment, a bank is not complying with laws and regulations, or it is or is likely to be engaged in unsafe or unsound practices, the law empowers the supervisor to:			2004 - The previous law did not define prompt remedial action for violations other than money penalties. The new law lists the actions, which can be taken, but does not specifically define prompt.	2004 Recommendation - The CBI should adopt policies determining how the remedial actions will be performed. This will ensure transparency and fair and equitable treatment of different banks.
			2005 – No comment made.	2005 Recommendation – The PCA

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<ul style="list-style-type: none"> <li>take (and/or require a bank to take) prompt remedial action;</li> </ul>	<p><b>LB Article 56 (1)</b> – The CBI may take any measure or administrative penalty if the bank, an administrator of a bank or any person violates the provisions of the law or regulations or conducts unsafe or unsound banking operations.</p> <p><b>LB Article 56 (2)</b> – If any violations of paragraph (1) occur, the CBI may: send a written warning; give orders to the bank, request program to eliminate violation; request bank cease some operations, or bar it from distributing profits or dividends; impose any restriction on the granting of credit, require deposit with CBI without interest; request chairman convene directors to address violations, request bank suspend authorized individual, request bank remain chairman or any of the board members, impose administrative penalty, revoke the bank’s license or permit.</p>			manual will include financial triggers for implementing progressive enforcement action.
<ul style="list-style-type: none"> <li>impose a range of sanctions (including the revocation of the banking license).</li> </ul>	See article 56 above			
1 (5): A suitable legal framework for banking supervision is also necessary, including ... legal protection for supervisors.				
EC 1. The law provides legal protection to the supervisory agency and its staff against lawsuits for actions taken while discharging their duties in good faith.	<p><b>LCBI Article 23 (1)</b> – No member of the Board, employee or agent of the CBI shall be personally liable in damages for any act or omission taken in the discharge or purported discharge of official functions within the scope of their employment or engagement under this Law.</p> <p><b>LB Article 55 (1)</b> states no member of the board of CBI, employee, agent appointed to</p>		2005 – No comment made.	2005 Recommendation – No recommendations for improvement needed at this time.

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	carry out an examination, conservator or receiver shall be personally liable in discharge of official functions.			
EC 2. The supervisory agency and its staff are adequately protected against the costs of defending their actions while discharging their duties.	<b>LB Article 55 (2)</b> - The CBI indemnifies board members, employees, agents appointed to carry out an examination, conservator or receiver against any legal costs incurred in the defense against legal action.		<b>2005</b> – No comment made.	<b>2005 Recommendation</b> – No recommendations for improvement needed at this time.
1 (6): Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place.				
EC 1. There is a system of cooperation and information sharing between all domestic agencies with responsibility for the soundness of the financial system.	<b>LB Article 54 (1)</b> – The CBI may exchange information on supervisory matters, preferably based on a MOU, with financial supervisory authorities in Iraq and with banking supervisory authorities in other countries.		<b>2004</b> - The new law does not specifically address the sharing of information with agencies such as the Minister of Finance. It appears that considerable information is flowing through from the CBI to the MOF and no written understanding is in place.	<b>2004 Recommendation:</b> The CBI should establish written MOU's with other agencies with financial supervisory authority
			<b>2005</b> - The CBI must conclude interagency agreement with other ministries regarding interagency cooperation.	<b>2005 Recommendation</b> - The CBI should establish written MOU's with other agencies, such as the MOF, with financial supervisory authority.
EC 2. There is a system of cooperation and information sharing with foreign agencies that have supervisory responsibilities for banking operations of material interest to the domestic supervisor.	<b>LB Article 54 (1)</b> – The CBI may exchange information on supervisory matters, preferably based on a MOU, with financial supervisory authorities in Iraq and with banking supervisory authorities in other countries.		<b>2004</b> – The newly enacted banking law permits the exchange of information, therefore this element is fully compliant. The CBI's use of the law should occur soon given the possible establishment of foreign banks or branches in Iraq.	<b>2004 Recommendation</b> – Upon the approval of foreign license applications, the CBI should move to immediately contact the home country supervisory body and establish MOU's.
			<b>2005</b> - The CBI must conclude cross-border agreements with foreign supervisory agencies.	<b>2005 Recommendation</b> – Introductions & discussions have been facilitated between the CBI & regional central banks. The CBI will be encouraged to adopt the pending MOUs.

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EC 3. The supervisor:			<i>2004 – The law states the CBI shall restrict access to such information within the CBI to authorized employees. No policies exist that stipulate how this should be done.</i>	<i>2004 – Recommendation: The CBI should establish a policy concerning confidential information and what positions within the CBI will have access. This policy should specify that the supervisor: may provide confidential information to another financial sector supervisor; is required to take reasonable steps to ensure that any confidential information released to another supervisor will be treated as confidential by the receiving party; and is required to take reasonable steps to ensure that any confidential information released to another supervisor will be used only for supervisory purposes.</i>
<ul style="list-style-type: none"> <li>may provide confidential information to another financial sector supervisor;</li> </ul>	<b>LB Article 51</b> Exceptions regarding disclosure of confidential information		<b>2005 – No comment made.</b>	<b>2005 Recommendation – The CBI should develop a policy detailing the confidentiality requirements under the law. In addition, training will be done on BSD ethical standards and conduct.</b>
<ul style="list-style-type: none"> <li>is required to take reasonable steps to ensure that any confidential information released to another supervisor will be treated as confidential by the receiving party;</li> </ul>	<b>See LB Article 51 above.</b>			
<ul style="list-style-type: none"> <li>is required to take reasonable steps to ensure that any confidential information released to another supervisor will be used only for supervisory purposes.</li> </ul>	<b>See LB Article 51 above.</b>			
EC 4. The supervisor is able to deny any demand (other than a court order or mandate from a legislative body) for confidential information in its possession.	<b>LCBI Article 22 (1) (a)</b> – No person who serves as Governor, Deputy Governor, other member of the Board, or member of the staff, or as an agent or correspondent, of the CBI, shall permit access to, disclose or publicize nonpublic information which was obtained in the performance of official duties except when required to do so by		<i>2004 – The draft CBI Law specifically addresses the confidentiality of information and the nondisclosure unless required to do so. Actual practice is not known at the present time as there seems to be a flow of information directly to the Ministry of Finance. Efforts are underway to eliminate this deficiency.</i>	

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	any court of law, pursuant to paragraph (2), as necessary for the fulfillment of any duty or responsibility imposed by this Law, or the Banking Law		2005 – No comment made.	<b>2005 Recommendation –</b> While legally the free flow of confidential information is limited, further research should be done to ensure that the CBI knows, understands & follows this law.
<b>Principle 2:</b> The permissible activities of institutions that are licensed and subject to supervision as banks must be clearly defined, and the use of the word “bank” in names should be controlled as far as possible.				
EC 1. The term “bank” is clearly defined in law or regulations.	LB Article 1 - Defines “bank” as a person holding a license or permit under this law to engage in banking business and other banking activities. “Person” is defined as a natural person or a juridical person, or both. “Banking business” is defined as the business of receiving deposits of money or other repayable funds from the public for the purpose of making credits or investments for its own account.		2004 – The law passed following the UST comments and defines “bank” clearly (Section 1, Article 1)	
			2005 – No comment made.	<b>2005 Recommendation –</b> No recommendations for improvement needed at this time.
EC 2. The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined either by supervisors, or in laws or regulations.	LB Article 27 - Clearly defines banking activities as receiving money deposits, extending credits, buying and selling investments, entering into contingent commitments, etc.		2004 – The law (section 5, Article 27) cover permissible activities. However, there is no practical system in place within the BSD (licensing or supervision) to monitor or properly evaluate the permissibility of the activities.	2004 Recommendation – Training on the law and regulations will be needed, which will include banking activities. The CBI BSD will need to develop and implement a procedures manual and begin processing requests, as well as monitoring for and addressing any violations in this area.
			2005 - CBI must issue licensing regulations. (Licensing regulations began going through the CBI approval process subsequent to these comments.)	2005 Recommendation – Licensing regulations should be issued shortly. Training on the law and regulations will be needed, which will include banking activities. The BSD should develop and implement a procedures manual as well a system to monitor compliance with conditions of approval.  A review of prohibited activities should be conducted and regulations should be issued to clarify and strengthen the definition of these activities

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EC 3. The use of the word “bank” and any derivations such as “banking” in a name are limited to licensed and supervised institutions in all circumstances where the general public otherwise might be misled.	LB Article 3 - No one shall use the word “bank” without a banking license or permit issued by the CBI		2004 – The law addresses this issue (Section 1, Article 1). However, no systems for enforcement have been fully developed.	2004 Recommendation – The BSD will receive training on this issue and will then need to develop a supervision practice of monitoring for compliance.
			2005 – No comment made.	2005 Recommendation – Licensing regulations should be issued soon. Training on the law and regulations will be needed, which will include banking activities. The BSD should develop and implement a procedures manual as well a system to monitor compliance.
EC 4. The taking of proper bank deposits from the public is reserved for institutions that are licensed and subject to supervision.	LB Article 3 - No person in Iraq shall engage in banking business without a banking license or permit issued by the CBI, other than a person exempted by the CBI pursuant to paragraph (3) or paragraph (6). LB Article 27 - Clearly defines banking activities as receiving money deposits. LB Article 27 - A bank may engage in deposit taking subject to the terms and conditions of its banking license or permit.		2004 – While the licenses that are issued specify the conditions for deposit taking, the BSD has not demonstrated it has a process for reviewing this information.	2004 Recommendation – The BSD will receive training on this issue and will then need to develop a supervision practice of monitoring for compliance.
			2005 – No comment made.	2005 Recommendation – Licensing regulations should be issued soon. Training on the law and regulations will be needed, which will include banking activities. The BSD should develop and implement a procedures manual as well a system to monitor compliance.
<b>Principle 3:</b> The licensing authority must have the right to set criteria and reject applications for establishments that do not meet the standards set. The licensing process, at a minimum, should consist of an assessment of the banking organization’s ownership structure, directors and senior management, its operating plan and internal controls, and its projected financial condition, including its capital base; where the proposed owner or parent organization is a foreign bank, the prior consent of its home country supervisor should be obtained.				
EC 1. The licensing authority has the right to set criteria for licensing banks. These may be based on criteria set in law or regulation.	LB Article 8 (6) - The license or permit shall be granted if the CBI is satisfied as to (1) validity of documents, (2) financial status and history of applicant, (3) administrators as fit and proper persons, (4) owners as fit and proper persons, (5) soundness of proposed operations, (6) viability of business plan, (7) applicants intention to maintain address in Iraq, (8) and foreign applicants receive prudential supervision by foreign supervisory authority.	BR: Section 8.1 – Granting Licenses or Permits	2004 – The law (8.6) and draft regulations (8.1 to 8.3) fully address these requirements. However, the Licensing Department is not practicing this process in sufficient detail. They perform some limited analysis, but are not independent in the decision making process. They are more analytical, with a clerical slant in their efforts. The MOF is significantly influencing decisions.	2004 Recommendation: The regulations should be approved and implemented within 30 days. Training will need to be provided to the Iraqi licensing staff on this requirement. The BSD will be encouraged to develop a manual.

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			<p><b>2005 - CBI needs to set out licensing regulations.</b> (Licensing regulations began going through the CBI approval process subsequent to these comments.)</p>	<p><b>2005 Recommendation –</b> Licensing regulations should be issued soon. Training on the law and regulations will be needed, which will include banking activities. The BSD should develop and implement a procedures manual as well as a system to monitor compliance.</p>
EC 2. The criteria for issuing licenses are consistent with those applied in ongoing supervision.		<p><b>BR Section 6 –</b> Permit Application for a Branch <b>BR Section 7 –</b> Permit Application for a Representative Office <b>BR Section 8 –</b> Granting of License or Permit <b>BR Section 9 –</b> Additional Offices</p>	<p><b>2004 –</b> The laws for supervision and draft regulations will provide for criteria consistent between licensing and supervision. However, the BSD has not developed licensing review practices consistent with the new supervisory requirements</p>	<p><b>2004 Recommendation –</b> The draft regulations are pending final approval. Yet, dissemination, training and development of need to be completed.</p>
			<p><b>2005 –</b> No comment made.</p>	<p><b>2005 Recommendation –</b> The criteria for issuing licenses are consistent. Training needs to be conducted on the new regulations. In addition, a monitoring system needs to be developed to monitor the banks' compliance to licensing criteria.</p>
EC 3. The licensing authority has the right to reject applications if the criteria are not fulfilled or if the information provided is inadequate.	<p><b>LB Article 8 (5) -</b> The application shall be rejected if the CBI is not satisfied that the conditions for issuing such license or permit are fulfilled. The CBI shall publish by regulation, standards that it will apply in evaluating applications.</p>	<p><b>BR Section 9.4, 9.5 &amp; 9.8 –</b> Additional Offices</p>	<p><b>2004 –</b> Practice has the Ministry of Finance involved in the process.</p>	<p><b>2004 Recommendation –</b> We may want to include "if in the judgment of the CBI, the approval of the resulting bank would be inconsistent with a safe and sound banking system" to provide a "catchall" for subjective rejection of applications. We also need to address the question: "Where does the supervisory recommendation fall in the rejection process?"</p>
			<p><b>2005 -</b> While the law is clear this has not been tested in practice.</p>	<p><b>2005 Recommendation –</b> The law does not include guidelines and/or definitions of safety and soundness issues that should also be included in the BSD's judgment.</p> <p>The Licensing Procedural Manual should be developed and allow for subjective BSD judgment on unsafe and unsound banking practices.</p>

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<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
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EC 4. The licensing authority determines that the proposed legal and managerial structures of the bank will not hinder effective supervision.	<b>LB Article 5 (2) (a)</b> - For a company established in the form of a juridical person the application shall include an authenticated copy of the instrument under which the applicant is formed, together with the memorandum of association or bylaws, if any, and the address of its head office.	<b>BR Section 9 0 – Additional Offices</b>	<b>2004</b> – The new law is adequate. However, the training and implementation of the law by the BSD is not sufficient.	<b>2004 Recommendation</b> – Dissemination, training and development of internal processes to implement them have not been completed. The BSD will need to address this after receiving the training with support from CPA and BP
			<b>2005</b> – See above EC 3 comment.	<b>2005 Recommendation</b> – A qualified legal opinion should be included in the approval process indicating that the proposed legal & managerial structure will not impede effective supervision.
EC 5. The licensing authority determines the suitability of major shareholders, transparency of ownership structure and source of initial capital.	<b>LB Article 8 (6) (d)</b> - Identity and character of the owners as fit and proper persons is required, in particular persons with qualifying holdings. <b>LB Article 8 (4)</b> - Before it approves an application for a banking license or permit, the CBI shall carry out financial, criminal, personal and professional background checks of owners of qualifying holdings in the proposed bank and administrators of the proposed bank for which the application is pending.		<b>2004</b> – The law and proposed regulations adequately address this principle. However, the practices have not been developed to support the new approach.	<b>2004 Recommendation</b> – We are discussing the proposed regulations (8.1 to 8.3) within the CPA, NYFED, and US Treasury, and training will be provided to the BSD for incorporation into the analytical and decision making process.
			<b>2005</b> – The CBI must regulate and closely supervise issues concerning sources of capital.	<b>2005 Recommendation</b> – Steps should be taken to ensure that the licensing staff is included in any training on Anti-Money Laundering and suspicious sources of funds that is being conducted by international agencies.
EC 6. A minimum initial capital amount is stipulated for all banks.	<b>LB Article 14 (1)</b> - Capital of a domestic bank shall be specified in dinars. A bank shall at all times maintain minimum paid-up capital that is not less than 10 billion dinars or such higher amount as may be established		<b>2004</b> – The initial capital is clearly defined within international requirements. However, there is an “adjustment period” during which the banks will not meet this requirement.	<b>2004 Recommendation</b> – The banks must comply with the initial capital requirements, which are acceptable under the new law, within 18 months.

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	by the CBI. Existing banks must reach this capital within 18 months of the effective date of the law. <b>LB Article 4 (1)</b> - The subsidiary of foreign owned banks shall be required to have 50 billion dinars of capital.		<b>2005</b> – No comment made.	<b>2005 Recommendation</b> - The new capital requirements have been issued and BSD estimates all but 3 or 4 banks will comply. The BSD is concerned about what to do with these non-compliant banks. Additional training will be needed on the BSD powers detailed in the LB.  A Progressive Enforcement Action Manual will be developed to provide further guidance on what to do when minimum prudential standards are not met.
EC 7. The licensing authority evaluates proposed directors and senior management as to expertise and integrity (fit and proper test). The fit and proper criteria include:	<b>LB Article 5 (2) (c)</b> - Requires submission of name, nationality, etc. of every administrator, together with a statement detailing the qualifications and professional experience and at least three references for each. <b>LB Article 8 (6) (c)</b> - Character and professional experience of the administrators as fit and proper persons is required.	<b>BR Section 8.1 – Granting of Licenses and Permits</b>	<b>2004</b> – The law and proposed regulations (8.1 to 8.3) meet the requirements. However, the BSD needs to be trained on this process.	<b>2004 Recommendation</b> Training will need to be provided on Licensing matters, to include this item.
			<b>2005</b> – No comment made.	<b>2005 Recommendation</b> – Formal and informal training sessions will be held with the BSD Licensing Division on their powers and responsibilities under the new laws and regulations.
			<b>2005</b> – The law states fit and proper but this is not tested.	
(1) skills and experience in relevant financial operations commensurate with the intended activities of the bank and			<b>2005</b> – see above	
(2) no record of criminal activities or adverse regulatory judgments that make a person unfit to uphold important positions in a bank.				
EC 8. The licensing authority reviews the proposed strategic and operating plans of the bank. This includes determining that an appropriate system of corporate governance will be in place.	<b>LB Article 5 (2) (g)</b> states an application will include: "...a business plan setting out the business objectives and types of activities envisaged for the proposed bank, including a description of its organizational structure and internal control systems (including adequate measures to counter money-	<b>BR Section 8 – Granting Licenses &amp; Permits</b> <b>BR Section 9 – Additional Offices</b>	<b>2004</b> – The law and proposed regulations meet the requirements. However, the BSD needs to be trained on this process.	<b>2004 Recommendation</b> – Training will need to be provided on Licensing matters to include this item.

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	laundrying and terrorist financing) together with projected balance sheets, profit and loss accounts and cash flow statements for the next three full financial years. <b>Proposed Regulations: 8.1</b> – The CBI shall approve an application filed by a foreign bank under Article 6 or Article 7 and grant a permit on being satisfied regarding:...(f) the viability of the business plan;...”		2005 – Further accounting study is necessary.	<b>2005 Recommendation – BSD</b> accounting skills have been strengthened; however, further accounting & financial analytical training will be provided. This fall an Asset/Liability Management course will be offered to 50 staff. In December, a class on how to analyze a bank will be offered to 25 to 30 staff. Additional training will be offered as needed, including what is an appropriate system of corporate governance.
EC 9. The operational structure is required to include, inter alia, adequate operational policies and procedures, internal control procedures and appropriate oversight of the bank’s various activities. The operational structure is required to reflect the scope and degree of sophistication of the proposed activities of the bank.	<b>LB Article 8 (6) (e)</b> - Requires adequacy of the staffing, operational and financial resources and capital structure of the proposed bank to cover all obligations and liabilities incurred in the conduct of the proposed banking activities.	<b>BR Section 8 (d) – Granting Licenses</b>	2004 – The law and proposed regulations meet the requirements. The licensing department is attempting to evaluate this information but needs further training to do so effectively.	<b>2004 Recommendation – Training</b> will need to be provided on Licensing matters to include this item. Following the training, it will take time and experience to reach full compliance with this item. In the meantime international advisors are being consulted.
			2005 – CBI regulations / guidelines must be established for policies.	<b>2005 Recommendation – An inspection manual</b> is currently being developed that covers many of these same issues. These relevant sections will be included in a licensing manual in the future.
EC 10. The licensing authority reviews pro forma financial statements and projections for the proposed bank. This includes an assessment of the adequacy of the financial strength to support the proposed strategic plan as well as financial information on the principal shareholders of the bank.	<b>LB Article 5 (2) (g)</b> -Requires a business plan setting objectives and types of activities, including organizational structure and internal control systems, together with projected balance sheets, profit and loss accounts and cash flow statements for the next three full financial years. <b>LB Article 8 (6) (g)</b> - Requires a viable business plan.	<b>BR Section 9.1 (c) – Additional Offices</b>	2004 – The law and proposed regulations meet the requirements. The licensing department is attempting to evaluate this information but needs further training to do so effectively.	<b>2004 Recommendation – Training</b> will need to be provided on Licensing matters to include this item. Following the training, it will take time and experience to reach full compliance with this item. In the meantime international advisors are being consulted.
			2005 – This must be tested in practice.	<b>2005 Recommendation – BSD</b> accounting skills have been strengthened; however, further accounting & financial analytical training will be provided. This fall an Asset/Liability Management course will be offered to 50 staff. In December, a class on how to analyze a bank will be offered to 25 to 30 staff. Additional training will be offered as needed, including what are pro forma statements and how they should be analyzed.

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EC 11. If the licensing authority and the supervisory authority are not the same, the supervisor has the legal right to have its views considered on each specific application.		BR Section 8 – Granting Licenses or Permits BR Section 8.4 – ‘CBI shall seek views of supervisory staff...’	2004 – The bank supervision department’s onsite and offsite examiners should be given the opportunity to comment on applications.	2004 Recommendation – CPA is recommending an addition to the regulations requiring the examination staff to comment on licensing applications.
			2005 – n/a	2005 Recommendation – n/a
EC 12. In the case of foreign banks establishing a branch or subsidiary, prior consent (or a statement of “no objection”) of the home country supervisor is obtained.	LB Articles 5 (2) (n) - In any case where the applicant is a subsidiary of a foreign bank or bank holding company a statement is required that the foreign supervisory authority has no objection to the proposed establishment of operations in Iraq, and exercises global consolidated banking supervision over the applicant.	BR Section 8.1 (h) – Granting Licenses or Permits	2004 – The law and proposed regulations address this issue, but the practices are not fully implemented at this time.	2004 Recommendation – Training will need to be provided on this matter.
			2005 – This is evidenced in practice.	2005 Recommendation - None
EC 13. If the licensing, or supervisory, authority determines that the license was knowingly based on false information, the license can be revoked.	LB Article 13 (1) - A license or permit may be revoked if the license or permit has been obtained on the grounds of fraudulent statements or other material irregularities that occurred in connection with the application.		2004 – The law provides for this principle, but again the practices are not yet in line with the law.	2004 Recommendation – Training will need to be provided on the new law
			2005 – While the law gives the CBI the power, this has not yet been tested.	2005 Recommendation – Relationships with the Ministry of Interior & international police organizations would be useful to ensure exchange of information regarding officers and management of banks.
AC 1. The assessment of the application includes the ability of the shareholders to supply additional financial support, if needed.	LB Article 5 (2) (g) - Applications shall include copies of the latest three audited annual financial statements, including balance sheets and profit and loss accounts of the applicant, if applicable. LB Article 5 (2) (j) - Applications shall include for the		2004 – The law covers the principles outlined in Basel. However, practices are not yet fully aligned with the law	2004 Recommendation – Training will need to be provided on the new law.

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	applicant and for each owner of a qualifying holding, including the ultimate beneficial owner of such qualifying holding, a list of participations exist, specifying the size of such participations and the registered addresses of those undertakings.		<b>2005</b> – Shareholder F/S are required for significant shareholders.	<b>2005 Recommendation</b> – Training will continue on accounting and financial analysis.
AC 2. At least one of the directors must have a sound knowledge of each of the types of financial activities the bank intends to pursue.	<b>LB Article 18 (1)</b> - The board of directors shall appoint one of its members as the authorized manager of the bank. <b>LB Article 18 (4) (b)</b> - Specifies that an authorized manager must possess the banking competence and expertise required for the conduct of banking operations.		<b>2004</b> – The law and proposed regulations satisfactorily address this principle. Practices, while improving, are not in line with the requirements	<b>2004 Recommendation</b> – Training will need to be provided on the new law.
			<b>2005</b> – This is required by law.	<b>2005 Recommendation</b> – The CBI approval process should ensure compliance with this criteria.
AC 3. The licensing authority has procedures in place to monitor the progress of new entrants in meeting their business and strategic goals, and to determine that supervisory requirements outlined in the license approval are being met.	<b>LB Article 5 (2) (l)</b> - The application shall include such other information as the CBI may require for the purpose of the application.		<b>2004</b> – The law and proposed regulations satisfactorily address this principle. Practices, while improving, do not indicate BSD staff feels confident enough to assert their requirements under this statute.	<b>2004 Recommendation</b> – Training will need to be provided on the new law.
			<b>2005</b> – This is not evidenced in practice.	<b>2005 Recommendation</b> – Monthly regulatory reports are being enhanced. Training on accounting and financial analysis will continue. A licensing procedures manual & a system to monitor for compliance needs to be developed and implemented.
<b>Principle 4:</b> Banking supervisors must have the authority to review and reject any proposals to transfer significant ownership or controlling interests in existing banks to other parties.				
EC 1. Law or regulation contains a clear definition of “significant” ownership.	<b>LB Article 1</b> - Defines “qualifying holding” as a direct or indirect holding alone, or through or in concert with other persons in an		<b>2004</b> – The new law provides for a clear definition of significant holdings. In this case, it is 10% or more	

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	undertaking which represents 10% or more of the capital or voting rights or which makes it possible to exercise significant influence of the management of the undertaking in which the holding exists.		2005 – No comment made	<p><b>2005 Recommendation</b> – While the law clearly &amp; adequately defines significant ownership, how this is documented and tracked by BSD should be reviewed and recommendations made for improvement if needed.</p> <p>A standardized 'change in control' application form should be developed for the BSD Licensing Division.</p>
EC 2. There are requirements to obtain supervisory approval or provide immediate notification of proposed changes that would result in a change in ownership or the exercise of voting rights over a particular threshold or change in controlling interest.	<p><b>LB Article 22 (1)</b> - Any person, acting directly or indirectly or through or in concert with other persons, who proposes to acquire a qualifying holding in the bank, shall obtain prior approval of the CBI and shall give at least 90 days prior notice to the CBI. <b>LB Article 22(4)</b> states that any person intending to increase an existing qualifying holding in a bank in a manner that would reach or exceed a threshold of 20%, 33%, or 50% of the bank's capital or the voting rights, respectively, shall give at least 30 days prior notice to the CBI.</p>	<p><b>BR Section 22 – Changes of Ownership &amp; Acquisition of Qualifying Holdings in a Bank.</b> <b>BR Section 22 (a) – Special issues arising from tiered foreign bank ownership structure</b></p>	<p><b>2004</b> – The new banking law successfully addresses the issue of supervisory approval and notice for change in control. However, the practices are not in line with the new law</p>	<p><b>2004 Recommendation</b> – Training will need to be provided on the new law.</p>
			<p><b>2005 - Article 22, Section - Management of a bank - Any Person acting directly or indirectly or through or in concert with other persons, who proposes to acquire a qualifying holding in a bank, shall obtain prior approval of the CBI and shall give at least 90 days prior notice to the CBI.</b></p>	<p><b>2005 Recommendation</b> – The law provides adequate direction on when supervisory approval is needed. A review of BSD policy and procedures will be conducted to ensure they are in line with the law. Recommendations will be made for improvement if needed.</p> <p>A standardized 'change in control' application form should be developed for the BSD Licensing Division.</p>
EC 3. The supervisor has the authority to reject any proposal for a change in significant ownership or controlling interest, or prevent the exercise of voting rights in respect of such investments, if they do not meet criteria comparable to those used for approving new banks.	<p><b>LB Article 22 (3)</b> - CBI shall not approve a proposed acquisition if it would substantially lessen competition, jeopardize the financial soundness of the bank or endanger the interests of the bank's depositors.</p>		<p><b>2004</b> – The law is clear. However, there are current Iraqi driven initiatives underway that involve the Ministry of Finance in this process. The independence needs to be certain as demonstrated through practice and in compliance with the law.</p>	<p><b>2004 Recommendation</b> – CPA initiatives are underway to clarify the independence of the CBI. Also, training will need to be provided on the new law.</p>

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			<p><b>2005 - Article 22, Section:</b> Management of a bank. The CBI shall assess the expected effects on the financial soundness of the bank and satisfy itself as to the identity and character of the proposed owners, in particular owners of a qualifying holding. The CBI shall not approve a proposed acquisition referred to in p4, e2 if it would substantially lesson competition, jeopardize the financial soundness of the bank or endanger the interests of the banks depositors.</p>	<p><b>2005 Recommendation –</b> The laws and regulations provides adequate direction on this issue. A review of BSD policy and procedures will be conducted to ensure they are in line with the law. Recommendations will be made for improvement if needed.</p>
<p>AC 1. Supervisors obtain from banks, either through periodic reporting or on-site examinations, the names and holdings of all significant shareholders, including, if possible, the identities of beneficial owners of shares being held by custodians.</p>	<p><b>LB Article 106 (3)</b> – Every bank that, on the date that this Law enters into effect, carries a banking license or permit shall provide the CBI with a list of shareholders as described in paragraph (2), sub-paragraph (e) of Article 5, and for each owner of a qualifying holdings, including the ultimate beneficial owner of such qualifying holding, the information and an affidavit as described in paragraph (2), sub-paragraphs (d), (f) and (j) of Article 5, and such other information on their owners, in particular owners of qualifying holding, as requested by the CBI, within one year of the law's entry into force.</p>		<p><b>2004 –</b> The new law addresses the requirement for the banks to comply. However, the BSD of the CBI needs to be trained and begin examining for this reporting.</p>	<p><b>2004 Recommendation –</b> Training will need to be provided on the new law.</p>
			<p><b>2005 - 1-</b> CBI must write a regulation requiring reporting. <b>2-</b> Supervisors must review bank shareholder records on-site to determine compliance.</p>	<p><b>2005 Recommendation –</b> BSD policies and procedures will be reviewed and enhanced to ensure compliance where needed. In addition, monthly regulatory reports and the CAMEL-based Inspection manual procedures will be developed to address this issue.</p> <p>In addition, CBI could build a shareholder and principal data base to facilitate compliance</p>

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**Principle 5:** Banking supervisors must have the authority to establish criteria for reviewing major acquisitions or investments by a bank and ensuring that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.

EC 1. Laws or regulations clearly define what types and amounts (absolute and/or in relation to a bank's capital) of acquisitions and investments need supervisory approval.	<b>LB Article 27 (1) (c)</b> - The bank may buy and sell money market instruments (including checks, bills of exchange, promissory notes and certificates of deposit); foreign currencies and precious metals; exchange and interest rate instruments; stocks and other transferable securities, forward contracts, swap agreements, futures, options, and other derivatives. <b>LB</b>	<b>BR Section – Subsidiaries &amp; Equity</b>	<b>2004</b> – The new law defines and discusses the types and amounts of investments that banks are permitted and CPA is working with the CBI to produce regulations further clarifying these requirements. While progress is being made, training and significant onsite training of the BSD may be required to fully implement the changes.	<b>2004 Recommendation</b> – Training will need to be provided on the new law. In addition, significant onsite training of the BSD may be required to fully implement the changes and ensure the practices are in line with the legal requirements.
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Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
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	<p><b>Article 33 (1)</b> - Prohibits without the CBI's approval the investment in stocks, shares, or equity-linked bonds of any undertaking in an amount that exceeds 20% of the bank's unimpaired capital and reserves.</p> <p><b>LB Article 33 (2)</b> -Prohibits investment in real estate other than that needed for conducting banking business. <b>LB Article 33 (3)</b> - Prohibits acquisition of a participation in another bank or financial institution without first obtaining CBI prior written approval. <b>LB Article 33 (4)</b> - Prohibits possessing shares in other banks or financial institutions without the CBI's prior approval. <b>LB Article 33 (5)</b> - Prohibits any bank without first obtaining the CBI's prior written approval to acquire stock or shares in a company established outside Iraq. <b>LB Article 36</b> – No bank may purchase its own shares without prior approval of the CBI.</p>		<p><b>2005</b> – While some categories are established, value limitations are not provided in all cases.</p>	<p><b>2005 Recommendation</b> – The initial laws and regulations provide adequate guidance on the investment and acquisition types and amounts that need regulatory approval. Training is needed in these areas to ensure compliance with these laws and regulations. Manuals under development need to include these investment and acquisition guidelines.</p> <p>Additional laws and regulations, along with supporting training, policies and procedures, can be developed as new types of investments and acquisitions are introduced to the Iraqi marketplace.</p> <p>A standardized 'major acquisition form should be developed for acquisitions and investments that exceed 20% of the bank's capital and reserves.</p>
EC 2. Laws or regulations provide criteria by which to judge individual proposals.	<p><b>LB Article 8 (6)</b> – The CCBI shall grant a license or permit on being satisfied regarding: (a) the validity of the documents submitted pursuant to Article 5 or Article 6, as applicable; (b) the financial status and history of the applicant; (c) the character and professional experience of the administrators as fit and proper persons; (d) the identify and character of the owners as fit and</p>		<p><b>2004</b> – The existing law addresses the criteria that should be considered in judging proposals. However, the regulations are still being drafted, and practices are not in line with the new law yet.</p>	<p><b>2004 Recommendation</b> – The draft regulations need to be complete, approved and implemented. Training will need to be provided on these regulations and the new law.</p>

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	proper persons, in particular persons with qualifying holdings; (e) the adequacy of staffing, operational, and financial resources and capital structure of the proposed bank to cover all obligations and liabilities incurred in the conduct of the proposed banking activities to be authorized under the license or permit; (f) the soundness of the proposed operations; (g) the viability of the business plan; (h) the applicant's intention to maintain a physical presence at a fixed address in Iraq; and, (i) in any case where the applicant is a subsidiary of a foreign bank or bank holding company or concerning the permit for a branch of a foreign bank or bank holding company or concerning the permit for a branch of a foreign bank, that an adequate level of prudential supervision is exercised on a consolidated basis by the relevant foreign supervisory authority.		<b>2005 – CBI must establish regulations regarding individual proposals.</b>	<b>2005 Recommendation – The laws and regulations should be refined to ensure all major acquisitions and equity investments applications be submitted to the BSD Licensing Division for review and approval.</b>  In addition, policies, procedures and forms based on the banking laws and regulations, need to be developed to provide guidance to the Licensing Division.
EC 3. Consistent with the licensing requirements, among the objective criteria that the supervisor uses is that any new acquisitions and investments do not expose the bank to undue risks or hinder effective supervision. The supervisor determines that the bank has, from the	<b>LB Article 23 (2)</b> – Any bank which intends to engage in any merger, consolidation, acquisition or assumption of liability under paragraph (1) shall give at least 90 days notice to the CBI, and provide...such		<b>2004 – The existing law addresses the criteria that should be considered in judging proposals. However, the regulations are still being drafted, and practices are not in line with the new law yet.</b>	<b>2004 Recommendation – The draft regulations need to be completed, approved and implemented. Training will be needed on these regulations and the new law.</b>

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outset, adequate financial and organizational resources to handle the acquisition/investment.	information as the CBI may require; (3) The CBI shall assess the financial and managerial resources and future prospects of the existing and proposed bank, and shall not approve the proposal unless the bank to result from the transaction would satisfy all criteria were it seeking to be licensed as a new bank. The CBI shall not approve a proposed transaction referred to in paragraph (2), which would substantially lessen competition.		<b>2005 – This practice has not been tested.</b>	<p><b>2005 Recommendation –</b> To ensure the BSD has the technical skills to adequately review and judge applications, three accounting courses have been offered to the BSD. Further accounting and financial analytical training will be provided. In December, a class on how to analyze a bank will be offered to 25 to 30 staff. Additional training will be offered as needed.</p> <p>Additional training, focused on risk-based supervision techniques, will be taught to aid the BSD in their risk-based assessment of new acquisitions &amp; investments.</p>
EC 4. Laws or regulations clearly define for which cases notification after the acquisition or investment is sufficient. Such cases should primarily refer to activities closely related to banking and the investment being small relative to the bank's capital.	<b>LB Article 33 (1)</b> – It shall be prohibited for any bank...to invest in the stock shares, or equity linked bonds of any undertaking in an amount that exceeds 20% of the bank's unimpaired capital and reserves.	<b>BR Section 27 (3) – Subsidiaries and Equity</b>	<b>2004 –</b> The existing law addresses the criteria that should be considered in judging proposals. However, the regulations are still being drafted, and practices are not in line with the new law yet.	<b>2004 Recommendation –</b> The draft regulations need to be completed, approved and implemented. Training will need to be provided on these regulations and the new law.
			<b>2005 –</b> n/a	<p><b>2005 Recommendation –</b> There are no laws and/or regulations that define which cases require notification after the acquisitions or investment has occurred, unless it exceeds 20% of capital.</p> <p>Further regulatory guidance is needed.</p>
<b>Principle 6:</b> Banking supervisors must set minimum capital adequacy requirements for banks that reflect the risks that the bank undertakes, and must define the components of capital, bearing in mind its ability to absorb losses. For internationally active banks, these requirements must not be less than those established in the Basel Capital Accord.				
EC 1. Laws or regulations require all banks to calculate and consistently maintain a minimum capital adequacy ratio. At least for internationally active banks, the definition of capital, method of calculation and the ratio required are not lower than those established in the Basel Capital Accord.	<b>LB Article 16 (1)</b> -Each bank is required to maintain capital and reserves equivalent to 12% of total assets whereby not less than one-half of such capital shall consist of core capital. <b>LB Article 16 (2)</b> - The amount of any holding of capital in another bank or financial institution shall be deducted from the bank's		<b>2005 –</b> The CBI must issue regulations concerning the calculation of capital including the definition of capital elements.	<p><b>2005 Recommendation –</b> The new banking regulations detail the minimum capital adequacy requirements, including definitions, ratios and calculations. Training, both to the BSD and the commercial banks, will be needed to ensure the new capital requirements are understood and followed.</p> <p>When Iraqi banks become more</p>

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	capital for purposes of calculating the ratio pursuant to paragraph (1) <b>LB Article 16 (3)</b> – The CBI shall specify by regulation principles for establishing and holding a bank's paid-up minimum capital. <b>LB Article 106 (4)</b> – The capital requirements of Article 14(1) and Article 16 shall not apply through December 31, 2005 for every bank that, on that date that this law enters into effect, carries a banking license or permit by the CBI and which has obtained CBI's approval of a plan and timetable detailing the proposed increase of its capital by December 31, 2005.			internationally active and start using sophisticated financial products, the capital requirements will need to be enhanced to reflect the additional Basel II requirements.
EC 2. The required capital ratio reflects the risk profile of individual banks, in particular credit risk and market risk. Both on-balance-sheet and off-balance-sheet risks are included.	<b>LB Article 16(1)</b> - Requires capital to be at least 12% of total assets determined on a risk-adjusted basis.	<b>BR Appendix B – Summary of Risk Weights &amp; Risk Categories</b> <b>BR Appendix C – Credit Conversion Factors for Off Balance Sheet Items</b>	<b>2004</b> – Current capital level of Iraq's state-owned banks (93% of total Iraq banking assets) is 2.1%.	<b>2004 Recommendation:</b> The CBI should draft a regulation requiring off-balance sheet risk be recognized in capital ratios reflecting the risk profile of individual banks.
			<b>2005</b> – See EC 1.	<b>2005 Recommendation</b> – The LB requires banks to maintain a minimum of 10 billion IQD in paid-up capital and a minimum 12% risk-adjusted capital ratio. Training, to both the BSD and the commercial banks, is needed to ensure understanding and compliance to the new requirements.
EC 3. Laws or regulations, or the supervisor, define the components of capital, ensuring that emphasis is given to those elements of capital available to absorb losses.	<b>LB Article 16(1)</b> requires the CBI to define capital, core capital, reserves and categories of risk asset in regulations.	<b>BR Section 15 – Net Domestic Assets Required for Branches of Foreign Banks</b> <b>BR Section 16 – Other Capital Requirements</b> <b>BR Appendix A – Qualifying Capital</b> <b>BR Appendix B – Summary of Risk Weights &amp; Risk Categories</b>	<b>2004</b> – Capital is not calculated according to the Basel Capital Accord. The NY FED in consultation with the OCC team in Baghdad is drafting a capital regulation in accordance with the Basel Capital Accord that is expected to be approved by the CBI	<b>2004 Recommendation:</b> CBI should approve a regulation in accordance with LB Article 16 (1) defining and determining the meaning of capital, core capital, reserves and categories of risk assets in accordance with the Basel Capital Accord.

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		<b>BR Appendix C – Credit Conversion Factors for Off Balance Sheet Items</b>	<b>2005 – See EC 1.</b>	<b>2005 Recommendation –</b> The new banking laws and regulations adequately define the capital components. Training is needed, for both the BSD and commercial banks, on the new laws and regulations to facilitate understanding and compliance.
EC 4. Capital adequacy ratios are calculated and applied on a consolidated bank basis.	<b>LB Article 41 (1) (d)</b> – Requires information concerning its various accounts and activities, either in a consolidated form or for each of its branches separately. <b>LB Article 43 (1 – 4)</b> – Financial Statements <b>LB Article 16 (2)</b> – Other Capital Requirements		<b>2004 – Communications difficulties between branches and with the CBI coupled with lost records at many branches raise uncertainties about the ability of banks to report accurate financial data on a consolidated basis. Additionally, capital is not calculated in accordance with Basel requirements.</b>	<b>2004 Recommendation:</b> The CBI should establish the requirement through a revision to the banking law that calculated capital be applied on a consolidated basis for banks with branches in accordance with the Basel Capital Accord.
			<b>2005 – n/a consolidated accounting rules are not yet in effect.</b>	<b>2005 Recommendation –</b> Although the LB is somewhat inconsistent regarding the reporting of consolidated financial information, the CBI does not require consolidated reporting due to weaknesses in Iraqi accounting standards. As a result, capital adequacy ratios are not required to be reported on a consolidated basis.  The LB needs to be revised to require banks to calculate ratios on a consolidated basis that includes the bank's branches.  In addition, Iraqi accounting standards are not compliant with international standards. Iraqi accounting standards need to be strengthened and enhanced to ensure proper consolidation techniques are used.

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EC 5. Laws or regulations clearly give the supervisor authority to take measures should a bank fall below the minimum capital ratio.	<p><b>LB Article 56 (1)</b> - The CBI may take any measure or impose any administrative penalty stipulated in paragraph (2) of this article in cases where it is evident that a bank, an administrator of a bank, or any other person violated the provisions of this law or any regulation or order issued by the CBI or conducted unsafe or unsound banking operations. <b>LB Article 59 (1) (b)</b> - The CBI shall appoint a conservator for a bank when the CBI determines that the capital of the bank is less than 50% of the minimum capital required by law or by regulation of the CBI. <b>LB Article 59 (2) (b)</b> - The CBI may appoint a conservator for a bank when the CBI determines that the capital of the bank is less than 75% of the minimum capital required by law or by regulation of the CBI.</p>		<p><b>2004</b> – According to the CBI bank staff, the CBI has the authority to impose monetary penalties, however, the amount of penalties that can be imposed was not sufficient to ensure banks maintain an adequate capital level and monetary penalties have not been assessed since the beginning of 2003.. The new banking law will require existing banks to maintain capital in accordance with the Banking Law beginning January 1, 2006. The law increases administrative actions that can assess penalties up to 5% of paid in capital and remove the board of directors.</p>	<p><b>2004 Recommendation:</b> The CBI should require banks to develop capital plans to detail how they will achieve compliance with the banking law by January 1, 2006. The capital requirements required by the banking law do not take effect for existing banks until January 1, 2006 and therefore no enforcement action can be taken against banks.</p>
			<p><b>2005</b> – This is provided in law but not proven in supervisory action.</p>	<p><b>2005 Recommendation –</b> While the LB does not 'require' action by the BSD, the new law does provide the BSD authority to take measures should a bank fall below the minimum capital ratios; however, the BSD management is not well versed in the laws and appears hesitant to take actions against a commercial bank. Further management training in the laws and regulatory powers it provides is needed.</p>
EC 6. Regular (at least semi-annually) reporting by banks to the supervisor is required on capital ratios and their components.	<p><b>LB Article 41 (1)</b> - states bank shall furnish the CBI at the relevant intervals statements showing assets and liabilities, foreign currency exposure, capital adequacy ratio, reserve position, liquid assets, large exposures and credit to related</p>	<p><b>BR Appendix A – Qualifying Capital</b>  <b>BR Appendix B – Summary of Risk Weights and Risk Categories</b>  <b>BR Appendix C – Credit Conversions Factors for Off-Balance-Sheet Items</b></p>	<p><b>2004</b> – Current reporting is done limited to broad Balance Sheet and Income statement items. Reports are frequently late being received by the BSD and data is inaccurate. Data is collected manually and submitted by mail to BSD.</p>	<p><b>2004 Recommendation:</b> Establish a regulation requiring the scope and frequency of reporting that is consistent with International standards and accounting methodology.</p>

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	persons, deposit, credit and contingent liabilities.		<b>2005 – Regulatory reports are not yet formatted.</b>	<b>2005 Recommendation - Current monthly regulatory reports are inadequate to allow the BSD to fully analyze a bank's capital adequacy. Revised monthly regulatory reports that include risk weightings for capital computations are being developed and are scheduled to be implemented in 4Q05.</b>
AC 1. For domestic, as well as internationally active banks, the definition of capital is broadly consistent with the Basel Capital Accord.	LB Article 16(1) - The definition of capital, core capital, reserves and assets shall be consistent with international standards.	BR Appendix A – Qualifying Capital BR Appendix B – Summary of Risk Weights and Risk Categories BR Appendix C – Credit Conversions Factors for Off-Balance-Sheet Items	2004 – Capital calculations are not consistent with Basel Committee.	2004 Recommendation n: Establish by regulation the requirements to define capital consistent with Basel Capital Accord
			2005 – See EC 1.	2005 Recommendation – The new capital requirements detailed in the banking regulations are consistent with the Basel Capital Accord. Training is needed, to both the commercial banks & the BSD to ensure understanding & compliance.  When Iraqi banks become more internationally active and start using sophisticated financial products, the capital requirements will need to be enhanced to reflect the additional Basel II requirements.
AC 2. The supervisor clearly sets out the actions to be taken if capital falls below the minimum standards.	LB Article 59 (1) (b) – The CBI shall appoint a conservator for a bank when the CBI determines that the capital of the bank is less than 50% of the minimum capital required by law or by regulation of the CBI pursuant to paragraph (1) of Article 16. LB Article 59 (2) (b) – The CBI may appoint a		2004 – The CBI has authority to take administrative action in the form of money penalties for banks that fail to comply with legal requirements or BSD directives; however, due to the war the BSD has not imposed any penalties on banks since the fall of the former regime.	2004 Recommendation: The CBI should provide guidance and coordinate with the banks to develop realistic capital plans for banks to achieve regulatory capital requirement that will become effective for banks required by comply by January 1st, 2006.

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	<p>conservator for a bank when the CBI determines that the capital of the bank is less than 75% of the minimum capital required by law or by regulation of the CBI pursuant to paragraph (1) of Article 16. <b>LB Article 56 (1)</b> – The CBI may take any measure or impose any administrative penalty stipulated in paragraph (2) of this article in cases where it is evident that a bank, an administrator of a bank or any other person violated the provisions of this Law or any regulation or order issued by the CBI or conducted unsafe or unsound banking operations.</p>		<p><b>2005</b> – This is provide by law but not yet applied.</p>	<p><b>2005 Recommendation</b> – The new LB provides the BSD authority to take measures should a bank fall below the minimum capital ratios; however, the BSD management is not well versed in the laws and appears hesitant to take actions against a commercial bank. Further management training in the laws and regulatory powers it provides is needed.</p>
<p>AC 3. The supervisor determines that banks have an internal process for assessing their overall capital adequacy in relation to their risk profile.</p>			<p><b>2004</b> – The BSD does not determine if banks have an internal process for assessing their overall capital adequacy in relation to their risk profile. BSD supervisors review the banks financial data provided to determine if it meets the minimum capital level required by law. These capital ratios are not risk based and do not account for different risk profiles of individual banks.</p>	<p><b>2004 Recommendation:</b> BSD should establish procedures requiring a bank to establish appropriate internal processes for determining their capital adequacy over and above regulatory requirements as appropriate to their risk profile. BSD procedures should include supervisory evaluation of these internal processes.</p>

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			2005 – There is no requirement, but CBI must provide guidance in this area.	2005 Recommendation – Currently, the BSD manual does not provide guidance to address this issue. Banks must be required to establish risk assessment policies & procedures.  A new Inspection manual is being developed which will provide objectives, procedures and questionnaires to the BSD to adequately assess a bank's internal process to attain and report their capital adequacy.  Training on risk has begun; however, additional work is needed on risk assessment and analysis.
AC 4. Capital adequacy requirements take into account the conditions under which the banking system operates. Consequently, minimum requirements may be higher than the Basel Accord.	<b>LB Article 16 (1)</b> – requires capital to be at least 12% of total assets determined on a risk-adjusted basis, or such higher percentage as specified by regulation of the CBI, whereby not less than one-half of such capital shall consist of core capital.		2004 – BSD does not evaluate capital adequacy of individual banks based on their risk profiles and does not have any procedures requiring banks to hold higher than minimum capital based on their risk profile.	2004 Recommendation: BSD should develop procedures that guide the evaluation of the risk based capital requirements of the bank based on the bank's risk profile.
			2005 – The minimum standards are set higher than the Basel capital accord required but disciplinary action is not taken.	2005 Recommendation – The capital requirements are higher than the Basel Committee requirements due to the Iraqi banking environment.  No further recommendation for improvement is needed at this time.  When Iraqi banks become more internationally active and start using sophisticated financial products, the capital requirements will need to be enhanced to reflect the additional Basel II requirements..

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AC 5. Capital adequacy ratios are calculated on both a consolidated and a solo basis for the banking entities within a banking group.	<b>LB Article 16 (2)</b> – requires capital holdings of other banks or financial institutions to be deducted from the bank’s capital for the purpose of calculating the risk-adjusted capital. <b>LB Article 43 (1 – 4) – Financial Statements</b>		<b>2004</b> – Capital information is collected on a consolidated basis but is inaccurate, incomplete and due to poor to nonexistent information systems all related banks and financial institutions may not be consolidated to determine a bank’s true capital.	<b>2004 Recommendation:</b> BSD should implement supervisory procedures to ensure banks accurately report capital holdings of all other banks or financial institutions and validate that those capital holdings are deducted from the bank’s capital.
			<b>2005</b> – n/a	<b>2005 Recommendation - Iraqi accounting standards are not compliant with international standards. Iraqi accounting standards need to be strengthened and enhanced to ensure proper consolidation techniques are used.</b>
AC 6. Laws or regulations stipulate a minimum absolute amount of capital for banks.	<b>LB Article 14</b> - Requires at all times maintenance of paid-up capital that is not less than 10 billion dinars <b>LB Article 16</b> and not less than the equivalent of 12% of the total value of its assets determined on a risk-adjusted basis..		<b>2004</b> – No bank currently has the statutory minimum capital. Capital and reserve accounts in the Iraqi banking system are about 2.1%. In addition, there are considerable uncertainties surrounding the “true” capital position of the six state owned banks.	<b>2004 Recommendation:</b> The BSD requires each bank to develop a capital plan detailing how it will achieve the required minimum capital ratios and each bank should have a comprehensive asset valuation to determine the true capital position of each bank.
			<b>2005</b> – No comment made.	<b>2005 Recommendation – The LB requires a minimum of 10 billion IQD for an established domestic bank and 50 billion IQD for new foreign owned banks; however, there is no requirement in the law that the capital remain in Iraq.</b>  In the next issuance of regulations, a limit should be established on the amount of capital that can be repatriated.  The licensing manual should address this issue.

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<b>Principle 7:</b> An essential part of any supervisory system is the independent evaluation of a bank's policies, practices and procedures related to the granting of loans and making of investments and the ongoing management of the loan and investment portfolios.				
EC 1. The supervisor requires, and periodically verifies, that prudent credit-granting and investment criteria, policies, practices, and procedures are approved, implemented, and periodically reviewed by bank management and boards of directors.	<b>LB Article 36</b> – No bank may grant any credit, including loans and advances, or provide a guarantee or security to a customer that uses the customer's shares in the bank as collateral to secure the loan.		<i>2004 - Institutions do have loan policies, however, these tend to be documents of only one or two pages. Although credit committees do exist, decisions can be made outside the committee structure. Supervisors do not check compliance with the credit policies.</i>	<b>2004 Recommendation</b> -Regulation defining the minimal amount of information required to be included within a loan policy. The regulation should require banks to re-draft their loan policies to bring into compliance with the guideline and also require the institutions to comply with the policies once adopted by the Board of Directors.
			<b>2005 - 1-The CBI must issue guidelines regarding policy. 2- The CBI must conduct seminars with bankers to raise level of policy process.</b>	<b>2005 Recommendation – The BSD currently conducts annual inspections; however, the review of prudent credit granting and investment criteria, policies, practices, and procedures is inadequate.</b>  An Inspection manual is being developed and will provide adequate guidance on reviewing credit granting and investment criteria, policies, practices, and procedures.  The CBI is developing credit policy guidance and training to the commercial banks.
EC 2. The supervisor requires, and periodically verifies, that such policies, practices and procedures include the establishment of an appropriate and properly controlled credit risk environment, including:			<i>2004 – Supervisors do not require and verify that policies, practices and procedures are in place for credit granting, maintenance of credit administration and classification process, and adequate controls</i>	<b>2004 Recommendation:</b> , inspection manual should be expanded to require supervisor assessment of policies, procedures and controls.
<ul style="list-style-type: none"> <li>• a sound and well-documented credit granting and investment process;</li> </ul>			<b>2005 – No comment made.</b>	<b>2005 Recommendation – BSD's current annual inspection does not adequately review and verify that proper policies, practices and procedures in place to</b>

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<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
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<ul style="list-style-type: none"> <li>the maintenance of an appropriate credit administration, measurement and ongoing monitoring/reporting process (including asset grading/classification);</li> <li>ensuring adequate controls over credit risk.</li> </ul>				<p style="color: red;">control credit and other banking risks.</p> <p style="color: red;">An Inspection manual is being developed and will provide adequate guidance on reviewing credit granting and investment criteria, policies, practices, and procedures.</p> <p style="color: red;">Training will continue on controlling credit risk.</p>
EC 3. The supervisor requires, and periodically verifies, that banks make credit decisions free of conflicting interests, on an arm's-length basis, and free from inappropriate pressure from outside parties.			<p style="color: blue;"><b>2004</b> - Directed credit exists in both the private and public banks. Family relations generally determine who will be granted credit in private banks. As to state owned banks, the government has openly dictated who the recipient of credits will be.</p>	<p style="color: red;"><b>2004 Recommendation:</b> Development of examination procedures, which determine whether credit decisions are free of pressure from both inside and outside parties. If discovered, these should be commented upon in reports of examination and enforcement actions taken by the CBI..</p>
			<p style="color: blue;"><b>2005</b> – Must be verified by on-site activity.</p>	<p style="color: red;"><b>2005 Recommendation – Current</b> supervisory practice does not meet these criteria.</p> <p style="color: red;">An Inspection manual is being developed and will review credit granting policies practices to ensure they are being properly are followed.</p> <p style="color: red;">The new regulations also provide guidelines on large exposures &amp; related party transactions. Further training in the LB and regulations will be needed.</p> <p style="color: red;">BSD needs to develop &amp; issue guidelines on conflict of interest to supplement the above-mentioned regulations. Further training is needed on this issue.</p>

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EC 4. The supervisor requires that a bank's credit assessment and granting standards are communicated to, at a minimum, all personnel involved in credit granting activities.			<i>2004 - Credit standards are limited and primarily focus upon the need for collateral. The Supervision Department reports that banks do not follow the practice of knowing their customer and do not obtain information other than that required for collateral documentation. Loan policies are limited in content.</i>	<b>2004 Recommendation:</b> <i>The CBI should require credit standards be more comprehensive and that all individuals associated with lending transactions are provided copy of the governing lending policy of the institution.</i>
			<b>2005 – See EC 3.</b>	<b>2005 Recommendation – Current BSD practices do no meet the requirements of this principle.</b>  An Inspection manual is being developed to provide guidance and to ensure that banks' disseminate such policies throughout the bank.  In addition, a Credit Risk Workshop was given to nearly 30 inspectors. Additional training will be provided on modern, risk-based examination techniques
EC 5. The supervisor has full access to information in the credit and investment portfolios and to the lending officers of the bank.			<i>2004 - The Supervision Department reported full access to credit information. However, the UST assessment indicated lack of access at those institutions, which were connected to the President.</i>	<b>2004 Recommendation – Supervisors should be required to include within their reports of examination a list of items, both financial and collateral, which were not available within the bank. The volume of exceptions will then allow the supervisors to determine the extent of information not provided and whether underwriting standards are properly being applied.</b>

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			<p><b>2005</b> – By law the CBI has access to all.</p>	<p><b>2005 Recommendation</b> – Legally, the BSD has access of all credit and investment information; however, in practice the banks are less forthcoming with this information.</p> <p>Further training on the laws &amp; regulations is needed. The new Inspection manual will also detail the information the Inspectors will require to fully and adequately assess the banks' credit risk.</p>
<p>AC 1. The supervisor requires that the credit policy prescribes that major credits or investments, exceeding a certain amount or percentage of the bank's capital, are to be decided at a high managerial level of the bank. The same applies to credits or investments that are especially risky or otherwise not in line with the mainstream of the bank's activities.</p>			<p><b>2004</b> - Credit committees are charged with credit decisions; however, others outside the committee also exercise this authority and often exceed loan limits.</p>	<p><b>2004 Recommendation:</b> Examination procedures should be developed which include a complete assessment of the decision process</p>
			<p><b>2005</b> – See EC 3.</p>	<p><b>2005 Recommendation</b> – Most banks do not have an appropriate credit committee structure in place and BSD inspections do not adequately review and require such committee structures.</p> <p>An inspection manual is being developed that details the requirements and responsibilities for Credit Committees. The Credit Risk Workshop addressed this issue and additional training will be provided on this subject.</p>
<p>AC 2. The supervisor requires that banks have management information systems that provide essential details on the condition of the loan and investment portfolios.</p>			<p><b>2004</b> - Quarterly reports are forwarded to the Central Bank detailing the loan advances and those exceeding limits. There is no information on overdue status. Reports are also generated by the bank at year-end and submitted to the Bank's Board</p>	<p><b>2004 Recommendation:</b> Banks should be required to develop reports to be submitted to their Boards on a monthly basis. These should at a minimum include lists of new loans, overdue, all large loans, etc.</p>

## Supervisory Development Plan - DETAIL

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
			<p><b>2005</b> – The CBI must provide guidance to commercial banks on adequate Management Information Systems.</p>	<p><b>2005 Recommendation</b> – Most banks do not submit adequately detailed reports on their loan and investment portfolios.</p> <p>Through the new and improved examination process, detailed internal reports on loan and investment portfolios will be required.</p>
AC 3. The supervisor verifies that bank management monitors the total indebtedness of entities to which they extend credit.			<p><b>2004</b> - On a quarterly basis, the Central Bank receives a report detailing those loans exceeding the limits. However, no actions are taken when the limits are exceeded.</p>	<p><b>2004 Recommendation</b> – The CBI upon discovering a loan exceeding the limit should utilize their authority to instruct the institution to immediately bring the loan into compliance. In the event this is not done, the CBI should pursue use of their other enforcement authorities under the law.</p>
			<p><b>2005</b> – This must be verified by on-site activity.</p>	<p><b>2005 Recommendation</b> – Current examination practices do not review and verify aggregate debt.</p> <p>The new regulations address extensions of credit to aggregate entities. The new examination procedures will require review and comment on a bank's practices. Training will be provided to ensure the BSD understands their role and responsibilities.</p>
<p><b>Principle 8:</b> Banking supervisors must be satisfied that banks establish and adhere to adequate policies, practices and procedures for evaluating the quality of assets and the adequacy of loan loss provisions and reserves.</p>				
EC 1. Either laws or regulations, or the supervisor, sets rules for the periodic review by banks of their individual credits, asset classification and provisioning, or the law/regulations establish a general	<p><b>LB Article 29 (2) (c)</b> - Banks shall establish and apply internal policies on prudential ratios governing the classification and evaluation of assets, and</p>	<p><b>BR Section 29.1</b> – Prudential Requirements (Classification of Assets) <b>BR Section 29.2</b> – Reserve Requirements (Reserve</p>	<p><b>2005</b> - 1- prudential regulations must be issued. 2- Bankers must be trained. 3- Regulatory reporting must be enhanced.</p>	<p><b>2004 Recommendation</b> - Development of regulation requiring at least a quarterly assessment of the loan portfolio</p>

## Supervisory Development Plan - DETAIL

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
<p>framework and require banks to formulate specific policies for dealing with problem credits.</p>	<p>provisions to be made on the basis of such classification and evaluation, and the time when earnings on non-performing loans may no longer be accounted for as income except as received in cash. <b>LB Article 29 (3)</b> The CBI shall by regulation prescribe prudential requirements as well as the common procedures and methods of calculation to be followed by banks in their application.</p>	<p>Amounts)</p>		<p><b>2005 Recommendation</b> – The current BSD annual review does not include adequate assessment of individual credits, classifications or provisioning.</p> <p>The new banking regulations provide detail guidance on credit classifications, but do not address adequate loan loss provisions based on the classifications. Additional credit provisioning guidelines are needed.</p> <p>Detailed discussion on credit classifications will be included in the new Inspection manual.</p> <p>The Credit Risk Workshop addressed this issue. Additional training is needed and will be provided. The CBI is developing a training program, based on the Credit Risk Workshop, for the commercial banks.</p>
<p>EC 2. The classification and provisioning policies of a bank and their implementation are regularly reviewed by the supervisor or external auditors.</p>		<p><b>BR Section 29.1</b> – Prudential Requirements (Classification of Assets) <b>BR Section 29.2</b> – Reserve Requirements (Reserve Amounts)</p>	<p><b>2004</b> – Although requirements exist for a reserve, not all institutions are complying with the 2% requirement. In addition, the requirement is not based upon the quality of assets, which may require more or less of a provision.</p>	<p><b>2004 Recommendation</b> – Recommendation: Development of regulation addressing provisioning requirements. It should tie directly into the asset classification policy and be issued at the same time.</p>

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Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
			<p><b>2005</b> – This activity must be verified by on-site activity.</p>	<p><b>2005 Recommendation</b> – Bank classification and provisioning practices are weak, if not non-existent. BSD examination policies and practices are inadequate.</p> <p>The new regulations provide asset classification guidelines. The Inspection manual under development further details criteria to be considered for credit classifications on an annual basis. The new regulatory reports will require asset classification data to be submitted monthly.</p> <p>Training on classifications and provisioning will be provided as needed.</p>
<p>EC 3. The system for classification and provisioning includes off-balance-sheet exposures.</p>	<p><b>Article 29 (1)</b> - Each bank shall develop and maintain internal policies in the form of maximum and minimum ratios, exposure limits, risk-management standards, investment policies and other prudential ratios to be maintained by the bank concerning its assets, off-balance sheet items and various categories of capital and reserves. Such internal policies shall be consistent with regulations on prudential requirements issued by the CBI pursuant to paragraph (3) of this article.</p>	<p><b>BR Appendix C – Credit Conversion Factors for Off-Balance Sheet Items</b></p>	<p><b>2004</b> - There are no regulations currently dealing with off-balance sheet transactions. This is critical given the excessive level of letters of credit and guarantees off-balance at both Rafidain and Rashid bank.</p>	<p><b>2004 Recommendation</b> - Development of regulations that address all issues noted in Article 29 (1).</p>
			<p><b>2005</b> – See EC 2 comment.</p>	<p><b>2005 Recommendation</b> – The new LB &amp; regulations do not address off-balance-sheet exposures, classifications and provisioning.</p> <p>More detailed legal and regulatory guidelines, as well as training, are needed to address off-balance sheet exposures.</p>
<p>EC 4. The supervisor determines that banks have appropriate policies and procedures to ensure that loan loss provisions and write-offs reflect realistic repayment expectations.</p>			<p><b>2004</b> - In addition, policies are limited in scope and do not reflect realistic repayment expectations. A high volume of loans are overdue at numerous institutions with little collection efforts underway.</p>	<p><b>2004 Recommendation</b> CBI development of a credit risk assessment guideline which would include standards which lending policies should meet.</p>

**Supervisory Development Plan - DETAIL**

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
			2005 – See EC 1 comment.	<p><b>2005 Recommendation –</b>BSD does not have appropriate policies &amp; procedures to ensure loan loss provisions &amp; write-offs reflect realistic repayment expectations.</p> <p>The CBI needs to develop a loan loss provision &amp; write-off policy based on asset classifications that require banks to establish the appropriate policies &amp; provisions. The Inspection manual procedures need to be adapted to reflect the CBI policies.</p> <p>Additional training is needed on loan loss provisioning and write-off procedures.</p>
EC 5. The supervisor determines that banks have appropriate procedures and organizational resources for the ongoing oversight of problem credits and for collecting past due loans.	<p><b>LB Article 29 (2) (c)</b> - Banks shall establish and apply internal policies on prudential ratios governing the classification and evaluation of assets, and provisions to be made on the basis of such classification and evaluation, and the time when earnings on non-performing loans may no longer be accounted for as income except as received in cash. <b>LB Article 29 (3)</b> - The CBI shall by regulation prescribe prudential requirements as well as the common procedures and methods of calculation to be followed by banks in their application.</p>		<p><i>2004 - Oversight is limited with emphasis placed primarily upon collection through repossession of collateral. Supervision Department reports rare instances when the value of the collateral does not cover the amount of the loan outstanding. The large volume of overdue loans at some institutions is an indication that collection and oversight is weak.</i></p> <p>2005 – This must be verified by on-site activity.</p>	<p><b>2004 Recommendation -</b>CBI development of prudential requirements governing the classification and evaluation of assets, and provisions to be made, and rules for transference of loans to non-accrual status.</p> <p><b>2005 Recommendation –</b> Current BSD practices do not determine if a bank has adequate credit oversight and bad debt collection procedures and practices.</p> <p>Both the new laws &amp; regulations require adequate oversight by the banks. The new Inspection manual will include procedures to ensure a bank has proper oversight of its credit extensions &amp; collections.</p>

## Supervisory Development Plan - DETAIL

<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
EC 6. The supervisor has the authority to require a bank to strengthen its lending practices, credit-granting standards, level of provisions and reserves, and overall financial strength if it deems the level of problem assets to be of concern.	<b>LB Article 56 (1)(b)</b> - The CBI may take any measure or impose any administrative penalty stipulated in paragraph (2) in cases where it is evident that a bank, an administrator of a bank or any other person conducted unsafe or unsound banking operations. <b>LB Article 56 (2)(e)</b> - The CBI may impose any restriction on the granting of credit deemed appropriate		<b>2004</b> - Although the new banking law provides sufficient authority to strengthen and improve the quality of a bank's loan portfolio, the CBI has not yet taken these steps.	<b>2004 Recommendation:</b> Development of regulation, which specifies the manner in which the CBI will impose administrative penalties or restrict credit activities. The Regulation will then ensure transparency in actions taken by the CBI.
			<b>2005</b> – Law provides this power.	<b>2005 Recommendation –</b> While the CBI has the legal authority; management has not used this authority.  Additional training is needed on the powers & responsibilities CBI management has under the new laws & regulations. In addition, a <i>Progressive Enforcement Action Manual</i> will give further guidance.
EC 7. The supervisor is informed on a periodic basis, and in relevant detail, concerning the classification of credits and assets and of provisioning.			<b>2004</b> - No loan quality periodic reports are made to the Board or to the CBI.	<b>2004 Recommendation:</b> Development of regulatory reports that detail the loan names, past due status, classification category, and the provisioning amount applied to the credit. The report should be submitted to the CBI no less often than quarterly
			<b>2005</b> – Regulatory reporting process must be improved.	<b>2005 Recommendation –</b> The current monthly regulatory reports do not provide adequate detail on credit & asset classifications and provisioning.  Future monthly regulatory reports will include relevant credit & asset classification detail as well as provisioning information.
EC 8. The supervisor requires banks to have mechanisms in place for continually assessing the strength of guarantees and appraising the worth of collateral.			<b>2004</b> – Guarantees are generally supported by collateral. However, BS indicates that at times financial information will be within the file, in addition to the collateral documentation.	<b>2004 Recommendation:</b> BSD should include a thorough financial analysis of guarantors.

## Supervisory Development Plan - DETAIL

<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
			2005 – See EC 1 comment.	<p><b>2005 Recommendation – Current BSD practice does not require the bank to assess the financial strength of the guarantors. Subsequent periodic collateral appraisals are not required after the credit is initially granted.</b></p> <p>The new Inspection manual includes procedures to assess the guarantors' financial strength.</p> <p>The CBI needs to develop a policy requiring periodic collateral appraisals.</p>
EC 9. Loans are required to be identified as impaired when there is reason to believe that all amounts due (both principal and interest) will not be collected in accordance with the contractual terms of the loan agreement			<i>2004 - No actions are taken by the institution to determine loan value impairment due to deterioration in financial capacity of obligor. Prior to repossession no inspections are done on property to determine condition or ability to cover debt. Impairment is not obvious until property goes to auction and a sale occurs. BS indicates it is rare for collateral liquidation not to cover the amount of the loan.</i>	<p><b>2004 Recommendation</b> Recommend quarterly asset reviews include a determination whether loan impairment is evident.</p>
			2005 – See EC 1 comment.	<p><b>2005 Recommendation – Current practice does not require banks to identify impaired loans.</b></p> <p>The new inspection manual will define what constitutes an 'impaired' loan. In addition, exam procedures will identify and comment on banks' deficiencies.</p> <p>Recently, the Credit Risk Workshop addressed this issue. Additional credit training will be conducted to both the BSD and commercial bankers.</p>

## Supervisory Development Plan - DETAIL

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
EC 10. The valuation of collateral is required to reflect the net realizable value.			<p><b>2004</b> – BS indicates there is no periodic inspection or revaluations performed for collateral.</p>	<p><b>2004 Recommendation:</b> Loan policy guidelines to be developed by the CBI should include the requirement that periodic inspections or collateral revaluations be performed on a timely basis, depending upon the term of the credit.</p>
			<p><b>2005</b> – See EC 1 comment.</p>	<p><b>2005 Recommendation – Current practices do not include periodic valuation of collateral or net realizable value.</b></p> <p>The CBI needs to develop a policy requiring periodic collateral appraisals taking into consideration net realizable values.</p>
AC 1. Loans are required to be classified when payments are contractually a minimum number of days in arrears (e.g., 30, 60, 90 days). Refinancing of loans that would otherwise fall into arrears does not lead to improved classifications for such loans.			<p><b>2004</b> - No regulation exists requiring the loan classification of non-performing based upon past due status. Nor is there a loan classification policy according to categories of risk.</p>	<p><b>2004 Recommendation:</b> Development of regulation requiring the classification as non-performing based on past due status.</p>
			<p><b>2005</b> – See EC 1 comment.</p>	<p><b>2005 Recommendation – The new laws and regulations do not base classifications on past due status.</b></p> <p>The new Inspection manual should include past due criteria as a consideration when determining a credit classification.</p>
AC 2. The supervisor requires that valuation, classification and provisioning for large credits are conducted on an individual item basis.			<p><b>2004</b> - As previously stated, the rule is to reserve 2% of net income. No consideration is given to the quality of the loan portfolio.</p>	<p><b>2004 Recommendation:</b> Development of classification and provisioning regulation.</p>
			<p><b>2005</b> – See EC 1 comment.</p>	<p><b>2005 Recommendation – Current practice does not review individual credits for valuation, classification and/or provisioning.</b></p> <p>The new Inspection manual will detail procedures for large credits that include valuation, classification and provisioning for large credits.</p>

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<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	<b>Basel 25 Core Principles Assessment</b>			<b>Improvement steps</b>
	<b>Legal</b>	<b>Regulation</b>	<b>Procedure/Practice</b>	

**Principle 9:** Banking supervisors must be satisfied that banks have management information systems that enable management to identify concentrations within the portfolio and supervisors must set prudential limits to restrict bank exposures to single borrowers or groups of related borrowers.

EC 1. A “closely related group” is explicitly defined to reflect actual risk exposure. The supervisor has discretion, which may be prescribed by law, in interpreting this definition on a case-by-case basis.	<b>LB Article 30 (4)</b> – For the purposes of applying this article or any regulations issued pursuant thereto, a person shall be deemed to include any other person with whom such person is connected, directly or indirectly, in such a way that the financial soundness of any of them may affect the financial soundness of the other or others, or the same factors may affect the financial soundness of some or all of them, or if as a result of the structure of their relationship the other person is in fact ultimately responsible for the credit outstanding. <b>LB Article 1</b> - This article does not specifically define “closely related group”, however, it does define control as directly or indirectly, or acting through one or more persons, owns, controls or has the power to vote 25 percent or more of the voting shares of the company; has the power to elect a majority of the directors of the company; or exercises a controlling influence as the CBI may determine.	<b>BR Section 30 – Large Exposures</b>	<b>2004</b> – The CBI did not previously define “closely related group”.	<b>2004 Recommendation:</b> A regulation should be developed which clearly defines closely related group and specifies the restrictions, which apply. The provisions within the new law address the issue in an indirect manner, which could result in confusion on the part of banks when attempting to comply.
			<b>2005</b> – The CBI should write a regulations to further define closely related groups and to required banks to identify these relationships via regular reporting.	<b>2005 Recommendation –</b> Although circuitous, the laws and new regulations do provide an adequate definition of a closely related group and the restrictions, which apply.  Additional training on the new laws and regulations is needed to ensure understanding and compliance.

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Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
<p>EC 2. Laws or regulations, or the supervisor, set prudent limits on large exposures to a single borrower or closely related group of borrowers. "Exposures" include all claims and transactions, on-balance sheet as well as off-balance sheet.</p>	<p><b>LB Article 30 (1)(a)</b> - No bank, without CBI prior approval, shall grant credit to a person, if as a result thereof the aggregate outstanding principal amount of all of the bank's credits to that person would exceed the equivalent of 15% of the bank's unimpaired capital and reserves. <b>LB Article 30 (1)(b)</b> No bank shall grant credit to a person the aggregate outstanding principal amount of all of the bank's credits to that person would exceed 25% of the bank's unimpaired capital and reserves.</p>	<p><b>BR Section 30 – Large Exposures</b></p>	<p><i>2004 - The inspection process includes checking for large borrowers; however, the evaluations are not consistent and excesses are sometimes overlooked depending on the borrower. In addition, quarterly reports are submitted by the bank detailing loans in excess of the limits. The Supervision Department reported that no actions are taken concerning these excess amounts. Letters are sent to the bank asking why the violations occurred. The bank is ordered not to repeat and if necessary the matter is referred to legal department.</i></p>	<p><b>2004 Recommendation</b> - Before the new banking law, the limitation was 10%. The CBI should request from the banks a list of all loans exceeding the new limitations, and the date these loans were made. The institutions should be informed the loans cannot be extended or renewed without a reduction in the loan bringing it into compliance with the new law. These loans should then be monitored on a monthly basis and, if the institutions do not comply, appropriate enforcement actions permitted under the law should be taken.</p>
			<p><b>2005 – See EC 1 comment.</b></p>	<p><b>2005 Recommendation – The laws and new regulations adequately set prudential lending limits on large exposures. Examination procedures should include the review of these limits and credit extensions that will be reported on the monthly regulatory reports. Credit training should include this issue.</b></p>
<p>EC 3. The supervisor verifies that banks have management information systems that enable management to identify on a timely basis concentrations (including large individual exposures) within the portfolio on a solo and consolidated basis.</p>			<p><b>2005 – See EC 1 comment.</b></p>	<p><b>2004 Recommendation:</b> Regulation requiring the identification of concentrations of credit and also maintenance of sectoral information according to categories set by the CBI. This information would then be submitted on a regular basis with the bank's regulatory reports</p>

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Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
				<p><b>2005 Recommendation</b> – Section 26.2 of the new banking regulations require information systems appropriate to the size of the bank. Currently, the computers systems in many, if not most, commercial banks are rudimentary, at best. Management information systems at the commercial banks need to be strengthened before adequate concentration reports can be submitted to both the CBI and bank management for their review. The CBI should develop an IT survey to determine the commercial banks' capacity.</p>
EC 4. The supervisor verifies that bank management monitors these limits and that they are not exceeded on a solo and consolidated basis.	<p><b>LB Article 31 (2)</b> - Every credit provided by a bank to a related person shall be promptly reported to the audit committee of the bank.</p>		<p><b>2004</b> – Supervisors during an examination determine whether limits are adhered to. The new bank law does require reporting of related persons extensions to the Board, but it is unclear whether this is done. Nor is it clear whether the excess limit loans are reported to the board as Supervisors have not had full access to the minutes.</p> <p><b>2005</b> – CBI must issue regulatory reporting requirements, which include loans to one borrower exceptions. These reports must be verified through on-site activity.</p>	<p><b>2005 Recommendation</b> – Large borrowers and concentration reports are scheduled to be developed and implemented during Stage 2 of the Regulatory Reporting Improvement Plan.</p> <p>Examination procedures under development will require appropriate verification.</p>
EC 5. The supervisor regularly obtains information that enables concentrations within a bank's credit portfolio, including sectoral and geographic exposures, to be reviewed.			<p><b>2005</b> – No comment made.</p>	<p><b>2004 Recommendation:</b> Regulation or a regulatory report requirement should be established requiring the reporting of concentrations to the CBI on a regular periodic basis.</p> <p><b>2005 Recommendation</b> – Credit concentration information will be included in the monthly regulatory reports currently under development.</p>

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<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
AC 1. Banks are required to adhere to the following definitions:	<b>LB Article 30 (1)(c)</b> - No bank shall grant credit if as a result of paragraphs (a) and (b) the aggregate large credit exposures would exceed the equivalent of 400% of the bank's unimpaired capital and reserves.		<i>2004 – BSD management report there were no aggregate limits on large exposures in the past.</i>	<i>2004 Recommendation - Regulatory report should be required in which the large credits are aggregated and compared to capital on a periodic basis, not less than quarterly.</i>
<ul style="list-style-type: none"> <li>• 10 percent or more of a bank's capital is defined as a large exposure;</li> <li>• 25 percent of a bank's capital is the limit for an individual large exposure to a private sector non-bank borrower or a closely related group of borrowers.</li> </ul> <p><b>Note:</b> Minor deviations from these limits may be acceptable, especially if explicitly temporary or related to very small or specialized banks.</p>	<b>LB Article 30(1)(a) &amp; (b)</b>	<p><b>BS Section 30 – Large Exposures</b></p> <p><b>BS Section 30.2 – Collateral</b></p>	<p><b>2005 – CBI needs to issue a regulations</b></p>	<p><b>2005 Recommendation – The banking law and regulations are unclear and contradictory and do not provide adequate &amp; consistent guidance to determine large exposures. Clarification is needed to ensure appropriate large exposure information is captured and adhered to.</b></p>
<p><b>Principle 10:</b> In order to prevent abuses arising from connected lending, banking supervisors must have in place requirements that banks lend to related companies and individuals on an arm's length basis, that such extensions of credit are effectively monitored, and that other appropriate steps are taken to control or mitigate the risks.</p>				
EC 1. A comprehensive definition of "connected or related parties" exists in law and/or regulation. The supervisor has discretion, which may be prescribed in law, to make judgments about the existence of connections between the bank and other parties.	<b>LB Article 1</b> - definition of related person means: (i) any administrator of the bank; (ii) Any person related to administrator by marriage, blood or kinship up to the second degree, including adopted children or foster children and any other person residing in the administrator's household; (iii) any person who has a qualifying holding in the bank and any undertaking in which any such person or administrator has a qualifying holding and any administrator of such person or undertaking; and (iv) any undertaking, not subject to consolidation, in which the bank holds a qualifying holding, and any administrator of such undertaking.	<b>BR Section 31 – Transactions with Related Parties</b>	<p><b>2005 – The law gives a comprehensive definition of "related person" in Article 1. The CBI must issue a regulation pertinent to related lending.</b></p>	<p><b>2005 Recommendation – Section 31.2 of the new banking regulations provides supplemental guidance and restrictions on "connected or related parties".</b></p> <p>Training is needed to ensure the BSD understands and enforces the new laws and regulations.</p> <p>To facilitate communication between the CBI and commercial banks, an outreach program should be developed. The program could include a newsletter that deals with such topics as large exposures and "connected or related parties".</p>

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Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
EC 2. Laws and regulations exist that exposures to connected or related parties may not be extended on more favorable terms (i.e., for credit assessment, tenor, interest rates, amortization schedules, requirement for collateral) than corresponding loans to non-related counterparties.	<b>LB Article 31 (1) (c)</b> - No bank may extend credit to a related person if the credit is granted on terms and conditions that are less favorable to the bank than the terms and conditions that are offered by the bank to the public in the ordinary course of business at the time when the credit is granted.		<i>2004 – There is no equal treatment of loan customers. The CBI did not have sufficient power in the past to enforce lending on equal terms for all applicants. The CBI issued instructions and could issue a penalty not to exceed \$300. Neither of these efforts have changed the practices in the banks.</i>	<i>2004 Recommendation - The CBI should utilize those laws that it now has at its disposal to eliminate this deficiency.</i>
			<i>2005 – No comment made.</i>	<i>2005 Recommendation – Section 31.2, paragraph b of the new regulations stipulates that connected or related party lending must be on terms and conditions no less favorable to the bank than those offered by the bank to the public.</i>  <i>Training is needed to ensure the BSD understands and enforces the new laws and regulations.</i>
EC 3. The supervisor requires that transactions with connected or related parties exceeding specified amounts or otherwise posing special risks are subject to approval by the bank’s board of directors.	<b>LB Article 31 (1)</b> – No bank may extend credit to a related person if the credit and its financial terms and conditions have not been approved by the board of directors or, in the case of a branch of a foreign bank, the designated branch manager.		<i>Each institution reportedly has a credit committee that reviews all requests and then makes a recommendation to the Board. However, CBI reports bank managers manage this process and the credit will be approved. CBI is to be provided credit information for approval before action is taken. However, managers reportedly do not comply with this requirement.</i>	<i>2004 Recommendation – The CBI should utilize those laws that it now has at its disposal to eliminate this deficiency.</i>
			<i>2005 – The Law requires this, but it must be tested on-site in practice.</i>	<i>2005 Recommendation – Examination procedures, currently underdevelopment, will include steps to ensure this legal requirement is followed.</i>  <i>Training is needed to ensure the BSD understands and enforces the new laws and regulations.</i>

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Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
EC 4. The supervisor requires that banks have procedures in place to prevent persons benefiting from the loan being part of the preparation of the loan assessment or of the decision itself.	<b>LB Article 21 (2)</b> – Whenever any matter related to such significant personal financial interest comes up for discussion by the board of directors or in any other committee or working group of the bank with decision-making authority, the administrator concerned shall disclose the interest at the beginning of the discussion and shall not thereafter participate in the discussion, shall withdraw himself from the meeting while discussions on the matter are ongoing, and shall take no part in the decision on such matter; and the administrator’s presence shall not be counted for the purpose of constituting a quorum.	<b>BR Section 21 – Disclosure of Personal Interest</b>	<b>2004</b> – The CBI reports that no exclusion from the decision process has been required in the past.	<b>2004 Recommendation:</b> The CBI should fully educate the banks on the restrictions applied to insider lending and the sanctions that can be imposed for noncompliance. Once all parties are fully aware of their obligations, the law should be activated and sanctions applied for non-compliance.
			<b>2005</b> – The CBI must give guidelines to banks on insider lending and appropriate internal controls.	<b>2005 Recommendation –</b> The inspection manual, currently under development, will include procedures to review credit committee policies, procedures & minutes to ensure that potential borrowers and their related parties are not involved with the approval process.  Training is needed to ensure the BSD understands and enforces the new laws and regulations.  An outreach program should provide further information & guidance to the commercial bankers..
EC 5. Laws or regulations set, or the supervisor has the mandate to set on a general or case-by-case basis, limits for loans to connected and related parties, to deduct such lending from capital when assessing capital adequacy or to require collateralization of such loans.	<b>LB Article 31 (1) (b)</b> – No credit shall be granted if the credit would cause the aggregate amount of credits disbursed to all related persons and outstanding to exceed 10 percent of the unimpaired capital reserves of the bank. <b>LB Article 31 (5)</b> The CBI may instruct a bank to deduct any lending to a related person from capital for purposes of calculating the ratio pursuant to Article 16 (1)		<b>2004</b> – No aggregate limits and deductions have been applied in the past. In addition, the CBI has not yet implemented the new banking act, which specifies limits.	<b>2005 Recommendation –</b> The new banking regulations provide guidance and limitations on loans to connected and related parties.
			<b>2005</b> – The law stipulates that the CBI should enact regulations in this regard.	Training is needed to ensure the BSD understands and enforces the new laws and regulations.

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Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
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EC 6. The supervisor requires banks to have information systems to identify individual loans to connected and related parties as well as the total amount of such loans, and to monitor them through an independent credit administration process.	LB Article 31 (4) – Every credit provided by a bank to a related person shall be promptly reported to the audit committee of the bank.		<p><i>2004 – No MIS is present in the banks concerning this matter. On-site supervisors obtain the list of board members and standby members from the CBI prior to initiating an examination. These names are then compared to data within the bank to evaluate the extent of insider related lending at the bank. Supervisor also obtains from the bank a complete list of family members during the examination.</i></p>	<p><b>2004 Recommendation:</b> Regulation defining the MIS which should be present within the bank and the dates at which time the information shall be periodically updated.</p>
			<p><b>2005 – This must be tested in on-site activities.</b></p>	<p><b>2005 Recommendation – Section 26.2 of the new banking regulations require information systems appropriate to the size of the bank. While banks may have manual information systems, computerization is rudimentary and needs improvement.</b></p>
EC 7. The supervisor obtains and reviews information on aggregate lending to connected and related parties.	LB Article 31 (1) (b) – No credit shall be granted if the credit would cause the aggregate amount of credits disbursed to all related persons and outstanding to exceed 10 percent of the unimpaired capital reserves of the bank.		<p><i>2004 – BS does not currently review the aggregate lending to insiders or related individuals or firms.</i></p>	<p><b>2004 Recommendation:</b> Regulation defining the MIS which should be present within the bank and the dates at which time the information shall be periodically updated.</p>
			<p><b>2005 – No comment made.</b></p>	<p><b>2005 Recommendation – Credit concentration information will be included in the monthly regulatory reports currently under development.</b></p>

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AC 1. The definition of “connected or related parties” established in law and/or regulation is broad and, generally, includes affiliated companies, significant shareholders, board members, senior management, key staff as well as close family members, corresponding persons in affiliated companies, and companies controlled by insiders and shareholders.			<p><b>2004</b> – Definition is sufficiently broad. Administrator is defined as member of the board, authorized manager or member of the audit committee of a bank, including in the case of a foreign bank, a designated branch manager. Affiliate is defined as a company that controls a bank, any other company that is controlled by the company that controls the bank. Definition of control is also sufficiently detailed.</p> <p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – The definition of “connected or related parties” is adequately established in the banking laws and regulations.</p> <p>Training is needed to ensure the BSD understands and enforces the new laws and regulations</p>
AC 2. There are limits on aggregate exposures to connected and related parties that are at least as strict as those for single borrowers, groups or related borrowers.			<p><b>2004</b> - Aggregate limits are more restrictive and limited to 10% of capital. However, the limits are not yet being enforced.</p> <p><b>2005</b> – The regulations should specify.</p>	<p><b>2005 Recommendation</b> – The limits are adequately defined in the new banking laws and regulations.</p> <p>Training is needed to ensure the BSD understands and enforces the new laws and regulations</p>
<b>Principle 11:</b> Banking supervisors must be satisfied that banks have adequate policies and procedures for identifying, monitoring and controlling country risk and transfer risk in their international lending and investment activities, and for maintaining appropriate reserves against such risks.				
	<p><b>LB Article 32</b> – The CBI may issue regulations to set the maximum foreign currency exposure which banks may incur in foreign currency generally or in any specified currency or currencies.</p>			

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EC 1. The supervisor determines that a bank's policies and procedures give due regard to the identification, monitoring and control of country risk and transfer risk. Exposures are identified and monitored on an individual country basis (in addition to the end-borrower/end-counterparty basis). Banks are required to monitor and evaluate developments in country risk and in transfer risk and apply appropriate counter-measures.	<b>LB Article 29 (1)</b> - Each bank shall develop and maintain internal policies in the form of maximum and minimum ratios, exposure limits, risk-management standards, investment policies and other prudential ratios to be maintained by the bank concerning its assets, off-balance sheet items and various categories of capital and reserves. Such internal policies shall be consistent with regulations on prudential requirements issued by the CBI.		<p><b>2004</b> – As a result of the UN imposed embargo, the Iraqi banks were barred from international activities. Therefore, the BSD has not developed the required tools to properly review and supervise the banks' policies and procedures to identify, monitor and control country risk and transfer risk. Subsequent to the recent war, there has been a Trade Bank established and some of the private banks have become involved in issuing international L/Cs. The BSD has not begun the process of monitoring and/or regulating these activities.</p> <p><b>2005</b> - The CBI should give guidelines on country risk specifically (now) for privately owned banks. .</p>	<p><b>2004 Recommendation</b> – Inspection procedures need to be developed to help ensure the on-site inspection team identifies the risks and help the banks develop best practices for managing these risks.</p> <p>In addition, monthly reports need to be developed to ensure these risks are adequately identified.</p> <p>A more detailed inspection manual needs to be developed to provide guidance to the inspectors in identifying these risks and recommend the appropriate actions to resolve problems where necessary.</p> <p>Training is also needed to ensure that the inspectors understand these risks.</p> <p><b>2005 Recommendation</b> – Examination procedures should be developed to ensure bank inspectors have adequate guidance to review and comment on country risk and transfer risk.</p> <p>Monthly regulatory reports should include country risk and transfer risk information to ensure it is adequately identified by the BSD and commercial bank management.</p> <p>The CBI Should also set up its own country risk-working group, to issue country risk opinions on a regular basis.</p> <p>BSD training on country risk and transfer risk needs to be conducted.</p>

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<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
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EC 2. The supervisor verifies that banks have information systems, risk management systems and internal control systems to comply with those policies.	No regulations are in place at the time of this update.		<b>2004</b> – <i>The BSD does not have the tools, training, experience or procedures in place to adequately verify that the banks have the information systems, risk management systems &amp; internal control systems to comply with the appropriate policies and procedures to control country and transfer risk.</i>	<b>2004 Recommendation</b> – <i>A more detailed inspection manual needs to be developed to provide guidance to the inspectors in identifying these risks and recommend the appropriate actions to resolve problems where necessary.</i>  <i>Training is also needed to ensure that the inspectors understand these risks.</i>
			<b>2005</b> – <i>The CBI should issue regulations and/or guidelines on MIS risk management and internal support systems.</i>	<b>2005 Recommendation</b> – <i>The BSD will review the systems; however, the computers systems in many, if not most, commercial banks are rudimentary, at best. Management information systems at the commercial banks need to be strengthened before adequate concentration reports can be submitted to both the CBI and bank management for their review.</i>  <i>IT examination procedures need to be developed for inspectors to help them review banks' MIS &amp; computer systems.</i>
EC 3. There is supervisory oversight of the setting of appropriate provisions against country risk and transfer risk. There are different international practices, which are all acceptable as long as they lead to reasonable, risk-related, results. These include, inter alia:	Country risk will be assessed according to international rating assignments.		<b>2004</b> – <i>There is no supervisory oversight to ensure the appropriate provisions have been established against country risk and transfer risk</i>	<b>2004 Recommendation</b> - <i>A more detailed inspection manual needs to be developed to provide guidance to the inspectors in identifying these risks and recommend the appropriate actions to resolve problems where necessary. Training is also needed to ensure that the inspectors understand these risks.</i>
			<b>2005</b> – No comment made.	<b>2005 Recommendation</b> - <i>Examination procedures need to be developed to ensure bank inspectors have adequate guidance to review and comment on country risk and transfer risk.</i>
<ul style="list-style-type: none"> <li>The supervisor (or some other official authority) decides on appropriate minimum provisioning by setting fixed percentages for exposures to each country.</li> </ul>	Country risk will be assessed according to international rating assignments.		<b>2005</b> – <i>See EC 1 comment.</i>	

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<ul style="list-style-type: none"> <li>The supervisor (or some other official authority) sets percentage intervals for each country and the banks may decide, within these intervals, which provisioning to apply for the individual exposures.</li> </ul>	Country risk will be assessed according to international rating assignments.		<b>2005</b> – See EC 1 comment.	<p style="color: red;">Monthly regulatory reports should include country risk and transfer risk information to ensure it is adequately identified by the BSD and commercial bank management.</p> <p style="color: red;">BSD training on country risk and transfer risk needs to be conducted.</p>
<ul style="list-style-type: none"> <li>The bank itself (or some other body such as the national bankers' association) sets percentages or guidelines or even decides for each individual loan on the appropriate provisioning. The provisioning will then be judged by the external auditor and/or by the supervisor.</li> </ul>	Country risk will be assessed according to international rating assignments.		<b>2005</b> – This must be tested by on-site activities.	
EC 4. The supervisor obtains and reviews sufficient information on a timely basis on the country risk/transfer risk of individual banks.	Country risk will be assessed according to international rating assignments.		<b>2004</b> - The BSD does not obtain adequate information on the country and transfer risks within the banks. While the BSD does collect some information On L/Cs, the collected information does not properly identify all the potential risks.	<p><b>2004 Recommendation</b> – A more detailed inspection manual needs to be developed to provide guidance to the inspectors in identifying these risks and recommend the appropriate actions to resolve problems where necessary.</p> <p>Training is also needed to ensure that the inspectors understand these risks.</p>
			<b>2005</b> – Must review reporting.	<p style="color: red;"><b>2005 Recommendation</b> - Monthly regulatory reports should include country risk and transfer risk information to ensure it is adequately identified by the BSD and commercial bank management</p>
<b>Principle 12:</b> Banking supervisors must be satisfied that banks have in place systems that accurately measure, monitor and adequately control market risks; supervisors should have powers to impose specific limits and/or capital charge on market risk exposures, if warranted				
			<p><b>2004</b> – There is currently little market risk as all interest rates are now determined by the government. Effective March 1, 2004, the deposit and loan rates charged by banks will be liberalized, thereby, exposing the banks to significant market risks. The banks do not have any policies and procedures to control these risks. In fact, there is very little concept within the banking industry of these</p>	<p><b>2004 Recommendation</b> – The BSD needs to develop their knowledge and expertise regarding interest rate risk and other associated risks in a free market environment. After establishing this knowledge and expertise, the appropriate policies and procedures to control these risks need to be developed and implemented.</p> <p>An inspection manual will be developed to assist the inspector to identify these risks and help them recommend the appropriate</p>

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			<i>risks and the various hazards they pose. The BSD has nothing in place to adequately evaluate and monitor these risks.</i>	<i>actions to manage the risks properly.  Training will be provided on market risks and best practices to manage these risks.</i>
EC 1. The supervisor determines that a bank has suitable policies and procedures related to the identification, measuring, monitoring and control of market risk.	<b>LB Article 29 (1)</b> – Each bank shall develop and maintain internal policies in the form of maximum and minimum ratios, exposure limits, risk-management standards, investment policies and other prudential ratios to be maintained by the bank concerning its assets, off-balance sheet items and various categories of capital and reserves. Such internal policies shall be consistent with regulations on prudential requirements issued by the CBI pursuant to paragraph (3) of this article.		<b>2005</b> – Market risk at present is not an issue.	<b>2005 Recommendation</b> – Asset/Liability Management, interest risk management, foreign risk management and other treasury functions training needs to be conducted for the bank inspectors.  The inspection manual needs to provide guidance on how identify and supervise asset/liability management, interest rate risk and foreign exchange risk.  Monthly regulatory reports will be developed to capture information regarding these various risks to ensure the BSD can properly monitor these risks.  In the anticipation of an interbank market, the CBI also needs to establish standardized interbank lending agreements before an Interbank Payment System is implemented.  This comment applies to all of Principle 12 and its various criteria.
EC 2. The supervisor determines that the bank has set appropriate limits for various market risks, including their foreign exchange business.	<b>LB Article 29 (3)</b> – The CBI shall by regulation prescribe prudential requirements as well as the common procedures and methods of calculation to be followed by banks in their application. The CBI may specify requirements, prescribed in response to exceptional circumstances, concerning the rate of interest, maturity and other conditions applicable to any type or form of financing extended or received (including deposits) or applicable to contingent liabilities.		<b>2005</b> – There is no FX regulation. This must be regulated and bankers must be trained in the development of an FX market. There is little or no interbank foreign currency dealing.	
EC 3. The supervisor has the power to impose a specific capital charge and/or specific limits on market risk exposures, including their foreign exchange business.	no regulations have been issued.		<b>2005</b> – No comment made.	

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EC 4. The supervisor verifies that banks have information systems, risk management systems and internal control systems to comply with those policies, and verifies that any limits (either internal or imposed by the supervisor) or adhered to.			2005 – Training is necessary in this area.	
EC 5. The supervisor satisfies itself that there are systems and controls in place to ensure that all transactions are captured on a timely basis, and that the banks' positions are revalued frequently, using reliable and prudent market data.			2005 – Training is necessary in this area.	
EC 6. The supervisor determines that banks perform scenario analysis, stress testing and contingency planning, as appropriate, and periodic validation or testing of the systems used to measure market risk.			2005 – Training is necessary in this area.	
EC 7. The supervisor has the expertise needed to monitor the actual level of complexity in the market activities of banks.			2005 – Training is necessary in this area.	
AC 1. Either through on-site work, or through internal or independent external experts, the supervisor determines that senior management understands the market risks inherent in the business lines/products traded and that it regularly reviews and understands the implications (and limitations) of the risk management information that they receive.			2005 – Training is necessary in this area.	
AC 2. The supervisor reviews the quality of management information and forms an opinion on whether the management information is sufficient to reflect properly the banks' position and exposure to market risk. In particular, the supervisor reviews the assumptions management has used in their stress testing scenarios, and the banks' contingency plans for dealing with such conditions.	Many banks do not have a MIS or sufficient automation to warrant		2005 – Training is necessary in this area.	

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AC 3. The supervisor who does not have access to the adequate skills and capacity does not allow banks to determine their regulatory capital requirements based on sophisticated models, such as VaR.	There is no specific regulation which prevents banks from using VaR models.		2005 – A regulation from the central bank must be issued in this regard.	
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**Principle 13:** Banking supervisors must be satisfied that banks have in place a comprehensive risk management process (including appropriate board and senior management oversight) to identify, measure, monitor and control all other material risks and, where appropriate, to hold capital against these risks.

			<p><b>2004</b> – Although the Banking Law mandates sufficient overall capital levels, formal risk evaluation processes are still not in place to measure, monitor and control specific risks as required by this core principle. Effective 3/1/04, interest rates will be liberalized. Bank supervision does not have policies, procedures or adequately trained personnel to identify and test interest for rate disparities, as well as for asset liability risks. Also, the risk inherent in the loan portfolios is reserved at 2% of income without analysis to identify rated credits, collateral vulnerabilities or historical default data. Again, the Bank Supervision Department lacks the ability to identify the risk. Finally, the operational risks posed by a banking system whose infrastructure is antiquated or was destroyed during the recent war are present and growing as the banks attempt to utilize more sophisticated financial products and seek international customers, as well as domestic.</p>	<p><b>2004 Recommendation</b> – Due to the nearly total absence of modern risk management processes necessary to safely and soundly manage these risks at the banks, and the lack of modern supervision practices and adequately trained staff, a training and development program for supervision personnel is necessary to evaluate the banks' risk management. Additionally, detailed supervisory manuals will also be necessary to support the supervisory efforts, especially during this nascent period.</p> <p>Additional capital reserves should also be considered to offset the unidentified risks noted in this assessment.</p>
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<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
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EC 1. The supervisor requires individual banks to have in place comprehensive risk management processes to identify, measure, monitor and control material risks. These processes are adequate for the size and nature of the activities of the bank and are periodically adjusted in light of the changing risk profile of the bank and external market developments. These processes include appropriate board and senior management oversight.			2005 - 1- The CBI must issue risk management regulations. 2- The CBI must give guidelines on risk management policy formulations.	<p style="color: red;"><b>2005 Recommendation -</b> The supervisors need additional training on bank risks and how to identify the various risks within a bank's operations. They also need training on modern risk management techniques.</p> <p style="color: red;">A risk-based inspection manual needs to be developed to provide guidance on how to identify, quantify and manage the various risk exposures.</p> <p style="color: red;">The CBI needs to issue additional risk management regulations and guidelines to ensure the banks are properly identifying and are holding sufficient capital against various risks.</p>
EC 2. The supervisor determines that the risk management processes address liquidity risk, interest rate risk, and operational risk as well as all other risks, including those risks covered in other Principles (e.g. credit and market risk). These would include:			2005 – See EC 1 comment.	
<ul style="list-style-type: none"> <li>Liquidity: good management information systems, central liquidity control, analysis of net funding requirements under alternative scenarios, diversification of funding sources, stress testing and contingency planning. Liquidity management should separately address domestic and foreign currencies.</li> </ul>			2005 – The CBI must train supervisory staff on liquidity assessment.	
<ul style="list-style-type: none"> <li>Interest rate risk: good management information systems and stress testing.</li> </ul>			2005 – Currently interest rate risk is insignificant.	
<ul style="list-style-type: none"> <li>Operational risk: internal audit, procedures to counter fraud, sound business resumption plans, procedures covering major system modifications and preparation for significant changes in the business environment.</li> </ul>			2005 – Guidelines on operations policies and procedures should be issued.	
EC 3. The supervisor issues standards related to such topics as liquidity risk, interest rate risk, foreign exchange risk and operational risk.			2005 – These should be issued, liquidity guidelines should be issued.	

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EC 4. The supervisor sets liquidity guidelines for banks, which include allowing only truly liquid assets to be treated as such, and takes into consideration undrawn commitments and other off-balance- sheet liabilities, as well as existing on balance sheet liabilities.			2005 – No comment made.	<b>2005 Recommendation –</b> The BSD should establish liquidity guidelines for the commercial banks.  <b>2005 Recommendation –</b> The new monthly regulatory reports under development will include schedules detailing the banks' liquidity position. The new Inspection Manual will include procedures to verify the bank's liquidity position.
EC 5. The supervisor determines that limits and procedures are communicated to the appropriate personnel and primary responsibility for adhering to limits and procedures is placed with the relevant business units.			2005 – adequate public education must be conducted to ensure proper understanding of risk management.	
EC 6. The supervisor periodically verifies that these risk management processes, capital requirements, liquidity guidelines and qualitative standards are being adhered to in practice.			2005 – This must be verified by on-site activities.	
AC 1. The supervisor has the authority to require a bank to hold capital against risks in addition to credit and market risk.	<b>LB Article 16 (1)</b> – Each bank shall at all times maintain capital, including its unimpaired capital and reserves, in Iraq of not less than the equivalent of 12 percent of the total value of its assets determined on a risk-adjusted basis, or such higher percentage as specified by regulation of the CBI.		2005 – This would be incorporated in practice with Basel II.	
AC 2. The supervisor encourages banks to include a statement on their risk management policies and procedures in their publicly available accounts.			2005 –This should be subject to CBI audit report guidelines.	
AC 3. Supervisors obtain sufficient information to enable them to identify those institutions carrying out significant foreign currency liquidity transformation.			2005 – A regulatory report regarding this must be issued.	

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AC 4. The supervisor determines that, where a bank conducts its business in multiple currencies, management understands and addresses the particular issues this involves. Foreign currency liquidity strategy is separately stress tested and the results of such tests are a factor in determining the appropriateness of mismatches.			2005 – n/a at this time.	
<b>Principle 14:</b> Banking supervisors must determine that banks have in place internal controls that are adequate for the nature and scale of their business. These should include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding its assets; and appropriate independent internal or external audit and compliance functions to test adherence to these controls as well as applicable laws and regulations.				
EC 1. Corporate or banking laws identify the responsibilities of the board of directors with respect to corporate governance principles to ensure that there is effective control over every aspect of risk management.	LB Article 17 (1) – The board of directors shall be responsible for conducting the business and establishing the policies of the bank. In particular, the board of directors shall establish the risk-management standards, investment policies, minimum prudential ratios, accounting standards and internal control systems of the bank.		2005 – No comment made.	2004 Recommendation – An inspection manual will be developed with a management section that will provide guidance and procedures to the inspector on how to address these issues.
				2005 Recommendation – The law adequately identifies the board of directors' role and responsibilities.  BSD training is needed on the board's role and responsibilities.  The inspection manual, currently under development, should provide guidance to the supervisors on how to review and assess a bank's board of directors.
EC 2. The supervisor determines that banks have in place internal controls that are adequate for the nature and scale of their business. These controls are the responsibility of the board of directors and deal with organizational structure, accounting procedures, checks and balances and the safeguarding of assets and investments. More specifically, these address:	There is no regulation for banks instituting a requirement for internal control activities.	BR Section 26 – General Banking Principles BR Section 26.2 – Internal Controls and Information Systems BR Section 26.3 – Internal Audit System	2004 – The BSD current inspection procedures are focused primarily on compliance with government directives and do not discuss procedures on how to analyze a bank's organizational structure, accounting procedures, checks and balances in place or safeguarding of assets.	2004 Recommendation – An inspection manual will be developed with a management section that will provide guidance and procedures to the inspector on how to address these issues.  Training will be provided in this area

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<ul style="list-style-type: none"> <li>• Organizational structure: definitions of duties and responsibilities including clear delegation of authority (for example, clear loan approval limits), decision-making procedures, separation of critical functions (for example, business origination, payments, reconciliation, risk management, accounting, audit and compliance).</li> <li>• Accounting procedures: reconciliation of accounts, control lists, information for management.</li> <li>• Checks and balances (or “four eyes principles”): segregation of duties, cross-checking, dual control of assets, double signatures.</li> <li>• Safeguarding assets and investments: including physical control.</li> </ul>			<p><b>2005</b> – A regulation must be issued, training must be provided in this area.</p>	<p><b>2005 Recommendation</b> – The law and regulations adequately address the internal controls and internal audit functions required within a bank.</p> <p>The CBI should issue additional guidelines detailing specific requirements when developing an internal control system and the methods to audit the system.</p> <p>Training on internal control systems and audit needs to be conducted to ensure the BSD has an adequate understanding of authority delegation, separation of duties, accounting procedures, safeguarding of assets and other internal control issues.</p> <p>The inspection manual will need to include guidelines and procedures to determine the effectiveness of a bank’s internal control system.</p>
EC 3. To achieve a strong control environment, the supervisor requires that the board of directors and senior management of a bank understand the underlying risks in their business and are both committed to, and legally responsible for, the control environment. Consequently, the supervisor evaluates the composition of the board of directors			<p><b>2004</b> – The current inspection procedures are focused primarily on management’s compliance to government directives. The inspectors do not perform an evaluation of the directorate or senior management’s skills and capabilities.</p>	<p><b>2004 Recommendation</b> – An inspection manual will be developed with a management section that will provide guidance and procedures to the inspector on how to address these issues.</p> <p>Training will be provided in this area.</p>

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and senior management to determine that they have the necessary skills for the size and nature of the activities of the bank and can address the changing risk profile of the bank and external market developments. The supervisor has the legal authority to require changes in the composition of the board and management in order to satisfy these criteria.			<b>2005 – Training for directors should be instituted.</b>	<b>2005 Recommendation – Training on internal control systems and audit needs to be conducted to ensure the BSD has an adequate understanding of internal control issues.</b>  The inspection manual will need to include guidelines and procedures to determine the effectiveness of a bank's internal control system.  Under the current laws, the BSD has the authority to require changes to a bank's board and management when deemed necessary.
EC 4. The supervisor determines that there is an appropriate balance in the skills and resources of the back office and control functions relative to the front office/business origination.	n/a		<b>2004 – The BSD does not determine if there is an appropriate balance in skills and resources of the back office and control functions relative to the front office/business origination.</b>	<b>2004 Recommendation – An inspection manual will be developed with a management section that will provide guidance and procedures to the inspector on how to address these issues.</b>  Training will be provided in this area.
			<b>2005 – No comment made.</b>	<b>2005 Recommendation – Training on internal control systems and audit needs to be conducted to ensure the BSD has an adequate understanding of internal control issues.</b>  The inspection manual will need to include guidelines and procedures to determine the effectiveness of a bank's internal control system.

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<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
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EC 5. The supervisor determines that banks have an appropriate audit function charged with (a) ensuring that policies and procedures are complied with and (b) reviewing whether the existing policies, practices and controls remain sufficient and appropriate for the bank's business. The supervisor determines that the audit function:	<b>LB Article 18 (2)</b> – The board of directors shall appoint a chief internal auditor who shall be a qualified member of a recognized professional association with extensive professional experience in the field of accounting or audit.	<b>BR Section 46 – Audit</b>	<b>2004</b> – Discussions with BSD management indicated that private banks receive a different treatment than the state banks. All private banks are required to have an internal audit department while the state banks are not. BSD also indicated that not all private banks are in compliance with this directive and do not have an internal audit department.  <b>2005</b> – A regulation must be issued, training must be conducted.	<b>2004 Recommendation</b> – All banks, both state and private, should be required to have an internal audit department.  An inspection manual will be developed with a management section that will provide guidance and procedures to the inspector on how to address these issues.  Training will be provided in this area.
<ul style="list-style-type: none"> <li>has unfettered access to all the bank's business lines and support departments;</li> </ul>	There is no regulation in this regard			<b>2005 Recommendation</b> – The new banking regulations require a bank to have an independent audit function, sufficient resources and appropriate methodologies.  The new regulations <u>do not</u> stipulate that the Audit Committee has unfettered access to all business lines and support departments.  Training on internal control systems and audit needs to be conducted to ensure the BSD has an adequate understanding of internal control functions and issues.  The inspection manual will need to include guidelines and procedures to determine the effectiveness of a bank's internal control system.
<ul style="list-style-type: none"> <li>has appropriate independence, including reporting lines to the board of directors and status within the bank to ensure that senior management reacts to and acts upon its recommendations;</li> </ul>	see above	<b>BR Section 26.3 (b) – Internal Audit System</b>		
<ul style="list-style-type: none"> <li>has sufficient resources, and staff that are suitably trained and have relevant experience to understand and evaluate the business they are auditing;</li> </ul>	see above			
<ul style="list-style-type: none"> <li>employs a methodology that identifies the key risks run by the bank and allocates its resources accordingly.</li> </ul>	see above			
EC 6. The supervisor has access to the reports of the audit function.	<b>LB Article 46 (6)</b> – Each bank shall send copies of the audit report to the CBI not later than 30 days after it becomes available. <b>LB Article 47 (1)</b> – The CBI may impose on an auditor the duty to submit to the CBI additional information in relation to the audit, submit a report specified by the CBI, submit to the CBI a report on		<b>2004</b> – The BSD has access to all audit reports of the private banks; however, they have not always had access to audit reports of the state banks.	

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	financial and accounting systems and internal controls or certify whether adequate measures are in place to prevent money laundering or terrorist financing.		<b>2005</b> – Audit reports are received by the CBI. Banks are not audited in accordance with ISA.	<b>2005 Recommendation</b> – The new banking laws imply the BSD has the legal right to request any information it deems necessary; therefore it should have legal access to all audit reports, both internal and external.
AC 1. In those countries with a unicameral board structure (as opposed to a bicameral structure with a supervisory board and a management board), the supervisor requires the board of directors to include a number of experienced non-executive directors.	<b>LB Article 17</b> – The board of directors shall have not less than 5 members, possess legal capacity, be fit and proper persons, be at least 30 years old, and the majority must have significant banking experience and shall not work full time for the bank.		<b>2004</b> – In most, if not all of the state and private banks, there are several experienced non-executive directors. Although not designated in the law, the practice has been that all banks have at least seven directors on their board.	<b>2004 Recommendation</b> – An inspection manual will be developed with a management section that will provide guidance and procedures to the inspector on how to address these issues.  Training will be provided in this area.
			<b>2005</b> – No review has been performed to determine if the boards are acting in an appropriate manner.	<b>2005 Recommendation</b> – The law requires a majority of experienced, non-bank directors on the board. This will be verified through the licensing process.
AC 2. The supervisor requires the internal audit function to report to an Audit Committee.	<b>LB Article 24 (1)</b> – The audit committee reviews and recommends approval of annual audit plan, requests reports from the bank's chief internal auditor, and reviews operations and transactions of the bank on the basis of plans adopted by the audit committee.		<b>2004</b> – The banks do not have a board committee structure in place, therefore there are no separate audit committees, independent or not.	<b>2004 Recommendation</b> – An inspection manual will be developed with a management section that will provide guidance and procedures to the inspector on how to address these issues.  Training will be provided in this area.
			<b>2005</b> – A regulation should be written to implement the law in this respect.	<b>2005 Recommendation</b> – The new regulations do not address this issue. The CBI needs to provide additional guidance.  Examinations procedures need to be developed to ensure the inspectors have adequate guidance on reviewing and monitoring the Audit Committee and its functions and responsibilities.

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AC 3. In those countries with a unicameral board structure, the supervisor requires the Audit Committee to include experienced non-executive directors.	<p><b>LB Article 24 (1)</b> – Each bank shall establish an audit committee. <b>LB Article 24 (2)</b> – The audit committee shall have not less than three members. The members are appointed by the shareholders from among the members of the board for periods of not more than four years. The chairman of the board and the authorized manager of a bank shall not be members of the audit committee. The majority of the members of the audit committee shall not work full time for the bank.</p>		<p><b>2004</b> – <i>The banks do not have a board committee structure in place, therefore, there are no audit committees, independent or not.</i></p>	<p><b>2004 Recommendation</b> – <i>An inspection manual will be developed with a management section that will provide guidance and procedures to the inspector on how to address these issues.</i></p> <p><i>Training will be provided in this area.</i></p>
			<p><b>2005</b> –</p>	<p><b>2005 Recommendation</b> – <i>The banking law requires that the Audit Committee members consist of experienced non-executive directors.</i></p> <p><i>The inspection manual must include procedures that ensure the banks' Audit Committees are independent from bank management.</i></p>

**Principle 15:** Banking supervisors must determine that banks have adequate policies, practices and procedures in place, including strict “know-your-customer” rules, that promote high ethical and professional standards in the financial sector and prevent the bank being used, intentionally or unintentionally, by criminal elements.

	<p><b>AML Article 7 – Supervision Duties</b></p>		<p><b>2004</b> – <i>Although the Banking Law and the Draft CBI Law establish the authority and framework for an Anti-Money Laundering/KYC supervision program, the lack of an ID database, poor or absent recordkeeping, and an acceptance and dependence upon alternative sources of money transmission allow the current environment to remain critically vulnerable to criminal activity and fraud. At the individual bank level, there appears to be no material and/or effective anti-money laundering or anti-corruption financing deterrence and, as noted by the UST assessor, no current legal impetus to do so. Additionally, the CBI Bank Supervision Department has no policies, procedures or</i></p>	<p><b>2004 Recommendation</b> – <i>The draft AML/ACF Law (with the establishment of the MLRO and suspicious transaction and large cash transaction reporting intact) needs to be finalized and enacted as soon as possible, along with its implementing regulations. Comprehensive documentation and identification standards, well trained analysts and CBI supervisors, and diligent and timely oversight are also vital to an effective program.</i></p> <p><i>At this writing, the draft law remains very much in the formative stage, and may not be enacted in the very near future. Therefore, it will be some time before an implementing regulation will be in place. Supervisory training should not be postponed, however, and can be based upon the FATF recommendations and best practices.</i></p>
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			<i>informed and trained personnel able to detect sophisticated financial crime activity.</i>	
EC 1. The supervisor determines that banks have in place adequate policies, practices and procedures that promote high ethical and professional standards and prevent the bank from being used, intentionally or unintentionally, by criminal elements. This includes the prevention and detection of criminal activity or fraud, and reporting of such suspected activities to the appropriate authorities.		No regulation, no review	<b>2005</b> – 1 - the CBI should issue KYC "Know your customer" regulations. 2 - The CBI should issue Public information on sample policy guidelines. 3 - CBI should train their staff on AML "anti-money laundering" procedures. 4 - CBI issue deadline on policy establishment. 5 - Supervision activities. 6 – Issue guidance to banks	<b>2005 Recommendation</b> – Inspection guidelines, policies and procedures to review for money laundering activities need to be developed and implemented.  Conduct training on the AML, regulations and supervisory responsibilities.
EC 2. The supervisor determines that banks have documented and enforced policies for identification of customers and those acting on their behalf as part of their anti-money-laundering program. There are clear rules on what records must be kept on customer identification and individual transactions and the retention period.	<b>1- AML Section 5, Article 15</b> (Verification of Customer Identity), <b>16 (Identification of the beneficial owner of funds) &amp; 17 (Further verification of Identity)</b> <b>2- LB Article 38 (1)</b> – Banks shall keep on file for at least seven years the pertinent documents for each of their transactions, namely: customer identification records, application and all contract documents, financial records concerning counterparties, account agreements with its customers, such other documents as the CBI may specify in regulation		<b>2004</b> – The CBI currently does not have a regulatory framework through which it may specify the documentation it deems pertinent to customer identification and individual transactions.	<b>2004 Recommendation</b> – Regulatory requirements should be put in place as soon as possible that specifically address customer identification and all documents necessary to fully comply with this Basel Core Principle.
			<b>2005</b> - 1- refer to steps in p15 e 2- CBI supervisors should verify banks compliance with their own retention policies.	<b>2005 Recommendation</b> – See Core Principle Assessment comment (in blue).

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<p>EC 3. The supervisor determines that banks have formal procedures to recognize potentially suspicious transactions. These might include additional authorization for large cash (or similar) deposits or withdrawals and special procedures for unusual transactions.</p>	<p><b>LB Article 35</b> – If a bank or any of its administrators, officers or employees learns that the execution of any banking transaction or the receipt or payment of any sum of money pertains or may pertain to any crime or illegal act, the bank shall immediately notify the appropriate official or judicial authority to this effect. The bank shall inform the CBI on a monthly basis about suspicious transactions reports submitted, if any, and concerning any need for additional action regarding this matter.</p> <p><b>AML Articles 18 (Further Verification of Purpose &amp; Nature of Transaction) 19 (Reporting Obligations) &amp; 20 (Cash Transaction Reports)</b></p>		<p><b>2004</b> – Although the notification to authorities and to the CBI will be required by law, the contemplated time frame of one month is longer than desired. Regulation is necessary to amplify the reporting requirements, and outline the specific documentation requirements of the CBI's Supervision Department</p>	<p><b>2004 Recommendation</b> – Along with regulation, a suspicious transaction reporting system should be implemented, including a Suspicious Transaction Form, that can be utilized by official authorities and the CBI.</p>
			<p><b>2005 - 1-</b>The bank shall inform the CBI on a monthly basis about suspicious transaction reports submitted, if any, and concerning any need for additional action regarding this matter. <b>2-</b> refer to steps in p15 e1. <b>3-</b> Large transaction regulations. i.e : banks should have special procedures for large transactions.</p>	<p><b>2005 Recommendation</b> – The AML are in place and adequate; however, further regulations on inspection procedures need to be developed.</p> <p>The CBI must set up an AML unit to gather data.</p>
<p>EC 4. The supervisor determines that banks appoint a senior officer with explicit responsibility for ensuring that the bank's policies and procedures are, at a minimum, in accordance with local statutory and regulatory anti-money laundering requirements.</p>	<p><b>AML Article 7 - Duties</b></p>	<p>The CBI must write a regulation for commercial banks to assign a senior officer to do these duties</p>	<p><b>2005 - 1-</b> The CBI issues call for banks to appoint AML senior officer with deadline. <b>2-</b>CBI should train appointed officers in AML procedures.</p>	<p><b>2005 Recommendation</b> – The AML are in place and adequate; however, further implementing regulations need to be developed.</p>
<p>EC 5. The supervisor determines that banks have clear procedures, communicated to all personnel, for staff to report suspicious transactions to the dedicated senior officer responsible for anti-money laundering compliance.</p>	<p><b>LB Article 35</b> – If a bank or any of its administrators, officers or employees learns that the execution of any banking transaction or the receipt or payment of any sum of money pertains or may pertain to any crime or illegal act, the bank shall immediately notify the appropriate official or judicial authority to this effect.</p>		<p><b>2005</b> – The CBI may mandate that banks require their staff to sign a document acknowledging training.</p>	<p><b>2005 Recommendation</b> – See Core Principle Assessment comment (in blue).</p>
<p>EC 6. The supervisor determines that banks have established lines of</p>	<p><b>AML Article 7 (e) - Duties</b></p>	<p>There is no regulation in this regard.</p>	<p><b>2004</b> – See EC3 above.</p>	<p><b>2004 Recommendation</b> – See EC3 above.</p>

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communication both to management and to an internal security (guardian) function for reporting problems.			<b>2005 -1-</b> CBI should review policies for provision of this requirement. <b>2-</b> CBI supervision should verify on-site that banks follow policies in this regard.	<b>2005 Recommendation – See Core Principle Assessment comment (in blue).</b>
EC 7. In addition to reporting to the appropriate criminal authorities, banks report to the supervisor suspicious activities and incidents of fraud material to the safety, soundness or reputation of the bank.	<b>AML Articles 19 (Reporting Obligations) &amp; 20 (Cash Transaction Reports) 21 (Cross Border Reporting) 22 (Make &amp; Retain Records)</b>  <b>LB Article 35</b>	There is no regulation in this regard.	<b>2004 – As noted above, the monthly time frame is lengthy.</b>	<b>2004 Recommendation – A 10 to 15 day time frame would be more desirable, thereby giving the CBI timely notice in order to act quickly on a potential supervisory manner. It should also be included in regulation that all documentation associated with the suspicious transaction must be segregated and protected from alteration or removal until official authorities and the CBI have taken possession of them.</b>
			<b>2005 - 1-</b> The CBI must issue & update regularly a list of types of suspicious transactions. <b>2-</b> CBI supervision must verify that banks maintain staff awareness of suspicious transactions.	<b>2005 Recommendation – Regulations need to be developed and implement regarding the banks' and their external auditors duty to report suspicious activities to the BSD in a timely manner.</b>
EC 8. Laws, regulations and/or banks' policies ensure that a member of staff who reports suspicious transactions in good faith to the dedicated senior officer, internal security function, or directly to the relevant authority cannot be held liable.	<b>LB Article 35 (2)</b> – A bank's disclosure of any information in good faith under this article shall not be considered a breach of banking confidentiality. In addition, neither the CBI nor the bank shall bear any liability as a result thereof. <b>AML Article 23 – Exclusion of Liability &amp; Whistleblower Protection</b>		<b>2005 – AML Section 5, article 23</b>	<b>2005 Recommendation – See Core Principle Assessment comment (in blue).</b>
EC 9. The supervisor periodically checks that banks' money laundering controls and their systems for preventing, identifying and reporting fraud are sufficient. The supervisor has adequate enforcement powers (regulatory and/or criminal prosecution) to take action against a bank that does not comply with its anti-money laundering obligations.	<b>AML Section 2 – Penalties Article 9 – Regulatory Enforcement</b>	There is no regulation in this regard.	<b>2005 - see P15, e1 Penalties and enforcement section 2: Penalties Article 3: money laundering for CBI enforcement powers.</b>	<b>2005 Recommendation – The AML are in place and adequate; however, further implementing regulations need to be developed.</b>  <b>CBI needs to set up an AML unit for data gathering.</b>

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EC 10. The supervisor is able, directly or indirectly, to share with domestic and foreign financial sector supervisory authorities information related to suspected or actual criminal activities.	<b>LB Article 54</b>	There is no regulation in this regard.	<b>2004</b> – See EC3 above.	<b>2004 Recommendation</b> – See EC3 above.
			<b>2005</b> - Section 4: mutual administrative assistance. Article 13, Article 14 The CBI must sign cross border agreements of AML efforts, with relevant host and cooperating countries	<b>2005 Recommendation</b> – See Core Principle Assessment comment (in blue).
EC 11. The supervisor determines that banks have a policy statement on ethics and professional behavior that is clearly communicated to all staff.	see above		<b>2005</b> - 1- The CBI should issue regulation or guideline on ethics and professional behavior establishing basic requirements to be addressed with deadline for completion. 2- Supervision should review bank ethics policies offsite. 3- Supervision should verify on-site that banks train staff on ethics policies.	<b>2005 Recommendation</b> – Conduct training on ethics and professional behavior.  To facilitate communication between the CBI and commercial banks, an outreach program should be developed. The program could include a newsletter that deals with such topics as ethics and professional behavior.
AC 1. The laws and/or regulations embody international sound practices, such as compliance with the relevant forty Financial Action Task Force Recommendations issued in 1990 (revised 1996).	see above		<b>2005</b> – AML is in compliance with FATF recommendations.	<b>2005 Recommendation</b> – See Core Principle Assessment comment (in blue).
AC 2. The supervisor determines that bank staff is adequately trained on money laundering detection and prevention.	see above		<b>2005</b> – Training must be conducted.	<b>2005 Recommendation</b> - The AML are in place and adequate; however, further implementing regulations need to be developed.
AC 3. The supervisor has the legal obligation to inform the relevant criminal authorities of any suspicious transactions.	<b>LB Article 35</b> – If a bank or any of its administrators, officers or employees learns that the execution of any banking transaction or the receipt or payment of any sum of money pertains or may pertain to any crime or illegal act, the bank shall immediately notify the appropriate official or judicial authority to this effect.		<b>2005</b> – No comment made.	<b>2005 Recommendation</b> – The AML unit should establish MOUs with the relevant domestic and foreign criminal authorities.
AC 4. The supervisor is able, directly or indirectly, to share with relevant judicial			<b>2005</b> – Articles 13, 14 CBI must establish AML unit.	<b>2005 Recommendation</b> – See Core Principle Assessment comment (in blue).

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authorities information related to suspected or actual criminal activities.				
AC 5. If not performed by another agency, the supervisor has in-house resources with specialist expertise on financial fraud and anti-money laundering obligations.			<p><b>2005</b> - 1- CBI must establish MLRO. 2- Staff must be hired and trained. 3- Software must be developed. 4- Reporting formats must be developed and transmitted to banks. 5- Data mining procedures must be developed. 6- Enter Agency agreement must be signed for data sharing procedures.</p>	<p><b>2005 Recommendation</b> – See Core Principle Assessment comment (in blue).</p>
<p><b>Principle 16:</b> An effective banking supervisory system should consist of some form of both on-site and off-site supervision.</p>				
EC 1. Banking supervision requires an in-depth understanding, periodic analysis and evaluation of individual banks, focusing on safety and soundness, based on meetings with management and a combination of both on-site and off-site supervision. The supervisor has a framework that (1) uses on-site work (conducted either by own staff or through the work of external auditors) as a primary tool to:	<p><b>LB Article 53 (3)</b> - The CBI may cause at any time an on-site examination of a bank, its subsidiaries or affiliates. The exam shall review operations to ascertain the bank's financial position and the extent to which the bank complies with laws and regulations.</p>		<p><b>2004</b> – Only limited, broad categories of balance sheet and income statement data are collected to the extent necessary to determine compliance with laws. When offsite analysis detects banks are not in compliance with laws or submitting accurate or complete information they pass the information to the onsite supervision section who may go to the bank to review the financial information.</p>	<p><b>2004 Recommendation:</b> Strengthen the depth of offsite analysis to include collection and analysis of more detailed financial information from State and Private Banks.</p>
<ul style="list-style-type: none"> <li>provide independent verification that adequate corporate governance (including risk management and internal control systems) exists at individual banks;</li> </ul>			<p><b>2005</b> – Examination practices must be observed on-site; however, improvements in examiner education in the field of accounting have improved.</p>	<p><b>2005 Recommendation</b> – Supervision staff is weak in their knowledge of modern banking issues and techniques including international standards for accounting, auditing and other financial practices.</p>
<ul style="list-style-type: none"> <li>determine that information provided by banks is reliable;</li> </ul>				<p>Overall, the BSD is uninformed on modern risk-based supervision techniques and practices.</p>

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<ul style="list-style-type: none"> <li>obtain additional information needed to assess the condition of the bank.</li> </ul>				<p>The supervision manual currently in use focuses primarily on verifying balances and compliance to a few prudential standards.</p> <p>A new manual is being developed that is based on CAMEL risk-based supervision techniques and will provide modern evaluation and verification procedures.</p> <p>In addition to the recent training on accounting and credit risk management, training on asset/liability management, bank analysis, internal controls and audit, corporate governance, supervisory ethics and several other topics will be provided.</p>
EC 2. And (2) uses off-site work as a primary tool to:	<b>LB Article 53 (1)</b> - The CBI shall review the statements, documents, information, clarifications, and proof submitted by banks.		<b>2004</b> – Information submitted by banks to CBI covers only basic balance sheet and income statement data and does not include adequate clarifications and proofs.	<b>2004 Recommendation:</b> Implement controls to ensure complete, timely, and accurate information is submitted by both private and state banks
<ul style="list-style-type: none"> <li>review and analyze the financial condition of individual banks using prudential reports, statistical returns and other appropriate information, including publicly available information;</li> </ul>			<b>2005</b> – No comment made.	<p><b>2005 Recommendation -</b> The monthly regulatory reports now in use are not compliant to international standards.</p> <p>A regulatory reporting improvement plan is underway and will strengthen the off-site inspectors' ability to monitor, evaluate and supervise the commercial banks activities.</p>
<ul style="list-style-type: none"> <li>monitor trends and developments for the banking sector as a whole.</li> </ul>				
EC 3. The supervisor checks for compliance with prudential regulations and other legal requirements through on-site and off-site work.	<b>LB Article 53 (3)</b> - The CBI may cause at any time an on-site examination of a bank, its subsidiaries or affiliates. The exam shall review operations to ascertain the bank's financial position and the extent to which the bank complies with laws and		<b>UST</b> – The supervisory process is more of a checklist process than a qualitative one. Safety and soundness is not a stated objective of the inspections, rather, the overriding objective is checking for compliance with existing laws.	<b>2004 Recommendation:</b> Develop a qualitative supervisory process that incorporates international standards of safety and soundness evaluation that expands on the current process of checking for compliance with existing laws.

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	regulations.		<b>2005 – Prudential regulations should be issued.</b>	<b>2005 Recommendation – New banking regulations will be issued soon. Once issued, the examinations using the new manual and monthly off-site analysis using the new monthly regulatory reports will help ensure compliance to prudential regulations and legal requirements.</b>
EC 4. The appropriate mix of on-site and off-site supervision is determined by the particular conditions and circumstances of the country. In any event, the framework integrates the two functions so as to maximize the synergy and avoid supervisory gaps.			<b>2004 – The offsite and onsite do coordinate supervisory efforts. The Offsite function shares financial information collected from banks with the onsite function and enables onsite function to follow-up with onsite supervisory reviews for banks not in compliance with laws and supervisory directives.</b>	<b>2004 Recommendation:</b> Coordination between the onsite and offsite supervisory functions should be significantly expanded past compliance checks to include development and sharing of risk-based analysis of bank's condition. These functions should develop risk based supervisory strategies to guide and coordinate supervisory activities.
			<b>2005 – No comment made.</b>	<b>2005 Recommendation – Through discussion and observation, it appears that the on-site staff and off-site staff communicate on relevant issues for individual banks.</b>  The communication and coordination will be promoted to share information and develop comprehensive risk based analysis of banks on an individual and aggregate basis.
AC 1. The supervisor has procedures in place to assess the effectiveness of on-site and off-site functions, and to address any weaknesses that are identified.			<b>2004 – There are no procedures to assess the effectiveness of the onsite and offsite functions. Each function only checks compliance with laws, primarily through ratios. There are no qualitative judgments made by the supervision staff and no management evaluation of the effectiveness of tasks performed.</b>	<b>2004 Recommendation:</b> The BSD should develop procedures detailing specific functions to be performed by the onsite and offsite functions to include standards of performance and the quality of analysis for specific activities within each function. The procedures should include how activities will be coordinated between the onsite and offsite functions to ensure follow-up.

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			2005 – No comment made.	<b>2005 Recommendation – Current procedures do not formally or adequately identify and evaluate the effectiveness. Recommendations for a formalized internal review process will be made.</b>
AC 2. The supervisor has the right to access copies of reports submitted to the board by both internal and external auditors.	<b>LB Article 45 (1)</b> - Each bank shall send copies of the annual report to the CBI not later than 30 days after it becomes available, and within six months after the end of the bank's financial year at the latest. <b>LB Article 46 (6)</b> - Each bank shall send copies of the audit report to the CBI not later than 30 days after it becomes available. Where the CBI is not satisfied with the auditor's report, it may require the appointment of another auditor to prepare a new audit report within a specified time.		<i>2004 – Audits are performed by the state's Supreme Audit authority and under the former regime they did not have full independence.</i>	<b>2004 Recommendation:</b> The BSD should develop policies and procedures detailing the requirements for banks to engage external auditors to perform audits sufficient at a minimum to determine the adequacy of internal control systems and assurance that bank reports accurately represent the bank's condition. Procedures should also include provision ensuring the BSD receives and reviews all audit reports banks are required to submit under the law.
			2005 – No comment made.	<b>2005 Recommendation – The new laws imply the BSD has the legal right to request any information it deems necessary; therefore it should have legal access to all audit reports, both internal and external.</b>  Although external auditors have not been fully integrated into the banking industry, communication frameworks should be established.
AC 3. The supervisor has a methodology for determining and assessing the nature, importance and scope of the risks to which individual banks are exposed, including the business focus, the risk profile and the internal control environment. Off-site and on-site work is prioritized based on the results of that assessment.			<i>UST - The supervisory process is more of a checklist process than a qualitative one. Safety and soundness is not a stated objective of the inspections.</i>	<b>2004 Recommendation:</b> The BSD should establish procedures and a methodology to develop individual supervisory strategies tailored to the nature, importance and scope of the risks to which individual banks are exposed. These strategies should also consider the nature of the bank's business, risk profile and effectiveness of their internal control processes.

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			2005 – No comment made.	<b>2005 Recommendation –</b> The examination process continues to be primarily a checklist function; however, seminars on risk-based analysis have been and will be conducted, a risk-based inspection manual is being developed and regulatory reports are being developed to assist with risk identification both on an individual bank and systemic level.
AC 4. The supervisor is legally required to treat as confidential information received as part of the supervisory process. However, the supervisor is given powers under the law to disclose information in certain defined circumstances. The law prevents disclosure of confidential information unless the supervisor is satisfied that it will be held confidential by the recipient, or unless disclosure is otherwise required by law.	<b>LB Article 53 (4)</b> – Any person authorized to carry out an examination under this article shall be subject to confidentiality requirements.		<b>2004 –</b> BSD employees are not subject to formal confidentiality requirements but are counseled that they should not disclose confidential information.	<b>2004 Recommendation:</b> The CBI should establish a policy requiring new employees, involved in supervision activities with access to bank's financial data, be required to sign a confidentiality statement.
			2005 – No comment made.	<b>2005 Recommendation –</b> Under the new banking law, the supervisor is legally required to treat information received during an examination as confidential.  Seminars on BSD ethics will be given and this issue will be emphasized.
AC 5. The supervisor is able to reasonably place reliance on internal audit work that has been competently and independently performed.			<b>2004 –</b> BSD does not rely on bank's internal audit work. BSD supervisory efforts are limited to compliance checks of existing procedures and all work is done independent of a bank's internal audit work.	<b>2004 Recommendation:</b> The BSD should establish procedural guidelines for acceptable internal audit processes that the BSD can reasonably rely on.
			<b>2005 –</b> Internal Audit training should be provided for banks and for supervisors. Internal audit policies and procedures should be issued	<b>2005 Recommendation –</b> Currently, the supervisor is unable to rely on internal audit in most Iraqi banks. The CBI should issue guidelines on Internal Routine & Controls and Internal Audits.  Training is needed in the banks on proper audit techniques. Supervisors also need to be trained on what constitutes a proper audit.

## Supervisory Development Plan - DETAIL

<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	

**Principle 17:** Banking supervisors must have regular contact with bank management and a thorough understanding of the institution's operations.

EC 1. Based on the risk profile of individual banks, the supervisor has a program of regular meetings with senior and middle management (including the board, non-executive directors and heads of individual units) to discuss operational matters such as strategy, group structure, corporate governance, performance, capital adequacy, liquidity, asset quality, risk management systems etc.	<b>LB Article 25 (2)</b> – In the absence of specific provisions to the contrary set out in this Law, for banks that are solely owned by the State the provisions of the Public companies shall be observed regarding matters pertaining to the internal organization and management of a bank.		<p><i>2004 – BS reports that meetings are held with management at the conclusion of an examination. And that on-going communication exists on such issues as complaints from clients concerning interest rates and delay in payments, and fake currency. However, there are not regular periodic meetings with the board or management structure.</i></p> <p><i>2005 – This must be verified.</i></p>	<p><i>2004 Recommendation – The onsite inspection manual will cover this issue. The CBI will also be encouraged to establish a policy specifying how regular periodic meetings will be held.</i></p> <p><i>2005 Recommendation – Communication between the BSD and commercial bankers should be improved.</i></p> <p><i>An outreach program should be developed to facilitate regular contact with commercial banks and promote meaningful communication. In addition, a banker contact matrix should be developed for management review.</i></p>
EC 2. The supervisor has a thorough understanding of the activities of its banks. This is accomplished through a combination of off-site surveillance, on-site reviews and regular meetings.	<b>LB Article 18 (4)</b> – A person appointed to serve as authorized manager of a bank, designated branch manager, or other senior bank official as specified by the CBI, must possess the banking competence and expertise required for the conduct of banking operations.		<p><i>2004 – BS insists that it has a thorough understanding of all activities of an institution. However, some banks have investments in non-banking activities and it is unclear that these activities are adequately addressed by the supervision function. In addition, the examinations are compliance focused rather than a qualitative assessment</i></p>	<p><i>2004 Recommendation – An inspection manual will be developed based upon CAMELS rating system and risk based supervision. Training will then be conducted to implement the approaches.</i></p>

**Supervisory Development Plan - DETAIL**

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
			2005 – A program for on-site and off-site work must be implemented.	2005 Recommendation - The examination procedures in the new manual, the analysis of the new monthly regulatory reports should generate a better understanding of the banks' operations and issues. In addition, recommendations will be made to promote face-to-face meetings between BSD staff and commercial bank management.
EC 3. The supervisor requires banks to notify it of any substantive changes in their activities or any material adverse developments, including breach of legal and prudential requirements.	LB Article 19 (1) - Banks shall obtain the prior written approval of the CBI before appointing or electing an administrator. LB Article 19 (3) - Banks shall notify the CBI of the dismissal or the acceptance of the resignation of an administrator, as well as the reasons for said dismissal or resignation, within a period of three days of such event.		2004 - BS states that any change of activity that will impact the capital structure must have CBI prior approval. However, the banks do not always comply with the requirement to inform the CBI. As to reports of violations, this information is reportedly conveyed to the CBI on an annual basis. This delay is clearly unacceptable.	2004 Recommendation – The CBI will be encouraged to assume a more proactive role in requiring notification of changes.
			2005 – This must be regulated and verified by on-site activities.	2005 Recommendation – While the law identifies numerous instances where notification is required by the banks, a more general directive is recommended  In lieu of a general directive, communication between the BSD and the commercial banks should be improved through outreach programs, training, help desks and both formal and informal meetings.
EC 4. As part of the licensing process, and on an on-going basis during routine supervision, the supervisor considers the quality of management.			2004 - BS does not evaluate the performance of management. Instead, their analysis is focused upon compliance issues.	2004 Recommendation – The examination will include a section addressing an assessment of the quality of management. It will also be addressed through the development of a CAMELS rating system. Training will then be conducted.

## Supervisory Development Plan - DETAIL

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
			2005 – This should be verified by on-site activities.	2005 Recommendation – The new banking laws require the BSD to evaluate management during the licensing process. In addition, the new inspection manual will provide guidelines and procedures on assessing management for the CAMEL rating.
<b>Principle 18:</b> Banking supervisors must have a means of collecting, reviewing and analyzing prudential reports and statistical returns from banks on a solo and consolidated basis.				
EC 1. The supervisor has the legal authority to require banking organizations to submit information, on both a solo and consolidated basis, on their financial condition and performance, at regular intervals. These reports provide data on matters such as on and off-balance sheets assets and liabilities, profit and loss, capital adequacy, liquidity, large exposures, loan loss provisioning, market risk and deposit sources.	<b>LB Article 53 (1)</b> - The CBI shall review the statements, documents, information, clarifications and proof submitted by banks in the application of this Law. <b>LB Article 26 (2)</b> – Banks shall maintain adequate accounting and other records of businesses.		2004 – CBI captures only limited financial data from banks and the information is highly suspect. Asset valuations are uncertain and there is not an adequate internal or external audit process in place. Information received from banks is not timely or complete.	2004 Recommendation: CBI should develop a standardized, automated reporting format to collect and analyze financial information. CBI supervisory staff should develop procedures and assess reporting integrity and timeliness of reporting. CBI reviews should include evaluation of internal and external audits relative to financial reporting accuracy. Additionally, banks should perform a comprehensive asset revaluation to resolve the uncertainties on Iraqi banks' balance sheets.
			2005 – Changes are in process for the entire reporting system.	2005 Recommendation – Monthly regulatory reports are being developed and are expected to be completed and implemented during the 4Q05. These reports will require all the information outlined in EC 2 of Principle 18.  The law requires banks to submit consolidated financial information.
EC 2. Laws and regulations establish, or the supervisor has the authority to establish, the principles and norms regarding the consolidation of accounts as well as the accounting techniques to be used.			2004 – The CBI and Iraqi banks use a standard Chart of Accounts for accounting standards. We have not determined if the Chart of Accounts or the basis that banks report is in accordance with IAS 30.	2004 Recommendation: Significantly expand the scope of financial information collected to ensure it conforms to IAS 30 – “Disclosure in the Financial Statements of Banks and Similar Financial Institutions”.

**Supervisory Development Plan - DETAIL**

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
			<p><b>2005 – Changes are in process for the entire reporting system.</b></p>	<p><b>2005 Recommendation –</b> While the law requires banks to submit consolidated financial information; it does not specify principles and norms or the accounting techniques to be used.</p> <p>Iraqi accountings standards need to be strengthened to become compliant with <i>International Financial Reporting Standards</i>. After improved accounting standards have been established, the CBI should prepare and distribute guidelines regarding accounting consolidations.</p>
<p>EC 3. The supervisor has a means of enforcing compliance with the requirements that the information be submitted on a timely and accurate basis. The supervisor determines that the appropriate level of senior management is responsible for the accuracy of supervisory returns, can impose penalties for deliberate misreporting and persistent errors, and can require that inaccurate information be amended.</p>	<p><b>LB Article 56 (3)(a)</b> – The CBI may impose an administrative penalty on a bank of up to 5 million dinars per day until the violation has eased or compliance is obtained, and not to exceed 5% of its paid-up capital overall in the following case: if the bank intentionally submitted to the CBI statements, statistics, or information that are deficient or false. Penalties do not preclude further recourse</p>		<p><b>2004 – CBI has the power to impose a monetary fine against banks in non-compliance with its regulatory reporting requirements; however, the amount of the fine during the former regime was insufficient to compel compliance by the banks and the CBI has not imposed any penalties against banks since 2002</b></p>	<p><b>2004 Recommendation:</b> The CBI should develop an enforcement policy specifying how they will apply penalties.</p>
			<p><b>2005 – Changes are in process for the entire reporting system.</b></p>	<p><b>2005 Recommendation –</b> By law, the supervisor has the means to enforce compliance with timely and accurate submission of information; however, they have been reluctant to enforce the law and impose penalties.</p> <p>To provide regulatory guidance, a Progressive Enforcement Action Manual is being developed and implemented.</p> <p>Continuous education will also be provided on this manual and surrounding issues.</p>

## Supervisory Development Plan - DETAIL

<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
EC 4. The information that is required to be submitted includes standardized prudential and statistical reports, and detailed balance sheets and income statements, as well as supporting schedules that provide details concerning on and off balance sheet activities and on reserves included in capital. Inclusion of data on loan classification and provisioning is also required.	<b>LB Article 41 (1)</b> – Each bank is required to submit to the CBI at regular intervals statements showing its assets and liabilities, foreign currency exposure, capital adequacy ratio, reserve position, liquid assets, large exposures and credits to related persons, information on deposits, loans and contingent liabilities and other information as requested by the CBI.		<b>2004</b> – <i>The financial information submitted by banks to the CBI is not adequate to perform an adequate CAEL risk assessment. Currently, the information is used only to verify compliance with legal requirements in place prior to the new commercial banking law. Their compliance checks are limited to reviews of compliance with legal requirements of the former regime.</i>	<b>2004 Recommendation:</b> <i>Banks should be required to submit the scope and depth of information necessary to perform a comprehensive CAEL (Capital, Asset Quality, Earnings and Liquidity) assessment in accordance with international standards.</i>
			<b>2005</b> – <i>Changes are in process for the entire reporting system.</i>	<b>2005 Recommendation –</b> <i>The monthly regulatory reports under development will include all the information required to enable a comprehensive analysis of the banks' financial condition.</i>
EC 5. The supervisor has the authority to request and receive any relevant information from banks, as well as any of their related companies, irrespective of their activities, where the supervisor believes that it is material to the financial situation of the bank or the assessment of the risk of the bank.	<b>LB Article 53 (2)</b> - The CBI may request that banks, or any of its subsidiaries or affiliates, provide, and corroborate in writing when it deems necessary, any additional information, reports, documents, clarifications, or proof.		<b>UST</b> – <i>The supervisor has the authority to request financial information from banks; however, some financial information was withheld from the Supervisor and the Chamber due to the connections with the Hussein family.</i>	<b>2004 Recommendation:</b> <i>Develop a process with accompanying standardized schedules for the CBI to request financial information required by the banking law and the draft Central Bank law and to ensure banks submit complete, timely and accurate financial information. This information should be available electronically to enable the CBI to analyze and report on the condition of the financial industry on an aggregate basis.</i>
			<b>2005</b> – <i>Changes are in process for the entire reporting system.</i>	<b>2005 Recommendation –</b> <i>Under the law, the BSD has the right to request any financial information from the banks that they deem necessary.</i>  <i>Training on the law that highlights the legal powers that the CBI and BSD will be conducted.</i>

## Supervisory Development Plan - DETAIL

<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
EC 6. The supervisor has an analytical framework that uses the statistical and prudential information for the ongoing monitoring of the condition and performance of individual banks. The results are also used as a component of on-site supervision planning. This requires that the supervisor has an adequate information system.		<b>BR Section 29 – Prudential Regulations</b> <b>BR Section 29.1 – Classification of Assets</b>	<b>2004</b> – Per discussions with BSD staff and a limited number of private banks, there is no loan risk classification system. Currently, the BSD collects very limited off-balance sheet information as notes to the balance sheet information submitted by banks and used for statistical analysis	<b>2004 Recommendation:</b> The CBI should develop off-balance sheet reporting requirements for all banks and collect electronically to enable them to analyze and evaluate. Additionally, the CBI should require banks to develop loan classification systems consistent with international standards.
			<b>2005</b> – Changes are in process for the entire reporting system.	<b>2005 Recommendation – Monthly regulatory reports</b> are being developed and should be finished and implemented during the 4Q05. A statistical database will be introduced and BSD staff will be trained in report development.  The reports are designed to be useful to both on-site and off-site supervisors.  Training on how to use the reports for analytical purposes will be conducted.
EC 7. In order to make meaningful comparisons between banking organizations, the supervisor collects data from all banks and all other relevant entities within a banking organization on a comparable basis and related to the same dates (stock data) and periods (flow data).			<b>2004</b> – Information is collected by the off-site section of BSD and is shared with Banking Studies and the onsite function; however, the information is used to verify compliance with legal requirements and minimal analysis is performed to monitor the condition and performance of individual banks. When information is used by the on-site function, it is to verify non-compliance with legal requirements.	<b>2004 Recommendation:</b> The BSD should develop a comprehensive analytical framework to use statistical and prudential information to monitor the safety and soundness of banks sufficient to evaluate and rate CAEL components of the banks' operations. Procedures should be in place to ensure this information is regularly and openly shared with the on-site function to follow-up on concerns and develop risk focused strategies for on-site supervision.

## Supervisory Development Plan - DETAIL

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
			<p><b>2005</b> – Changes are in process for the entire reporting system.</p>	<p><b>2005 Recommendation</b> – The regulatory reports will be as of month end and are designed to collect data that can be used for meaningful comparisons between banking organizations.</p> <p>Training on the use of the reports as well as how to conduct a comprehensive financial analysis of banks will be conducted.</p> <p>In addition, the BSD must be educated as to the importance of verifying this data for monetary purposes.</p>
<p>EC 8. The supervisor collects data from banks at a frequency (e.g., monthly, quarterly and annually) commensurate with the nature of the information requested, and the size, activities and risk profile of the individual bank.</p>			<p><b>2004</b> – Bank information is collected monthly using month-end financial information. The year-end financial information is more detailed than that collected on other quarters but is not sufficient to evaluate the CAEL components of the banks' operations</p>	<p><b>2004 Recommendation:</b> CBI collects consolidated supervisory data in accordance with international standards on a quarterly basis from all banks.</p>
			<p><b>2005</b> – Changes are in process for the entire reporting system.</p>	<p><b>2005 Recommendation</b> – The regulatory reports under developed are scheduled to be submitted monthly. This report frequency has been deemed appropriate given the size, activities and risk of the Iraqi banking industry. The timings of the reporting may be adjusted as appropriate.</p>
<p><b>Principle 19:</b> Banking supervisors must have a means of independent validation of supervisory information either through on-site examinations or use of external auditors.</p>				
<p>EC 1. The supervisor has in place a coherent process for planning and executing on-site visits, using either in-house examiners, or making use of the work of external auditors, as appropriate. There are policies and procedures in place to ensure that examinations are conducted on a thorough and consistent basis with clear responsibilities, objectives and outputs. The supervisor holds meetings with banks and their auditors to</p>	<p><b>LB Article 53 (3)</b> - The CBI may at any time schedule an examination to review operations, ascertain financial position, and compliance with laws and regulations and management adherence to internal policies. The CBI shall examine all banks on a regular basis, and at least once every year, except representative</p>		<p><b>2004</b> – The BSD conducts annual on-site inspections where the work conducted is primarily limited to transactional compliance. There is no risk assessment and no balance sheet or income statement analysis. Loan portfolio analysis is limited to documentation and collateral review.</p>	<p><b>2004 Recommendation</b> – Inspection manual and extensive training will be conducted, all based on modern supervisory techniques. There will also be training on the new and proposed laws and regulations focusing on the supervisor's role in the new and emerging Iraqi banking industry.</p>

## Supervisory Development Plan - DETAIL

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
discuss the results of work by the external auditors and to agree on the responsibilities for corrective work.	offices shall be examined at least once every two years.		2005 – No comment made.	<p><b>2005 Recommendation</b> – Although external auditors have not been fully integrated into the banking industry, communication frameworks should be established. Therefore, the CBI relies on an on-site supervision system as opposed to external auditors.</p> <p>The inspection manual currently being developed and reviewed by the BSD will provide procedures to ensure examinations are conducted on a thorough and consistent basis.</p> <p>The examination procedures will include guidelines and instructions on exchange of information of examination results, required corrective action and meetings with management.</p> <p>Training on the manual and its objectives and procedures will be conducted.</p>
EC 2. The supervisor has the authority to monitor the quality of work done by external auditors for supervisory purposes. The supervisor has the authority to directly appoint external auditors for conducting supervisory tasks or oppose the appointment of an external auditor that is deemed to have inappropriate expertise and/or independence.	<p><b>LB Article 46 (6)</b> – Each bank shall send copies of the audit report to the CBI not later than 30 days after it becomes available. Where the CBI is not satisfied with the auditor's report, it may require the appointment of another auditor to prepare a new audit report within a specified time.</p> <p><b>Article 47 (1)</b> – The CBI may impose on an auditor a duty to submit to the CBI such additional information in relation to the audit as the CBI considers necessary.</p>	<b>BR Section 46 - Audit</b>	<p><b>2004</b> – The BSD has the authority to review and evaluate the external auditor's scope of work and findings. Unfortunately, the headquarters of the Iraqi auditors association was destroyed during the war and further investigation into their practices was not feasible at this time.</p>	<p><b>2004 Recommendation</b> – Further training on the role and responsibilities of the external auditor will be conducted.</p>
			<p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – Although the BSD has the authority to review any work conducted by the external auditor and appoint an external auditor, it does not rely on the external auditor to conduct its supervisory tasks and responsibilities.</p>

## Supervisory Development Plan - DETAIL

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
<p>EC 3. The supervisor can also make use of external auditors to examine specific aspects of banks' operations, provided there is a well developed, professionally independent auditing and accounting profession with skills to undertake the work required. The respective roles and responsibilities for the supervisor and the auditors in these circumstances are clearly defined by the supervisor.</p>	<p><b>LB Article 47 (1) (b)</b> – The CBI may impose on an auditor a duty to submit a report, carry out an inspection or establish any procedure as specified by the CBI.</p>		<p><b>2004</b> – Due to the reasons noted above, it is difficult to assess the quality of the external auditors' work; however, concerns exist whether the audit scope is adequate, findings are accurate and meaningful and are supported by sufficient documentation.</p>	<p><b>2004 Recommendation</b> – Training will be conducted on how to analyze an audit report and what it should contain.</p>
			<p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – While the law allows for the use of external auditors' reports, the BSD does rely upon them.</p>
<p>EC 4. The supervisor has the legal right of full access to all bank records for the furtherance of supervisory work. The supervisor also has similar access to the board, senior management and staff, when required.</p>	<p><b>LB Article 53 (4)</b> - Any person authorized to carry out an examination may require administrators, officers, employees or agents of a bank, or its subsidiaries or affiliates, to provide access to all necessary books, accounts, documents and records. Any information deemed necessary and requested by the examiner shall be furnished in a timely manner during the course of the examination.</p>		<p><b>2004</b> – Discussion with BSD staff indicated that they believe they have adequate access to information; however, concerns exist whether the supervisors comprehend the information requirements needed with modern supervisory techniques</p>	<p><b>2004 Recommendation</b> – When developing the Inspection Manual, information requirements will be included. In addition, training will be conducted on what information is required and why.</p>
			<p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – Under the law, the BSD has full legal access to all bank records for their supervisory responsibilities.</p> <p>The inspection manual under development will include guidelines on what types of information are required to fully and adequately evaluate a bank and its operations.</p> <p>Training will be provided on how to exercise the examination procedures.</p>

## Supervisory Development Plan - DETAIL

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
<p>EC 5. The supervisor has a program for the periodic examination of supervisory returns by examiners or through the work of external auditors. There is a requirement that certain key supervisory returns such as that for capital adequacy be examined at least annually by the auditors and a report submitted to the supervisor.</p>	<p><b>LB Article 53 (1)</b> – The CBI shall review the statements, documents, information, clarifications, and proof submitted by banks in the application of this Law.</p>		<p><b>2004</b> – <i>The on-site supervisors review and confirm the balance sheet and income statement as well as the current regulatory report at least annually; however, the balance sheet and income statement are not fully compliant to international financial reporting standards. In addition, the regulatory reports are not risk based. The regulatory reports do not provide a full and accurate picture of the bank's activities and risks within the banking organization. Finally, a number of bank branches fail to report in a timely manner or not at all.</i></p>	<p><b>2004 Recommendation</b> – <i>The inspection manual will include modern techniques to review a bank's financial statements and regulatory reports. Training, supporting the manual implementation, will be provided on these techniques. It will be essential that all branches report balance sheet and income statement information in a timely manner as it proscribed by law.</i></p>
			<p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – <b>The BSD aims at conducting on-site examination of all banks on, at least, an annual basis.</b></p> <p><b>The law requires inspectors to review key supervisory data. The manual being developed will give guidance on how to review the key supervisory data.</b></p> <p><b>Training will be conducted on these issues.</b></p>
<p>AC 1. The supervisor meets with management and the board of directors each year to discuss the results of the supervisory examination or the external audit. Such visits should allow for the supervisor to meet separately with the independent board members.</p>			<p><b>2004</b> – <i>The BSD meets with the board of directors on an as needed basis; primarily after material problems were noted during an on-site inspection</i></p>	<p><b>2004 Recommendation</b> – <i>When developing the Inspection Manual, information requirements will be included. In addition, training will be conducted on what information is required and why.</i></p>
			<p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – <b>The BSD has regular contact with bank management.</b></p> <p><b>The inspection manual will provide guidelines &amp; instructions on how to convey the examination results to bank management and board of directors.</b></p> <p><b>Training will be conducted on this issue.</b></p>

**Supervisory Development Plan - DETAIL**

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
AC 2. The supervisor meets periodically with external audit firms to discuss issues of common interest relating to bank operations.			<p><b>2004</b> – The BSD meets with the external audit firms of the private banks, but not with the auditors of the state banks.</p>	<p><b>2004 Recommendation</b> – Treatment of the state banks and the private banks need to be unified and no bank should receive preferential treatment.</p> <p>When developing the Inspection Manual, information requirements will be included. In addition, training will be conducted on what information is required and why.</p>
			<p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – The external auditors have not yet been fully integrated into the examination process.</p> <p>As the external audit industry develops, BSD training on their role and responsibilities will be conducted.</p>
<p><b>Principle 20:</b> An essential element of banking supervision is the ability of the supervisors to supervise the banking group on a consolidated basis.</p>				
EC 1. The supervisor is aware of the overall structure of banking organizations (i.e., the bank and its subsidiaries) or groups and has an understanding of the activities of all material parts of these groups, including those that are supervised directly by other agencies.			<p><b>2004</b> – Examination procedures address cash accounts, investments, discounted bills, loans, guarantees and fixed assets. Although Supervision indicates it obtains a thorough knowledge of all institutions, the procedures are limited and do not specifically address the examination of areas such as equity trading mentioned by the UST assessment. In addition, the procedures are more a checklist approach. Some of the State Owned Banks have ownership or investments in companies, which are conducting other than banking activities. It is not clear that the supervisors have a clear understanding of these activities and their impact upon the bank.</p>	<p><b>2004 Recommendation</b> – It will be necessary to develop a comprehensive inspection manual, which will ensure a thorough understanding of all banking operations.</p>

**Supervisory Development Plan - DETAIL**

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	

			<p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – While the supervisors are 'aware' of the overall structure of the banking organizations, the current inspection process involves only a superficial reconciliation of accounting reports.</p> <p>CBI should issue guidance on the treatment of consolidations.</p> <p>An in-depth, comprehensive inspection manual is being developed to provide specific guidelines and procedures to examine the various areas of a banking organization.</p> <p>Current Iraqi accounting practices are not compliant with international standards, especially with respect to consolidation of financial information.</p> <p>A separate accounting program needs to be developed to address the deficiencies in the Iraqi accounting standards and practices.</p>
<p>EC 2. The supervisor has a supervisory framework that evaluates the risks that non-banking activities conducted by a bank or banking group may pose to the bank or banking group.</p>			<p><b>2004</b> – Risk assessments by the supervisors are primarily focused upon traditional banking activities. Supervision does not currently have the expertise to analyze the non-banking activities properly.</p> <p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – The current supervisory framework does not include a review and assessment of the risks associated with non-banking activities and subsidiaries.</p> <p>The inspection manual will need to include chapters that cover non-banking risks.</p> <p>Specialized training programs will need to be developed and taught on proper oversight of non-bank activities.</p>

**Supervisory Development Plan - DETAIL**

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
EC 3. The supervisor has the legal authority to review the overall activities of a bank, whether the activities are conducted directly (including those conducted at overseas offices), or indirectly, through subsidiaries and affiliates of the bank.	<p><b>LB Article 53 (2)</b> – The CBI may request that banks, or any of its subsidiaries or affiliates, provide, and corroborate in writing when it deems necessary, any additional information, reports, documents, clarifications, or proof.</p> <p><b>LB Article 53 (3)</b> – The CBI may at any time cause an on-site examination of a bank, its subsidiaries or affiliates, to be made by one or more employees of the CBI, or by any other person or persons appointed by the CBI for this purpose.</p>		<p><b>2004</b> – <i>The legal authority is now present, through the newly adopted banking act, to analyze subsidiaries or affiliates. However, the expertise of the Supervision Department is limited, negatively impacting their ability to carry out this task.</i></p> <p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – <i>The BSD has the legal authority to review the overall activities of a bank.</i></p> <p><i>Training programs need to be developed and taught on modern international banking techniques and practices and how the techniques and practices should be properly reviewed and supervised.</i></p>
EC 4. There are no impediments to the direct or indirect supervision of all affiliates and subsidiaries of a banking organization.			<p><b>2004</b> – <i>The law provides the appropriate basis for supervision of all affiliates and subsidiaries of a banking organization</i></p> <p><b>2005</b> – No comment made.</p>	
EC 5. Laws or regulations establish, or the supervisor has the authority to impose, prudential standards on a consolidated basis for the banking organization. The supervisor uses its authority to establish prudential standards on a consolidated basis to cover such areas as capital adequacy, large exposures and lending limits.	<p><b>LB Article 53</b> – The CBI shall supervise banks on a consolidated basis.</p> <p><b>LB Article 29 (3)</b> – The CBI shall by regulation prescribe prudential requirements as well as the common procedures and methods of calculation to be followed by banks in their application</p>		<p><b>2004</b> – <i>The CBI has a limited number of prudential standards, which need to be expanded.</i></p> <p><b>2005</b> – No comment made.</p>	<p><b>2004 Recommendation</b> – <i>Prudential Standards should be developed for all items mentioned in the LB Article 29. In addition, the CBI should specify which standards will be applied on a consolidated basis and which on a solo basis.</i></p> <p><b>2005 Recommendation</b> – <i>The BSD has the authority to impose prudential standards on a consolidated basis. As an example, prudential standards have been established regarding risk-based capital as well as credit classification guidelines.</i></p> <p><i>Additional prudential standards will be developed as the need is identified.</i></p>

**Supervisory Development Plan - DETAIL**

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
EC 6. The supervisor collects consolidated financial information for each banking organization.	<p><b>LB Article 43 (1)</b> – Each bank shall prepare financial statements. Each bank that has one or more subsidiaries shall also prepare consolidated financial statements. <b>LB Article 43 (2)</b> – The CBI may specify other affiliates of a bank, in particular a company that controls a bank and any other company that is controlled by the company that controls the bank, for which consolidated financial statements shall be submitted. <b>LB Article 43 (3)</b> – Each foreign bank with one or more branch offices in Iraq shall prepare accounts and financial statements for its operations in Iraq as if such offices together were to constitute a single entity.</p>		<p><b>2004</b> – <i>The CBI collects limited financial information from banks, such as a consolidated balance sheet and income statement. It is unclear at this point whether the consolidated reports have been prepared accurately and according to international accounting standards.</i></p>	<p><b>2005 Recommendation</b> – <i>Currently, the monthly regulatory reports collect bank only information and are largely considered inadequate for in-depth analysis of their financial condition.</i></p> <p><i>The law stipulates the BSD may collect consolidated financial information.</i></p> <p><i>Improved monthly regulatory reports in accordance with IFRS (except for those standards relating to consolidations) are being developed to better enable the BSD to conduct their supervisory responsibilities.</i></p> <p><i>Current Iraqi accounting practices are not compliant with international standards, especially with respect to consolidation of financial information.</i></p> <p><i>A separate accounting program needs to be developed to address the deficiencies in the Iraqi accounting standards and practices.</i></p>
			<p><b>2005</b> – No comment made.</p>	
EC 7. The supervisor has arrangements with functional regulators of individual business vehicles within the banking organization group, if material, to receive information on the financial condition and adequacy of risk management and controls of such business vehicles.			<p><b>2004</b> – <i>The CBI has no agreements or arrangements for sharing of information with supervisors of non-bank affiliates.</i></p>	<p><b>2005 Recommendation</b> – <i>To date, no arrangements exist with functional regulators of non-bank activities.</i></p> <p><i>The BSD needs to identify what non-bank activities are currently being conducted and what potential non-bank activities are being considered and identify whether there is a regulatory body overseeing the activity. Information sharing agreements need to be established with the other regulatory bodies and supervisory procedures developed where there is inadequate regulatory authority.</i></p>
			<p><b>2005</b> – No comment made.</p>	

## Supervisory Development Plan - DETAIL

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
<p>EC 8. The supervisor has the authority to limit or circumscribe the range of activities the consolidated banking group may conduct and the overseas locations in which activities can be conducted; the supervisor uses this authority to determine that the activities are properly supervised and that the safety and soundness of the banking organization is not compromised.</p>	<p><b>LB Article 22 (3) Changes in ownership and acquisitions of qualifying holdings</b> – The CBI shall not approve a proposed acquisition referred to in paragraph (1) if it would substantially lessen competition, jeopardize the financial soundness of the bank or endanger the interest of the bank's depositors.</p>		<p><b>2004</b> – Permission is required from the CBI to open a foreign office. The type of activities permitted would be specified at that time.</p> <p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – There is legal or regulatory guidance that provides the BSD with the authority to limit or circumscribe the range of activities of a consolidated banking group; however, additional guidance is needed on what constitutes an activity that would endanger or jeopardize the financial condition of a bank.</p>
<p>AC 1. For those countries that allow corporate ownership of banking companies:</p>	<p><b>LB Article 4 (3) Licenses and permits</b> – In the case of a subsidiary, a license may be issued only if the parent bank is subject to consolidated supervision by a supervising authority in the country in which the parent bank's head office is located. <b>LB Article 1</b> – Affiliate means a company that controls a bank, any other company that is controlled by the company that controls the bank, and any other company as determined pursuant to criteria specified in regulation by the CBI.</p>		<p><b>2004</b> – Legal provisions require the supervision of banks on a consolidated basis, which includes an examination of the bank, its subsidiaries or affiliates. Affiliate is defined as a company that controls a bank, any other company that is controlled by the company that controls the bank, and any other company as determined pursuant to criteria specified in regulation by the CBI. No parent companies currently exist but the provisions of the law are sufficient to allow oversight by the CBI.</p> <p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – The BSD has the legal authority during the licensing process to require, as a condition of approval, the continuing ability to review the parent company and its affiliated companies' financial records.</p> <p>Licensing policies and procedures will be enhanced, and training conducted, to ensure the BSD understands the risks associated with licensing foreign entities and the steps that can be and should be taken to limit these risks.</p>
<ul style="list-style-type: none"> <li>• the supervisor has the authority to review the activities of parent companies and of companies affiliated with the parent companies, and utilizes the authority in practice to determine the safety and soundness of the bank;</li> </ul>				
<ul style="list-style-type: none"> <li>• the supervisor has the authority to take remedial actions, including ring-fencing, regarding parent companies and non-bank affiliates concerning matters that could impact the safety and soundness of the bank</li> </ul>				

## Supervisory Development Plan - DETAIL

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
<ul style="list-style-type: none"> <li>the supervisor has the authority to establish and enforce fit and proper standards for owners and senior management of parent companies.</li> </ul>				
<b>Principle 21:</b> Banking supervisors must be satisfied that each bank maintains adequate records drawn up in accordance with consistent accounting policies and practices that enable the supervisor to obtain a true and fair value of the financial condition of the bank and the profitability of its business, and that the bank publishes on a regular basis financial statements that fairly reflect its condition.				
EC 1. The supervisor has the authority to hold management responsible for ensuring that financial record keeping systems and the data they produce are reliable, and that supervisor-required reports are submitted on a timely and accurate basis.	<b>LB Article 42 (1)</b> - Banks shall maintain records in accordance with international accounting standards and prepare financial statements that reflect the reality of the financial positions of the bank and its branches. <b>LB Article 42 (2)</b> - Banks shall comply with any regulations issued by the CBI with respect to rules under (1). The CBI shall issue, by regulation, provisions on the accounting system and rules applicable to the banks.	<b>BR Section 42 – Principles for accounting and preparation of financial statements</b>	<b>2004</b> – <i>The financial information submitted by banks is incomplete and inaccurate. In many cases, the balance sheet for banks does not balance by significant amounts. Many balance sheet items in reports submitted by banks are blank. Many banks are significantly delayed in submitting reports. The BSD appears to do little to verify the accuracy of reports or ensure reports are complete.</i>  <b>2005</b> – <i>Reports must be directly verified during on-site examinations.</i>	<b>2004 Recommendation:</b> <i>CBI should develop and implement policies and procedures requiring specific financial information from banks to meet the requirements of LB Article 41 (1). Additionally, the BSD should develop a standard reporting format to be completed by banks on a quarterly basis. The BSD should develop procedures to verify the information submitted by banks is complete and accurate and should use its enforcement powers when necessary to ensure banks comply.</i>  <b>2005 Recommendation –</b> <i>The Inspection manual will include procedures to review banks' financial records to ensure they are in accordance with international standards and the banking law.</i>  <i>Regulatory reports, that are compliant with international accounting standards, are being developed and implemented.</i>  <i>Iraqi accounting standards needs to be enhanced and strengthened before they are compliant with IFRS.</i>  <i>Regulations need to be developed and implemented that detail the required the record keeping systems.</i>

## Supervisory Development Plan - DETAIL

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
<p>EC 2. The supervisor has the authority to hold management responsible for ensuring that the management report and financial statements issued annually to the public receive proper external verification and bear an external auditor's opinion.</p>	<p><b>LB Article 42 (2)</b> – The CBI shall issue, by regulation, provisions on the accounting system and rules applicable to banks. <b>LB Article 44 (1-2)</b> – Banks are required to publish audited consolidated financial statements not later than four months after the end of the financial year. Audited financial statements should be prominently displayed with a list on the names of the members of its Board of Directors. <b>LB Article 46 (1)</b> – Each bank shall appoint an independent external auditor. <b>LB Article 56 (3)(a)</b> – The CBI may impose an administrative penalty on a bank of up to 5 million dinars per day until the violation has eased or compliance is obtained, and not to exceed 5% of its paid-up capital overall in the following case: if the bank intentionally submitted to the CBI statements, statistics, or information that are deficient or false.</p>	<p><b>BR Section 42 – Principles for accounting &amp; preparations of financial statements</b></p>	<p><i>2004 – Bank management is not currently held responsible for the reliability of its financial record keeping and audited financial reports are not made public.</i></p>	<p><b>2004 Recommendation:</b> The CBI should establish policies requiring banks to retain an independent external auditor to perform audits in accordance with the requirements of the Banking Law. Additionally, the BSD should develop procedures to evaluate the independence, competency and effectiveness of external audits to ensure they are in accordance with internationally recognized accounting standards.</p>
			<p><i>2005 – The CBI has the authority but does not exercise this authority punitively.</i></p>	<p><b>2005 Recommendation – The BSD has both the legal authority and obligation to hold management responsible to publish audited financial statements on a regular basis.</b></p> <p>The BSD needs accounting and legal training to ensure they understand their role and responsibilities.</p> <p>The audit &amp; accounting professions in Iraq are weak at best and need to be enhanced and strengthened to ensure reliable audited financial information is published.</p>
<p>EC 3. The supervisor ensures that information from bank records is verified periodically through on-site examinations and/or external audits.</p>	<p><b>LB Article 46 (1)</b> – The CBI requires the bank's BOD to appoint an independent, qualified, and experienced external auditor and if the bank fails to appoint one satisfactory to the CBI, the CBI shall appoint one.</p>	<p><b>BR Section 46 - Audit</b></p>	<p><i>2004 – The BSD performs onsite supervision activities, but its procedures and verifications are inadequate to determine the accuracy of the bank's financial data.</i></p>	<p><b>2004 Recommendation:</b> The BSD should establish policies to evaluate and verify the independence, qualifications and experience of bank's external auditors.</p>
			<p><i>2005 – Training is needed in this area.</i></p>	<p><b>2005 Recommendation – The inspection manual currently under development will include procedures to verify financial data.</b></p> <p>Training on both the manual and accounting will continue.</p>

## Supervisory Development Plan - DETAIL

<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
EC 4. The supervisor ensures that there are open communication lines with the external auditors.			<p><i>2004 – Under the former regime, banks were required to be audited by the state through the Supreme Audit Authority. These audits could not be considered to be independent. No official lines of communications have been established with the external auditors.</i></p> <p><i>2005 – The CBI consults with the Supreme Audit body on banking issues regularly. Training for both entities is necessary.</i></p>	<p><b>2005 Recommendation -</b> The audit profession in Iraq is weak at best and needs to be enhanced and strengthened to ensure reliable audited financial information is published.</p> <p>Additional training on the role and responsibilities of an external auditor will be conducted.</p>
EC 5. The supervisor provides report instructions that clearly establish the accounting standards to be used in preparing supervisory reports. Such standards are based on accounting principles and rules that command wide international acceptance and are aimed specifically at banking institutions.	<p><b>LB Article 46 (5) (e)</b> This section of the law includes a long list of items which should be included within the external audit report.</p>		<p><i>2004 – The CBI has not established regulatory reporting instructions for banks that are based on internationally accepted accounting principles. Current reports from banks do not include major asset and liability accounts and the balance sheets of almost all banks can not be reconciled based on the reports submitted and do not balance. The BSD has not taken any actions or provided any direction to banks to require them to ensure the limited financial information they do submit is accurate or complete. Additionally, State Owned banks were exempt from significant reporting requirement required by the Private Banks.</i></p> <p><i>2005 – The CBI has received training on IAS and intends to issue regulations regarding the application of these standards in banks.</i></p>	<p><b>2004 Recommendation:</b> The CBI should establish a standard reporting format with clear instructions that will be required of all Iraqi banks. The report instructions should provide clear and detailed instructions for each data item required.</p> <p><b>2005 Recommendation –</b> The regulatory reports being developed will include an instruction manual that provides clear and concise directions on how to complete the IFRS compliant reports.</p>

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Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	

<p>EC 6. The supervisor requires banks to utilize valuation rules that are consistent, realistic and prudent, taking account of current values where relevant, and that profits are net of appropriate provisions.</p>	<p>Valuation has improved during 2004, but still remains an issue of discussion.</p>		<p><i>2004 – The value of assets in the Iraqi banking system is uncertain, particularly in the State Owned banks which account for approximately 93% of total banking assets in Iraq. There are no consistent valuation rules and currently the CBI has not established a consistent valuation system. It is unlikely that adequate provisions are being taken because the true potential losses in the bank’s loan portfolios are unknown due to loss of records and unresolved issues concerning attachment risk.</i></p>	<p><b>2004 Recommendation:</b> <i>The CBI should establish valuation policies to ensure banks are accurately, prudently and consistently valuing assets. Valuation rules should ensure that profits are stated net of provisions and those provisions accurately reflect the inherent loss that probably exists based on the facts and circumstances of the loan. Valuation of securities should be conducted in accordance with internationally recognized accounting rules. The CBI should also ensure all banks undertake a thorough asset valuation review according to well defined and internationally accepted standards so banks will fairly and accurately reflect their values.</i></p>
			<p><b>2005 – Training is needed in this area.</b></p>	<p><b>2005 Recommendation – No valuation rules are in place at this time. Valuation rules and guidelines need to be developed to ensure banks are accurately, prudently and consistently valuing their assets.</b></p> <p>Provision guidelines based on loan classifications have been developed; however additional provision guidelines need developed for other assets on the balance sheet.</p> <p>Training on asset valuation and provisioning will be provided.</p>
<p>EC 7. Laws or regulations set, or the supervisor has the authority, in appropriate circumstances, to establish, the scope and standards to be achieved in external audits of individual banks, and to make public issuance of individual bank financial statements subject to its prior approval.</p>	<p><b>LB Article 46 (5)</b> States that in accordance with internationally recognized auditing standards and any standards issued by the regulations of the CBI, the bank shall audit the bank’s operations on a consolidated basis. <b>LB Article 47 (1)</b> – States that the CBI may require additional procedures and reports in internal and accounting controls</p>		<p><i>2004 – The new banking law enacted in 2003 gives the CBI sufficient authority to establish the scope standards to be achieved in external audits of individual banks, and to make public issuance of individual bank financial statements subject to prior approval. The CBI has not yet used these powers.</i></p>	<p><b>2004 Recommendation:</b> <i>CBI senior management should be trained on the use and purpose of the provisions of the banking law that gives them authority to require and set the scope of external audits and also training on the types of activities that should be required and under what circumstances to require them.</i></p>

## Supervisory Development Plan - DETAIL

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
			2005 – ISA is not adopted.	<p><b>2005 Recommendation -</b> The audit profession in Iraq is weak at best and needs to be enhanced and strengthened to ensure reliable audited financial information is published.</p> <p>Training will be provided to CBI management to familiarize them with their authority and responsibilities.</p>
EC 8. The supervisor has the ability to treat as confidential certain types of sensitive information.	<p><b>LB Article 48 (2)</b> Auditors shall observe professional and banking confidentiality requirements, provided that the auditor shall not incur legal liability for the disclosure of confidential information concerning a bank or a bank customer that the auditor provides in good faith to the CBI under this law.</p>		<p><b>2004 –</b> Audits have been conducted by the Supreme Audit Authority, a state organization, and their confidentiality guidelines are not known.</p>	<p><b>2004 Recommendation:</b> The CBI should establish confidentiality requirements for external auditors in accordance with the requirements of the banking law.</p>
			<p><b>2005 –</b> The CBI has the ability to keep confidential certain types of sensitive information. This is maintained by appropriate practice in the supervision department.</p>	<p><b>2005 Recommendation –</b> Training will be provided on BSD ethics and professional behavior to help ensure that the BSD maintains the confidentiality of sensitive information.</p>
EC 9. The supervisor requires banks to produce annual audited financial statements based on accounting principles and rules that command wide international acceptance and have been audited in accordance with internationally accepted auditing practices and standards.	<p><b>LB Article 46 (5)</b> States that in accordance with internationally recognized auditing standards and any standards issued by the regulations of the CBI, the bank shall audit the bank's operations on a consolidated basis.</p>	<p><b>BR Section 46 - Audit</b></p>	<p><b>2004 –</b> Complete audits of each bank's financial condition conducted by the Supreme Audit Authority were not conducted in accordance with internationally recognized accounting standards.</p>	<p><b>2004 Recommendation:</b> The CBI should establish specific auditing requirements for banks to ensure audits meet internationally recognized accounting requirements.,</p>
			<p><b>2005 –</b> IAS and ISA are not required to be met, CBI intends that these standards be recognized and honored in the accounting and auditing of bank financial reporting.</p>	<p><b>2005 Recommendation -</b> The audit &amp; accounting professions in Iraq are weak at best and need to be enhanced and strengthened to ensure reliable audited financial information is published.</p> <p>Additional training to BSD staff on the role and responsibilities of an external auditor will be conducted.</p>

## Supervisory Development Plan - DETAIL

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
EC 10. The supervisor has the right to revoke the appointment of a bank's auditors.	<b>LB Article 46 (1)</b> The external auditor shall be appointed by the bank's shareholders at the general meeting of shareholders, provided that if the bank fails to appoint an auditor satisfactory to the CBI, the CBI shall appoint such auditor.		<b>2004</b> – Due to the recent enactment of the banking law, banks have not appointed external auditors.	<b>2004 Recommendation:</b> The CBI should establish an internal policy and procedures clearly establishing when they may revoke the appointment of a bank's auditors. The policy must ensure that any revocation of a bank's auditors will not be arbitrary but based on conditions of the auditor's independence, competency and knowledge.
			<b>2005</b> – The CBI has this right, but has not exercised it.	<b>2005 Recommendation –</b> Although the CBI has the right and authority to revoke the appointment of a bank's auditor, additional training on the role and responsibilities of an external auditor will be conducted.
EC 11. Where supervisors rely primarily on the work of external auditors (rather than on their own examination staff), banks are required to appoint auditors who are recognized by the supervisor as having the necessary professional skills and independence to perform the work.	<b>LB Article 46 (1)</b> Each bank shall appoint an independent external auditor with qualifications and experience in the audit of banks acceptable to the CBI		<b>2004</b> – Banks have not retained external auditors to-date.	<b>2004 Recommendation –</b> The CBI should develop and implement policy guidance providing specific requirements banks must consider when engaging an external auditor. Guidance should include specific guidelines to ensure external auditors are independent, competent and knowledgeable and that all external audits performed meet generally recognized international accounting standards.
			<b>2005</b> – No comment made.	<b>2005 Recommendation –</b> The BSD does not rely on external auditors to gather on-site inspection data and will not rely on them until the Iraqi audit profession is enhanced and strengthened to ensure reliable data is gathered and analyzed.

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<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
AC 1. The supervisor promotes periodic public disclosures of information that are timely, accurate, and sufficiently comprehensive to provide a basis for effective market discipline.	<b>LB Article 44 (1)</b> A bank shall publish, in two newspapers of general circulation, its audited financial statements, including audited consolidated financial statements, if applicable, not later than four months after the end of the financial year. <b>LB Article 44 (2)</b> Each bank shall display in a prominent location at its head office and its branches its most recent financial statements, including audited consolidated financial statements, if applicable, and a list of the names of the members of its board of directors. <b>LB Article 46 (5)</b> – Requires external auditors to express an audit opinion as to whether the financial statements are complete, fair and properly drawn up and present a full and fair view of the financial condition of the bank. <b>LB Article 52 (2)</b> – The CBI may publish, in its entirety or in part, information provided to it by banks, provided such publication does not disclose confidential information. Unless the CBI first obtains the consent of the bank, the CBI shall not disclose particulars of the bank’s operations other than as may be contained in the financial statements approved by the bank’s board of directors, or information already in the public domain.		<b>2004</b> – Banks do not currently engage independent external auditors which express an opinion on the financial statements of the banks.	<b>2004 Recommendation:</b> The CBI should establish a policy to implement the provisions of the banking law requiring audit opinions and ensure that the published financial reports and audits include a review of regulatory reports to ensure the financial information submitted to the bank is accurate and complete.
			<b>2005</b> – No comment made.	<b>2005 Recommendation –</b> Although the BSD has the authority to require periodic public financial disclosure, the Iraqi accounting standards are not compliant with IFRS. Without implementing reliable accounting standards, disclosing financial will not provide effective market discipline.  The Iraqi accounting standards must be strengthened to comply with IFRS.

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<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
AC 2. The supervisor has guidelines covering the scope and conduct of audit programs that ensure that audits cover such areas as the loan portfolio, loan loss reserves, non-performing assets, asset valuations, trading and other securities activities, derivatives, asset securitizations, and the adequacy of internal controls over financial reporting.			2004 – Audits were performed by the Supreme Audit Authority and therefore the CBI did not establish audit requirements for banks.	<b>2004 Recommendation:</b> The CBI should develop audit guidelines that detail the scope and conduct of audit programs consistent with the requirements of the banking law. Guidelines should cover areas such as loan portfolio, loan loss reserves, non-performing assets, asset valuations, trading and other securities activities, derivatives and asset securitizations (if applicable), and the adequacy of internal controls over financial reporting.
			2005 – No comment made.	<b>2005 Recommendation –</b> The BSD does not have guidelines for the proper scope and conduct of audit programs.  Until an effective audit profession emerges, the CBI will have to rely on the inspection procedures to ensure proper and accurate financial reporting.  In the interim, the CBI needs to develop guidelines, including a standardized engagement letter for bank audits.
AC 3. Auditors have the legal duty to report to the supervisor matters of material significance, for example, failure to maintain the licensing criteria, or breaches of banking or other laws. The law protects auditors from breach of confidentiality when information is communicated in good faith.	<b>LB Article 46 (5) (g)</b> - Auditor's report must inform the CBI about any act by an administrator, officer, employee or agent of the bank of which the external auditor has become aware that constitutes a material violation of a provision of this law or any regulation issued by the CBI. <b>LB Article 46 (5) (h)</b> - Auditor's report must inform the CBI about any irregularity or deficiency in the bank's administration or operations of which the external auditor has become aware and which could be expected to result in a material loss for the bank.		2004 – Audits were previously performed by the Supreme Audit Authority and therefore the CBI did not establish audit requirements for banks.	<b>2004 Recommendation:</b> The CBI should develop policies to ensure auditors meet their legal duty to report to the CBI matters of material significance or breaches of banking law and ensure that external auditors are protected from breach of confidentiality when information is communicated in good faith.
			2005 – No comment made.	<b>2005 Recommendation -</b> The audit profession in Iraq is weak at best and needs to be enhanced and strengthened to ensure reliable audited financial information is published.  Until an effective audit profession emerges, the CBI will have to rely on the inspection procedures to ensure proper and accurate financial reporting.

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<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
AC 4. Auditors also have the legal duty to report matters to the supervisor, in situations where they become aware of matters, which in the context of the available information, they believe is likely to be of material significant to the functions of the supervisor.	<b>LB Article 46 (5) (g)</b> - Auditor's report must inform the CBI about any act by an administrator, officer, employee or agent of the bank of which the external auditor has become aware that constitutes a material violation of a provision of this law or any regulation issued by the CBI. <b>LB Article 46 (5) (h)</b> - Auditor's report must inform the CBI about any irregularity or deficiency in the bank's administration or operations of which the external auditor has become aware and which could be expected to result in a material loss for the bank.		<b>2004</b> – Audits were previously performed by the Supreme Audit Authority and therefore the CBI did not establish audit requirements for banks.	<b>2004 Recommendation:</b> The CBI should develop policies to ensure auditors meet their legal duty to report to the CBI matters of material significance or breaches of banking law and ensure that external auditors are protected from breach of confidentiality when information is communicated in good faith.
			<b>2005</b> – No comment made.	<b>2005 Recommendation -</b> The audit profession in Iraq is weak at best and needs to be enhanced and strengthened to ensure reliable audited financial information is published.  Until an effective audit profession emerges, the CBI will have to rely on the inspection procedures to ensure proper and accurate financial reporting.
<b>Principle 22:</b> Banking supervisors must have at their disposal adequate supervisory measures to bring about timely corrective action when banks fail to meet prudential requirements (such as minimum capital adequacy ratios), when there are regulatory violations, or where depositors are threatened in any other way. In extreme circumstances, this should include the ability to revoke the banking license or recommend its revocation.				
	<b>LCBI Article 63</b> – The Financial Services Tribunal has jurisdiction to review (a) rejecting an application for a banking license or permit, attaching a condition or restriction to a license or permit, or revoking a license or permit; (b) imposing administrative penalties; (c) enjoining a person engaged in an activity requiring a license or permit from engaging in such activity without such a license or permit; (d) appointing or extending the term of appointment of a conservator; and (e) regarding any other matter as specified by law.			

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Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
<p>EC 1. The supervisor has the authority, backed by legal sanctions, to take an appropriate range of remedial actions against, and impose penalties upon, banks, depending on the severity of a situation. These remedial actions are used to address such problems as failure to meet prudential requirements and violations of regulations. They range from informal oral or written communication with bank management to actions that involve the revocation of the banking license.</p>	<p><b>LB Article 56 (1) (a)</b> The CBI may take any measure or impose any administrative penalty stipulated in paragraph (2) in cases where it is evident that a bank, an administrator of a bank or any other person violated the provisions of this law or any regulation or order issued by the CBI. <b>LB Article 13</b> – A license or permit may be revoked by decision of the CBI. Paragraph 1 contains the numerous reasons which may be utilized for revocation of the license.</p>		<p><i>2004 – The new banking law provides adequate authority to take remedial actions up to and including the liquidation of a bank. However, during 2003 and 2004, given the economic situation and the war, the CBI has not pursued aggressive corrective actions. When banks have had insufficient capital to meet obligations, CBI has extended credit.</i></p> <p><i>Although the banking law has been enacted, the CBI has not implemented its provisions. Particularly, in the area of enforcement, the CBI is awaiting the implementing regulations to be drafted.</i></p>	<p><b>2004 Recommendation</b> – An enforcement policy should be drafted which will specify the methodology to be utilized by the CBI in taking remedial actions. In addition, the need exists for the training of CBI personnel on the banking law and its implementing regulations.</p>
			<p><b>2005 - 1-</b> The CBI must issue guidelines for remedial actions. <b>2-</b> Remedial actions must be taken in a transparent and consistent manner. <b>3-</b> CBI must conduct public information campaign with banks on remedial.</p>	<p><b>2005 Recommendation</b> – Legally, the CBI has adequate supervisory measures to ensure timely corrective action. Further education on the scope and enforcement of this authority is needed.</p> <p>Informal and formal progressive enforcement guidelines are being developed and training on these guidelines will be provided.</p> <p>The CBI Board has approved a list of penalties for a variety of infractions, including failure to report in a timely manner.</p>

**Supervisory Development Plan - DETAIL**

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	

<p>EC 2. The range of possible actions available is broad, including, in addition to the others mentioned, restricting the current activities of the bank, withholding approval of new activities or acquisitions, restricting or suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from banking, replacing or restricting the powers of managers, directors, or controlling owners, arranging a take-over by or merger with a healthier institution, and imposing conservatorship.</p>	<p><b>LB Article 56 (1) (b)</b> The CBI may take any measure or impose any administrative penalty stipulated in paragraph (2) in cases where a bank, an administrator of a bank or any other person has conducted unsafe or unsound banking operations. <b>LB Article 56 (2)</b> – Lists all of the actions which the CBI make take for enforcement purposes.</p>		<p><i>2004 – The CBI has primarily utilized penalties in the range of \$250 - \$500. The amount has been insufficient motivation for the bankers to comply with CBI requirements. In addition, administrative action has been for technical issues such as accounting problems, exceeding loan limits, exceeding loan to deposit ratios, excessive fees, non-compliance with risk-weighted capital ratios. These are all quantitative issues rather than qualitative issues.</i></p>	<p><b>2004 Recommendation</b> - The CBI will need training on the use of all enforcement tools detailed within the new law on banking.</p>
			<p><b>2005 – See EC 1 comment.</b></p>	<p><b>2005 Recommendation – Legally, the CBI has adequate supervisory measures to ensure timely corrective action. Further education on the scope and enforcement of this authority is needed.</b></p> <p>Informal and formal progressive enforcement guidelines are being developed and training on these guidelines will be provided.</p>

## Supervisory Development Plan - DETAIL

<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
EC 3. The supervisor ensures that remedial actions are taken in a timely manner.			<p><b>2004</b> – <i>The supervision function has a several step process for enforcement actions. The first step entails the issuance of a warning to an institution with a request for correction. A month is allowed for the response. If this does not correct the deficiency a memo is sent to the CBI Legal Department requesting court action. Court action, start to finish, takes approximately 2 months.</i></p> <p><i>Although the above process is in place, Supervision reports that no enforcement actions were taken in 2003 or 2004.</i></p> <p><b>2005</b> – This must be evidenced by action.</p>	<p><b>2004 Recommendation</b> – <i>The CBI will need training on enforcement actions to make them proactive and more aggressive than those which have been taken in the past.</i></p> <p><b>2005 Recommendation</b> – <i>The guidelines under development will require timely remedial actions are taken. Training will be provided to ensure the BSD understands the importance of taking timely decisive actions.</i></p>

**Supervisory Development Plan - DETAIL**

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
EC 4. The supervisor applies penalties and sanctions not only to the bank, but, when and if necessary, also to management and/or the board of directors.	<p><b>LB Article 56 (2) (k)</b> - If any of the violations stipulated in paragraph (1) occur, the CBI may impose an administrative penalty on the bank, provided that at the discretion of the CBI, administrative penalties may be imposed on a daily basis until the violation has eased or compliance is obtained, and such administrative penalties shall not exceed 5% of the bank's paid-up capital overall. <b>LCBI Article 62 (3)</b> In determining whether to impose administrative penalties, and in determining the amount of such penalties, the CBI shall take into consideration: the severity of the violation; whether it was recurring; whether depositors or other persons were injured thereby; whether the person against whom the penalty is to be imposed profited from the conduct at issue; the financial resources of such person; any mitigating factors; and such other factors as, in its discretion, it believes to be relevant.</p>		<p><i>2004 – Penalties reportedly have not been utilized for 2003 and 2004. Supervision reports that, prior to 2003, penalties were issued on only significant or material issues. However, no regulations were developed and adopted which detailed the manner in which penalties would be assessed and collected.</i></p> <p><i>The new loan specifies the items that should be considered in determining amounts. It is important that the CBI now develop a comprehensive regulation which will make the penalty process transparent.</i></p> <p><b>2005 – This must be verified by action.</b></p>	<p><b>2004 Recommendation:</b> Development of a comprehensive enforcement policy/regulation. Training should then be conducted for BSD staff.</p> <p><b>2005 Recommendation – The BSD has the legal authority to apply penalties and sanctions to the banks and management when necessary. Training on enforcement measures will include penalties and sanctions against banks and their management and directorate.</b></p>
AC 1. Laws and/or regulations mitigate against the supervisor unduly delaying appropriate corrective actions.			<p><i>2004 – Although the new banking law is now in place, no actions have reportedly been taken to utilize any of its provisions for enforcement. BSD management attributes this to lack of implementing regulations and unfamiliarity with how to utilize the law.</i></p>	<p><b>2004 Recommendation – Training will be needed for supervision staff, especially management, on the timely and effective use of the new law and the implementing regulations.</b></p>

**Supervisory Development Plan - DETAIL**

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
			2005 – No comment made.	<p><b>2005 Recommendation –</b> The laws do not require the supervisors to take specific or timely corrective actions when a violation or an unsafe and/or unsound practice is identified.</p> <p>Progressive enforcement guidelines will promote quick and appropriate corrective measures when problems are identified.</p>
AC 2. The supervisor addresses all significant remedial actions in a written document to the board of directors and requires that progress reports are submitted in writing as well.	<b>LB Article 56 (2)</b> - The CBI may send a written warning, give orders to the bank, request program to eliminate violations, request the bank cease some operations, bar bank from distributing profits, restrict granting loans, etc.		<p><b>2004 –</b> Prior to the new law, the CBI BSD utilized warnings and penalties as a means to effect corrective action. Broad discretion was not available to take other actions and BSD has not begun to utilize the provisions of the new law.</p> <p><b>2005 –</b> An internal procedure must be established.</p>	<p><b>2005 Recommendation –</b> The progressive enforcement guidelines will identify when remedial actions should be presented to the bank's directorate in a formal written format. The guidelines will also identify when a formal written response is needed.</p>

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Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	

**Principle 23:** Banking supervisors must practice global consolidated supervision over their internationally active banking organizations, adequately monitoring and applying appropriate prudential norms to all aspects of the business conducted by these banking organizations worldwide, primarily at their foreign branches, joint ventures and subsidiaries.

<p>EC 1. The supervisor has the authority to supervise the overseas activities of locally incorporated banks.</p>	<p><b>LB Article 26 (4)</b> - The CBI shall issue regulations specifying how the operational requirements specified for banks by the provisions of this section, and in regulations issued by the CBI there under, apply to banks and their subsidiaries on a worldwide consolidated basis. <b>LB Article 41 (2)</b> – The CBI may request reports from any of the bank’s subsidiaries or affiliates if deemed necessary for the exercise of consolidated supervision of the bank’s activities. <b>LB Article 53 (3)</b> – The CBI shall supervise banks on a consolidated basis...The CBI may at any time cause an on-site examination of a bank, its subsidiaries or affiliates, to be made by one or more employees of the CBI, or by any other person or persons appointed by the CBI for this purpose.</p>	<p><b>BR Section 8 – Granting of License or Permit</b></p>	<p><b>2004-</b> <i>The new banking law specifically states that supervision shall be conducted on a consolidated basis. In addition, reports can be obtained from any of its offices, subsidiaries or affiliates. The law does not specifically mention foreign offices, but it can be implied from the language of the law that these are included.</i></p> <p><i>Nevertheless, the CBI did not supervise foreign offices in the past. Supervision only performed a statistical review of reports provided by Rafidain Bank. No onsite verification was performed of the data supplied by the bank.</i></p> <p><i>The foreign branches of Rafidain are reportedly closed.</i></p> <p><b>2005 – Regulations must be issued for all prudential concerns. This must be tested in practice.</b></p>	<p><b>2005 Recommendation – The BSD has the legal authority to supervise the overseas branch activities of Iraqi banks.</b></p> <p><i>A manual needs to be developed and implemented to provide inspection procedures for reviewing overseas operations.</i></p> <p><i>Regulatory reports need to be developed and implemented that capture the activities of overseas operations.</i></p> <p><i>Training programs need to incorporate supervision techniques for reviewing overseas activities.</i></p> <p><i>MOUs need to be signed with foreign regulatory authorities to help facilitate information flows and supervisory activities.</i></p>
<p>EC 2. The supervisor satisfies itself that management is maintaining proper oversight of the bank’s foreign branches, joint ventures, and subsidiaries. It also satisfies itself that the local management of any overseas offices has the necessary expertise to manage those operations in a safe and sound manner.</p>			<p><b>2004 -</b> <i>Given CBI limited review of foreign activities, no assessment was performed of management of the foreign entity. In addition, the Supervisions did not do a qualitative assessment of Rafidain management’s control and oversight of the foreign office</i></p>	

## Supervisory Development Plan - DETAIL

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
			<p><b>2005</b> - This must be tested through observation of on-site examination.</p>	
EC 3. The supervisor determines that bank management's oversight includes:			<p><b>2004</b> – Past CBI focus has been only on statistical information. No comprehensive assessment was performed to ensure MIS was adequately reflecting the operations of the foreign entity. The information was not verified and internal controls could not be assessed.</p> <p><b>2005</b> – No comment made.</p>	
a) information reporting on its overseas operations that is adequate in scope and frequency and is periodically verified				
b) assessing in an appropriate manner compliance with internal controls				
c) ensuring effective local oversight of foreign operations.				
EC 4. The home country supervisor has the authority to require closing of overseas offices, or imposing limitations on their activities, if it determines that the supervision of a local operation by the bank and/or by the host country supervisor is not adequate relative to the risks the office presents.	<p><b>LB Article 9</b> – No domestic bank shall open a branch or representative office or establish a subsidiary outside Iraq without first obtaining the CBI's approval. Banks shall notify the CBI of any change in location or closure of any branch, representative office or subsidiary.</p> <p><b>LB Article 56 (2) (I)</b> - The CBI may...revoke the bank's license or permit pursuant to the provisions of Article 13.</p> <p><b>LB Article 56 (2)(d)</b> – If any of the violations stipulated in paragraph (1) above occur, the CBI may...request that the bank cease some of its operations.</p>		<p><b>2004</b> – No instances are noted of closure of overseas branches and affiliates. Nevertheless, the CBI has the authority to close overseas branches and affiliates.</p> <p><b>2005</b> – No comment made.</p>	<p><b>2005 Recommendation</b> – The CBI has the legal authority to curtail activities when deemed necessary.</p> <p>Guidelines and training are needed to ensure the BSD properly supervises the overseas activities of its banks and take the appropriate regulatory actions when necessary.</p>
AC 1. The supervisor has a policy for assessing whether it needs to conduct on-site examinations or require additional			<p><b>2004</b> – CBI personnel made no onsite visits to foreign entities and no policy is in place.</p>	

## Supervisory Development Plan - DETAIL

Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
reporting, and it has the legal authority and resources to take those steps as and when appropriate.			<b>2005</b> – This must be issued as a decision of the board of directors and observed in practice.	
AC 2. The supervisor ensures that management's local oversight of foreign operations is particularly close when the foreign activities have a higher risk profile and/or when they differ fundamentally from those conducted in the home country, or are conducted at locations that are especially remote from the principal locations at which the bank conducts comparable activities.			<b>2004</b> – Limited review of foreign entity did not allow CBI personnel to determine level of existing controls. The foreign operations were more or less ignored. <b>2005</b> – No comment made.	
AC 3. The supervisor arranges to visit the offshore locations periodically, the frequency determined by the size and risk profile of the overseas operation. The supervisor meets the local supervisors during their visits.			<b>2004</b> – CBI visits were not made in the past <b>2005</b> – No comment made.	
AC 4. The home country supervisor assesses the quality of supervision conducted in the countries in which its banks have material operations.			<b>2004</b> – No assessments have been made of foreign supervision capability. <b>2005</b> – No comment made.	
<b>Principle 24:</b> A key component of consolidated supervision is establishing contact and information exchange with the various other supervisors involved, primarily host country supervisory authorities.				
EC 1. For significant overseas operations of its banks, the home country supervisor establishes informal or formal arrangements (such as memoranda of understanding) with host country supervisors for appropriate information-sharing on the financial condition and performance of such operations in the host country. Information sharing arrangements with host country supervisors include being advised of adverse assessments of such qualitative aspects of a bank's operations as the	<b>LB Article 54 (2)</b> – The CBI may enter into Memoranda of Understanding with financial supervisory authorities in Iraq, or with banking supervisory authorities in other countries, setting out the scope, procedures and further details for the exchange of information.		<b>2004</b> – Officials within the BSD were requested to determine whether agreements are in place with foreign supervisory bodies governing Rafidain Branches. If the documents exist, they could not be located.  CBI officials are now considering foreign banking applications to open operations in Iraq	<b>2004 Recommendation</b> – The CBI will need to develop Memorandum of Understandings with foreign supervisory authorities in the event any of the foreign applications are approved.  In addition, the CBI should establish an internal policy as to the contacts which will be made with foreign supervisory bodies and the type of information which will be conveyed. The form the MOU would take should be included within this policy statement.

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Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
quality of risk management and controls at the offices in the host country.			<b>2005</b> - The CBI has a BIS consistent document ready for execution between itself & other sovereign supervisors. This agreement contains all details required by this principle. To date, no agreements have been executed.	<b>2005 Recommendation</b> – To maintain good relationships with neighboring supervisory authorities, MOUs need to be established to facilitate information flows and supervisory responsibilities.
EC 2. The supervisor can prohibit banks or their affiliates from establishing operations in countries with secrecy laws or other regulations prohibiting flows of information deemed necessary for adequate supervision.	<b>LB Article (9)</b> – No domestic bank shall open a branch or representative office or establish a subsidiary outside Iraq without first obtaining the CBI's prior approval.		<b>2005</b> – See EC 1 comment.	<p><b>2004 Recommendation</b> – The banking law should be changed to prohibit banks or their affiliates from establishing operations in countries with secrecy laws or other regulations prohibiting flows of information deemed necessary for adequate supervision.</p> <p><b>2005 Recommendation</b> – Although the law does not specifically prohibit banks from establishing overseas operations in countries with secrecy laws, LB Article 9 provides legal authority to reject establishing branches in countries with prohibited activities.</p> <p>Licensing and applications training should include overseas activities procedures and prohibitions.</p>
EC 3. The home supervisor provides information to host country supervisors concerning the specific offices in the host country, concerning the overall framework of supervision in which the banking group operates, and to the extent appropriate, concerning significant problems arising in the head office or in the group as a whole.	<b>LB Article 54 (1)</b> – The CBI may exchange information on supervisory matters, preferably based on a Memorandum of Understanding, with financial supervisory authorities in Iraq and with banking supervisory authorities in other countries. The exchange of such information may include confidential information, provided that the CBI has satisfied itself that reasonable steps have been taken to ensure the confidentiality of any such information submitted.		<p><b>2004</b> – The CBI has not shared information with foreign supervisory bodies concerning the overall framework of supervision in which the banking group of Rafidain operated nor disclosed significant problems arising in the head office or in the group as a whole.</p> <p><b>2005</b> – See EC 1 comment. This has not yet been done in practice, but the CBI is capable of performing this element.</p>	<b>2005 Recommendation</b> – MOUs need to be established between the CBI and other foreign regulatory authorities to facilitate information flows and supervisory responsibilities.

## Supervisory Development Plan - DETAIL

<b>Basel Core Principle</b> EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
AC 1. A supervisor who takes consequential action on the basis of information received from another supervisor, consults with that supervisor, to the extent possible, beforehand.			2004 – CBI BSD did not receive information from foreign supervisory body which prompted action by the CBI 2005 – This must be tested by subsequent actions.	
AC 2. Even for less than significant overseas operations of its banks, the home country supervisor exchanges appropriate information with host country supervisors.			2004 – The CBI has not shared information with host country supervisors. 2005 – This must be subject to executed agreements.	
<b>Principle 25:</b> Banking supervisors must require the local operations of foreign banks to be conducted to the same high standards as are required of domestic institutions and must have powers to share information needed by the home country supervisors of those banks for the purpose of carrying out consolidated supervision.				
EC 1. Local branches and subsidiaries of foreign banks are subject to similar prudential, inspection, and regulatory reporting requirements as domestic banks.	<b>LB Article 26 (6)</b> – The CBI shall issue regulations specifying how the operational requirements specified for banks by the provisions of this section, and in regulations issued by the CBI there under, shall apply to domestic branch offices of foreign banks. <b>LB Article 53 (3)</b> – The CBI may at any time cause an on-site examination of a bank, its subsidiaries or affiliates, to be made by one or more employees of the CBI, or by any other person or persons appointed by the CBI for this purpose.	<b>BR Section 7 – Permit Application for a Representative Office</b> <b>BR Section 8 – Granting of License or Permit</b> <b>BR Section 9 – Additional Offices</b>	2004 – No regulations have yet been issued as required under Article 26 (6).  2005 – CBI regulations must maintain the same prudential standards for banks and branches.	2004 Recommendation – Draft and implement regulations required under Article 26 (6).  2005 Recommendation – Under the banking law, foreign banks' operations in Iraq must be conducted in the same manner as domestic banks and are subject to the same inspection process, prudential guidelines and regulatory reporting requirements.
EC 2. For purposes of the licensing process as well as ongoing supervision, the host country supervisor assesses whether the home country supervisor practices consolidated global supervision.	<b>LB Article 4 (4)</b> – Permits for branches may be issued only to foreign banks that are subject to comprehensive supervision or regulation on a consolidated basis by a supervisory authority in the country in which the foreign bank's head office is located.		2004 – Although the licensing division is reviewing the foreign applicants for a license, there is no indication the BSD Licensing is following the requirements of the new law. 2005 – This is required by law. Licensing regulations must be issued.	2005 Recommendation – MOUs need to be established between the CBI and other foreign regulatory authorities to facilitate information flows and supervisory responsibilities.  Guidelines & procedures need to be developed on how the BSD will assess the home country's supervisory practice of consolidated global supervision.

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Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
<p>EC 3. The host supervisor, before issuing a license, determines that approval (or no objection) from the home supervisor has been received.</p>	<p><b>LB Article 5 (2) (n) License Application</b> – In any case where the applicant is a subsidiary of a foreign bank or bank holding company, a statement that the foreign supervisory authority responsible for the prudential supervision of the applicant in the country of formation of the foreign bank or bank holding company has no objection to the proposed establishment of operations in Iraq, and exercises global consolidated banking supervision over the applicant.</p>	<p><b>BR Section 22 – Changes of ownership of qualifying holdings of a bank</b> <b>BR Section 22A – Special issues arising from a tiered foreign bank ownership structure</b></p>	<p><i>2004 – Although the licensing division is reviewing the foreign applicants for a license, there is no indication the BSD Licensing is following the requirements of the new law.</i></p>	<p><b>2005 Recommendation – The banking law requires the BSD determine if approval has been obtained from the home supervisor to open operations in Iraq.</b></p> <p>A licensing manual needs to be developed that would include all the appropriate steps and approvals needed for foreign banking activities in Iraq.</p> <p>Training will also need to be developed and provided on these licensing issues.</p>
			<p><b>2005 – The CBI, in practice, contacts home country supervisors to determine approval for licensing branches or other offices.</b></p>	
<p>EC 4. The host country supervisor can share with home country supervisors information about the local operations of foreign banks provided its confidentiality is protected.</p>	<p><b>LB Article 54 (1)</b> – The CBI may exchange information on supervisory matters, preferably based on a Memorandum of Understanding, with financial supervisory authorities in Iraq and with banking supervisory authorities in other countries. The exchange of such information may include confidential information, provided that the CBI has satisfied itself that reasonable steps have been taken to ensure the confidentiality of any such information submitted. <b>LB Article 54 (2)</b> – The CBI may enter into Memoranda of Understanding with financial supervisory authorities in Iraq or with banking supervisory authorities in other countries setting out the scope, procedures and further details for the exchange of information.</p>		<p><i>2004 – Given the fact there are no foreign entities, there has been no need to exchange supervisory information. Upon approval of foreign banks, it will then be necessary for the CBI to develop Memoranda of Understanding with the bank's home supervisor.</i></p>	<p><b>2005 Recommendation – MOUs need to be established between the CBI and other foreign regulatory authorities to facilitate information flows and supervisory responsibilities</b></p>
			<p><b>2005 – This is allowed by law.</b></p>	

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Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	
<p>EC 5. Home country supervisors are given on-site access to local offices and subsidiaries for safety and soundness purposes.</p>	<p><b>LB Article 4 (3)</b> - ...In the case of subsidiary, a license may be issued only if the parent bank is subject to consolidated supervision by a supervising authority in the country in which the parent bank's head office is located. <b>LB</b></p> <p><b>Article 4 (4)</b> – Permits for branches may be issued only to foreign banks that are subject to comprehensive supervision or regulation on a consolidated basis by a supervisory authority in the country in which the foreign bank's head office is located.</p>		<p><b>2004</b> – This essential criteria is not yet pertinent, given the lack of foreign entities in Iraq.</p>	<p><b>2004 Recommendation</b> – Memorandums should specify the level of access which will be granted so that global consolidated supervision can be practiced.</p>
			<p><b>2005</b> – This must be subject to cross border supervision agreements.</p>	<p><b>2005 Recommendation</b> – MOUs, which should include on-site access to the local operations, need to be established between the CBI and other foreign regulatory authorities to facilitate information flows and supervisory responsibilities</p>
<p>EC 6. The host country supervisor advises home country supervisors on a timely basis of any material remedial action it takes regarding the operations of a bank from that country.</p>			<p><b>2004</b> – Since there are not currently foreign entities in Iraq, this not applicable.</p>	<p><b>2004 Recommendation:</b> The CBI should establish a policy of host country supervisors advising home country supervisors on a timely basis of any material remedial action it takes regarding the operations of a bank from that country. Legal provisions allow the communication of confidential information to home country supervisors but does not specifically require that remedial actions be conveyed.</p>
			<p><b>2005</b> – Security issues preclude such activity at this time.</p>	<p><b>2005 Recommendation</b> – MOUs need to be established between the CBI and other foreign regulatory authorities to facilitate information flows and supervisory responsibilities. Included in the MOU should be a clause requiring CBI to give the home country supervisor timely notice of remedial actions to be taken.</p>
<p>AC 1. The host country supervisor obtains from home country supervisors sufficient information on the banking group to allow it to put into proper perspective the activities conducted within its borders</p>		<p><b>BR Section 22</b> – Changes of ownership of qualifying holdings of a bank</p> <p><b>BR Section 22A</b> – Special issues arising from a tiered foreign bank ownership structure</p>	<p><b>2004</b> – Since there are not currently foreign entities in Iraq, this is not applicable. Upon the approval of foreign applications, the CBI will need to put this element into practice.</p>	<p><b>2004 Recommendation:</b> Development of internal CBI policy, which stipulates the transference of data from and to Home Country Supervisors.</p>

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Basel Core Principle EC = Essential Criteria AC = Additional Criteria	Basel 25 Core Principles Assessment			Improvement steps
	Legal	Regulation	Procedure/Practice	

			<p>2005 – to date, this has not been done in practice, but CBI has this capability.</p>	<p>2005 Recommendation – MOUs need to be established between the CBI and other foreign regulatory authorities to facilitate information flows and supervisory responsibilities.</p> <p>Training will need to be developed on how to analyze a bank holding company's financial condition.</p>
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