PN-ABH-006
ISN 69754

MODERNIZATION OF REGULATION

AND SUPERVISION OF LDC

FINANCIAL INSTITUTIONS

FINAL REPORT

February 8, 1990

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February 8, 1990

Sandra Frydman
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Dear Sandra:

We are pleased to present sixty copies of the Final Report of our study, Modernization of Regulation and Supervision of LDC Financial Institutions. As you are aware, regulation and supervision are of critical importance to countries seeking to liberalize their financial sectors. Developing countries will require assistance to strengthen and modernize their regulatory and supervisory systems to meet the challenges of the rapidly changing financial services industry. This report should provide a strong basis for sound technical assistance and training in this area.

We appreciate the opportunity to be of service to you on this interesting and important assignment. Please feel free to call us if you require any further assistance in this area.

Sincerely,

Robert R. Bench
Vice Chairman
Financial Services Industry Practice

MODERNIZATION OF REGULATION AND SUPERVISION OF LDC FINANCIAL INSTITUTIONS

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FINAL REPORT

Background

The U.S. and the international donor community have been urging developing countries for many years to liberalize their economies and financial sectors in order to allow market forces to play a greater role in determining prices and allocating credit. In the absence of adequate financial sector regulation and supervision, however, liberalization can lead to financial sector instability. Lack of adequate prudential regulation and supervision can also lead to fraud and abuse in the financial system which can discredit the entire liberalization process. In order to enjoy the benefits of liberalization while ensuring the safety and stability of their financial systems, developing countries must have a sound system of prudential regulation and supervision for financial institutions in place prior to moving forward with liberalization.

In light of its importance, AID/PRE's Financial Sector Development Project (FSDP) has made one of its highest priorities providing developing countries with the technical assistance and training required to upgrade and modernize their regulatory and supervisory systems. Price Waterhouse's Regulatory Advisory Group, which includes leading experts in the field of financial institution regulation and supervision, has prepared an initial study on this topic. This study seeks to define the basic principles and essential requirements that should govern the modernization of developing country systems of prudential regulation and supervision. It also highlights specific areas where developing countries require technical assistance and where they can obtain this assistance.

Scope

The scope for phase one of this study includes the identification of the following:

- Essential elements of financial institution law and regulation;
- Basic requirements for prudential reporting and off-site surveillance systems;
- Key elements of an on-site examination program;
- Key components of an effective training program for supervisors; and,
- Areas and sources for international training and technical assistance.

Organization of the Report

The first chapter discusses the current environment for the financial services industry worldwide and the status of developing country regulatory and supervisory structures. The second chapter outlines the public policy framework required for effective prudential regulation and supervision. The third chapter identifies the most important risks facing financial institutions and points out how prudential regulation serves to mitigate those risks. The fourth chapter presents a methodology for effective prudential supervision. The fifth chapter outlines the key components of a training program for financial regulators. The sixth chapter identifies areas where developing countries will require technical assistance and training. The final chapter provides an overview of the sources of international technical assistance available to aid developing countries in modernizing their regulatory and supervisory systems.

Executive Summary

In response to a confluence of forces in the global economic environment, and to innovations in technology and telecommunications, many countries are liberalizing their financial systems. The process for prudential regulation and supervision must be strengthened to ensure that the safety and soundness of financial systems are maintained in the new liberalized environment. In many countries, statutes are being revised to strengthen the authorities of financial regulators, specifically in the areas of increased financial reporting and disclosure, higher capital adequacy levels, tighter lending limits, and tougher enforcement efforts.

Prudential regulation and supervision are key aspects of public policy. Financial institutions are the most regulated of all businesses. The rationale behind a higher level of regulation and closer supervision is the central and unique role financial institutions play in the functioning of most economies. Banks particularly, - as holders of the public's deposits, primary allocators of credit, and the managers of a nation's payments systems - weigh heavily on the economic and political stability of a country. Due to the critical nature of the banking system's role, the failure of a large bank or several banks can have a devastating effect on a country's economy.

An effective system of prudential regulation and supervision has three components: a solid statutory base, a system for off-site surveillance, and a program of on-site inspection. Countries require a sound statutory framework consisting of prudential rules and standards that define the scope and character of permissible activity. The role of off-site and on-site supervision is to determine whether financial institutions are operating in a safe and sound manner and whether they are in compliance with regulatory standards. Supervision also involves identifying problem situations and forcing financial institutions to take remedial action.

Modern systems for regulation and supervision of financial institutions in many developing countries are still in the early stages of development at a time when increasing demands are being placed on them by the liberalization process. Therefore, developing countries, require technical assistance to upgrade their systems of regulation and supervision to meet the challenges imposed by the rapid changes in the financial services industry. Specifically, we have identified the following critical areas where developing countries need assistance:

- creating an effective legislative and regulatory framework for financial supervision;

- developing specific legislation that provide the basis for managing problem institutions. Such legislation would allow for prompt seizure of assets, deal with the insolvency of financial institutions, and provide the basis for the supervisors' enforcement powers;
- developing accounting standards and forms for consolidated prudential reporting;
- designing an off-site supervisory examination program, including computerized systems for analysis of bank reports;
- strengthening the role of external auditors;
- training supervisory staff; and
- establishing credit risk bureaus

Developing countries can look to A.I.D.'s Financial Sector Development Project to help them in these areas. Other sources of possible assistance are: the major international accounting firms, the World Bank, International Monetary Fund, and U.S. Government agencies such as the Federal Reserve, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Securities & Exchange Commission.

FINAL REPORT

I. INTRODUCTION

A. The Current Environment for the Worldwide Financial Services Industry and its Impact on Regulation and Supervision of Financial Institutions

The financial services industry and financial markets have undergone widespread and rapid changes during the last two decades. In response to a confluence of forces in the global economic environment, and to innovations in technology and telecommunications, many countries are liberalizing their financial systems.

Technological developments have also blurred the distinctions between traditionally segmented financial markets and products. This erosion of distinctions has had profound implications for competition among providers of financial services and for overall regulation of these providers. Changes in telecommunications and technology have generated rapid and accelerating linkages in products and markets, as well as the integration of the firms that provide those products and serve those markets.

The pace of change has been rapid and has placed stress on systems, conventions, institutions, and regulatory approaches. Even in the most stable times, it is a challenge for governments to strike a balance between various public policy objectives and to create a strong system of prudential regulation and supervision. During a period of rapid change, it is difficult for such systems to keep up with new developments, and governments are under pressure to continually revise and update their regulatory operations.

The internationalization of finance over the past twenty years has created a high degree of interdependence in today's financial markets. Now events far away can affect an indigenous financial institution almost immediately and market disturbances in one country can be transmitted instantaneously throughout the world. Policy-making, therefore, can no longer be carried out in a solely national context; the international linkages and interdependencies of markets must be factored into policy decisions. The rapidly changing environment has also raised a host of jurisdictional issues, such as who is responsible for supervising branches of foreign banks.

In the short-term, promoting a safe and sound financial system is the policy objective receiving the most attention. This is a natural response to both the speed of change in financial services and the well-publicized problems that financial intermediaries have experienced as they try to adapt to change. In the medium-term, the stronger prudential supervision now underway will have to be balanced with the need to foster greater efficiency in the marketplace.

Systems for supervision of financial institutions must be overhauled to address the liberalization of financial markets. In many countries, statutes are being revised to strengthen the authority of supervisors, specifically in the areas of increased reporting and disclosure, higher capital levels, tighter lending limits, and tougher enforcement efforts.

This process has not stopped at national borders. The internationalization of finance and the interdependence of world markets have created a need for multilateral harmonization of financial regulation, as well as for increased cooperation among regulators. The Committee on Bank Regulation and Supervisory Practices at the Bank for International Settlements, as well as other multilateral groups, have endorsed a set of common principles that tighten the supervision of multinational banks. Regulators are putting these principles into practice and focusing on capital adequacy, liquidity, loan loss reserves, and consolidated reporting.

At the operating level, regulators have moved away from static, point-in-time reviews of individual banks, toward a more dynamic, continuous supervision. This supervision is characterized by more frequent and targeted examinations, increased surveillance through off-site analysis, and more frequent reporting and disclosure of information.

B. The Move Toward Liberalization and Status of Regulation and Supervision in Developing Countries [1]

The liberalization of financial sectors in developing countries has another dimension: the questioning of the "interventionist approach" to development pursued by many countries over the past several decades. The "interventionist approach" to development undermined the health of the financial institutions. Many developing country financial institutions were directed by governments to lend to state enterprises and priority sectors at below-market interest rates, often at spreads too narrow to cover the institutions' costs. Many directed loans were not repaid, and

[1] World Bank Development Report 1989, Oxford University Press, 1989, p. 1-3.

these losses contributed to the insolvency of lenders. Interest controls set by governments also discouraged domestic savings and long-term loans. In addition, financial institutions were directed to open rural branches which often undermined profitability.

The economic shocks of the eighties and the consequent shrinking of international credit in response to the debt crisis have convinced many developing countries to rely more on market forces to develop their economies and financial sectors. In an effort to promote financial deepening and domestic capital formation, developing countries have moved to liberalize interest rates and capital controls, and to phase out directed credit policies. A number of countries are also privatizing state-owned financial institutions.

In the absence of adequate financial regulation and supervision, however, this liberalization can lead to an increase in the number of failures of financial institutions, financial system distress, and fraud. Increased competition and altered price structures pose greater operating risks to institutions. Financial institutions may engage in less familiar and therefore riskier activities. Therefore, proper regulation and supervision are even more necessary in a liberalized environment due to the increased risks and faster pace of activity. Moreover, the move away from a system of credit and interest rate controls requires supervision to focus on the overall financial condition and performance of each institution and the financial system as a whole.

Many financial institutions in developing countries are being restructured. Only a modernized system of prudential regulation and supervision, that requires proper valuation of assets and provides safeguards against fraud, can ensure that these institutions will remain viable over time. Overall, developing countries must develop a strong system of prudential regulation and supervision to ensure that the safety and soundness of their financial systems are maintained, and that they are able to enjoy the benefits of increased competition and efficiency at home and abroad.

II. PUBLIC POLICY FRAMEWORK FOR REGULATING FINANCIAL INSTITUTIONS

A. Importance of Financial Institution Mandates Governmental Supervision.

Due to the critical role that financial institutions play in a nation's economy, regulation and supervision of these institutions is a key aspect of public policy. All governments regulate their financial institutions to some extent, and banks and other deposit-taking institutions tend to be the most regulated of all businesses.

Deposit-taking institutions constitute the world's and each nation's financial infrastructure. Deposit accounts at banks or similar institutions are the principal mechanism for transferring payments from one person to another. They also are an important means for storing wealth and, through lenders' credit decisions, reinvesting that wealth to promote societal needs.

Due to the importance of financial intermediation, the failure of a large institution or several institutions can have a devastating effect on a country's economy. Such failures can lead to a sudden contraction of the money supply, a collapse of the payments system, a dislocation of resources, and a substantial financial loss to the government and/or depositors. Governments thus have an inherent need to foster a healthy financial system, and this need leads directly to prudential supervision of the system.

The cornerstone of financial intermediation and stability of financial institutions is market confidence. Financial institutions are highly leveraged, and therefore relatively small losses can leave them unable to honor their liabilities. Depositors who suspect that an institution is experiencing difficulties may immediately withdraw their funds. As rumors circulate, other healthy institutions may be affected, as it is difficult for the public to determine at any point in time the true status of an institutions's portfolio. If a large number of liabilities are withdrawn, the institution's liquidity and funding are reduced, which causes a multiple contraction of credit within the system that, in turn, may cause severe economic dislocation and deterioration. These adverse consequences may be avoided or diminished by an effective system of regulation and supervision: one that the public perceive to be capable of protecting them against the loss of their deposits.

B. Public Policy Objectives of Prudential Regulation and Supervision

Governments must clearly define the public policy goals that provide the underpinning for their systems of prudential regulation and supervision. Specific public policy goals will vary from country to country, depending on the history of each country's governance.

In most industrialized countries, governments try to achieve free market efficiency while simultaneously maintaining a stable financial and monetary system. The U.S. public policy goals for its system of prudential regulation and supervision, for example, attempt to strike this balance. The U.S. policy goals as put forth in the Comptroller of the Currency's 1983 Report to the Task Group on Regulation of Financial Services, are noted below:

- o maintenance of an efficient payments system
- o preservation of a stable money supply
- o assurance of broad credit availability
- o prevention of undue concentration of economic power, and
- o prevention of undue concentration of power in the federal government[2]

Conflicts often arise in attempting to achieve the balance between the goals of market efficiency and financial system and monetary stability. Efficiency demands unregulated pluralistic decisions that permit competitive responses to demands for credit, for financial services, and for new financial instruments. More efficient financial intermediation will increase the return paid to savers, decrease the cost to borrowers, and--perhaps most importantly--permit the normal marketplace forces to allocate credit and investment by financial institutions. In the long run, these market-driven efficiencies provide for a stable financial system that avoids obsolescence and stagnation because it has the ability to meet ever changing societal needs.

The history of the industrialized countries, however, has demonstrated that this goal of market efficiency, which calls for

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[2] Report to the Task Group on Regulation of Financial Services, Comptroller of the Currency, 1983

freedom to act, must be balanced to some degree by prudential regulation, which inhibits free market behavior, in order to promote stability in the financial system. Government intervention may take the form of offering non-market incentives, or imposing direct limitations or prohibitions. Central banks' requirements for public disclosure by financial institutions, limitations on risks, and regular review or inspection; all have proven themselves valuable in maintaining safety in the system and in avoiding the periodic panics of earlier periods.

In a number of developing countries, the financial system is used by the government to achieve other development goals. Financial intermediaries are often asked to direct credit to priority sectors and to provide financial services in remote areas. These policies almost always conflict with creating an economically efficient financial system, and frequently conflict with prudential concerns for the safety and soundness of the financial system. [3] For example, by requiring financial institutions to maintain branches in rural areas or to make risky loans to targeted sectors, the financial viability of the institution may be undermined. Using the financial system to further other political goals or extend political favors invariably debases any system of prudential regulation.

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[3] Polizatto, Vincent P., "Prudential Regulation and Bank Supervision: Building an Institutional Framework", Background Paper for the World Bank Development Report 1989, p.2

C. The Methodology of Prudential Supervision of Financial Institutions.

Prudential supervision begins with a societally accepted framework--often a code of laws and regulations. This framework governs who may own and manage a financial institution and defines the businesses in which a financial institution may engage. It also establishes the necessary governmental bodies, defines their role and grants them sufficient powers to accomplish their institutional mandate.

Prudential supervision commonly controls the risk permitted to be undertaken by a financial institution. These controls may limit new entry, proscribe certain kinds of activities, establish minimum investment or credit underwriting standards, and limit concentration of credit--particularly to affiliated enterprises. Risks also may be controlled by mandating periodic external audits and sufficient financial reporting to permit both supervisors and members of the public to assess the soundness of each financial institution.

Prudential supervision of financial institutions is typically carried out by a designated governmental agency--often the central bank or the ministry of finance. The supervisory agency monitors each institution for legal compliance and financial soundness. This monitoring often is done by a combination of on-site inspection and off-site review of financial reports that institutions are required to submit periodically ("prudential returns"). The supervisory agency frequently exercises licensing authority and is usually empowered with various means of enforcing its determinations about the operations of particular institutions.

D. Governmental Assistance to Financial Institutions.

Governmental policies to promote public confidence in financial institutions often involve standby governmental financial assistance to meet seasonal or emergency needs. Some governments insure deposits in financial institutions--at least up to a specified maximum for each depositor. If the government itself is stable, deposit insurance is an effective means of preventing fear-induced deposit withdrawals. This benefit, however, is not without cost. Deposit insurance can erode market discipline by permitting weak institutions continued access to sources of funds which these institutions invest unwisely or inefficiently. Almost every government in the industrial nations maintains confidence in its banking system by functioning as the lender of last resort. In many countries, especially where financial resources are centralized and concentrated, the central bank meets the seasonal or emergency credit needs of individual institutions and provides emergency liquidity to the system.

Governments also play an important public policy role as investor of last resort in dealing with insolvent financial institutions. If a country's laws permit, and stronger institutions are available, a troubled institution may be merged with a stronger one, often with government assistance. Other options include injecting capital into the institution from public funds, or seizing and liquidating the institution.

III. CONTROLS COMMON TO PRUDENTIAL REGULATION

The fundamental purpose of prudential regulation of financial institutions is to deal with the risks to which such institutions are exposed. The following discussion identifies the more important risks and typical governmental responses aimed at mitigating those risks.

A. Competitive Risks

Competition requires the taking of risks. Governments frequently reduce the competitive risk to financial institutions by limiting both who may compete and where--in what kinds of business--that competition may take place.

1. Market Entry

Most governments require financial institutions to receive a government license. The licensing process is most effective if criteria, which seek to minimize politization and prevent the entry of unqualified institutions, are established for licensing decisions. Licensing criteria often include the probable effects on competition, the requirements for financial services in the community to be served, the financial resources of the institution, and the experience and reputation of the institution's management.

2. Defining the Scope of Permissible Activity

Many countries have legislation that specifically outlines the types of activity permissible for financial institutions, and establishes the conditions under which their business may be conducted. Limitations on the scope of permissible activity are often related to concerns that depositors' money would be put at risk with the ownership, by financial institutions, of nonfinancial businesses with risks unfamiliar to their managers. Policy makers also may perceive that a nonfinancial business owned by a deposit taking institution would have an unfair--and thus economically inefficient--access to funds.

B. Ownership and Management Risks

Some risks to a financial institution arise from its ownership or management. Governments often seek to control these risks not only through the licensing process, but also after the institution is in operation.

1. Affiliated Businesses

As already noted, prudential supervision may regulate entry into the financial industry and limit the nonfinancial activities of supervised institutions. Enforcement of these policies often leads to restraint on the ownership or management of financial institutions. If, for example, governmental policy prevented a deposit taking institution from engaging in manufacturing, enforcement of that policy might also lead the government to bar affiliation between manufacturing and financial organizations through common ownership or management.

2. Character and Fitness

Concern for the honesty and competence of a financial institution's owners and managers likewise continues after the institution has been chartered. Most systems of prudential supervision thus periodically evaluate the character and ability of each institution's management. Supervisors may be empowered in extreme circumstances to prohibit an individual from managing or directing a financial institution. Supervisors may also be given the power to review and approve or disapprove proposed changes in the ownership or management of a financial institution.

3. Insider and Affiliate Transactions

Loans by a financial institution to its own insiders, or to other businesses controlled by those insiders, have the inherent weakness of not being reviewed as objectively as loans to non-related individuals or business. When controls are not in place to mitigate risk, insider loans may lead to significant losses. Prudential standards should limit the amount of credit extended to connected parties. Prudential standards should also require that each institution making such loans apply to them the same terms and conditions established for other loans of the same type.

C. Financial Risks

1. Capital Adequacy

Supervisory authorities worldwide are placing an increasing emphasis on capital adequacy as a key factor in maintaining stability of financial institutions. Former Governor of the

Federal Reserve Robert Heller has said: "If I were asked to single out the two factors most important for the health of the financial system, I would name capital and diversification". Capital is required to start up a business as well as to make investments in fixed assets and subsidiaries. Capital also has a fundamental role as a cushion that financial institutions can draw upon to cover unexpected losses not covered by current earnings; it therefore provides a form of insurance against the institution's failure. In addition, capital is used to hedge certain risks, maintain public confidence, and to support management discipline.

In establishing adequate levels of capital, governments must weigh the need for safety and the need for profitability. Traditionally, capital has been measured by a gearing ratio (capital as a percentage of assets or capital as a percentage of liabilities). These ratios, however cannot reflect all the factors which bear upon an institution's exposure to risk and the potential calls on capital. Many countries, therefore, are adopting the risk-based capital guidelines put forth by the Bank for International Settlements' Committee on Banking Regulations and Supervisory Practices. The risk-based approach tries to relate capital to the level of risk. A level of 8 percent of total risk-weighted assets is becoming the established minimum capital ratio.

In many developing countries, financial institutions are significantly undercapitalized; stated capital is often negative. Governments in countries where this is the case may wish to gradually phase in the new risk-based capital standards as a follow-on to programs to recapitalize weak institutions.

2. <u>Liquidity Control</u>

Liquidity is the ability of an institution to meet its obligations as they fall due. Governments should establish minimum liquidity guidelines as a prudential measure to ensure that these institutions have sufficient cash on hand to cover all present and future calls on liabilities. Traditionally, liquidity has been measured in terms of stocks of assets. Measurements of liquidity have related liquid assets to the overall stock of assets or to certain liabilities representing obligations that would be due at a certain period of time in the future.

Supervisors should still require some stock of liquid assets and establish minimum liquidity ratios. In addition to minimum liquidity ratios, however, the "marketization" of finance requires that regulators begin to view liquidity as a more dynamic phenomenon rather than a static point-in-time measurement. A more dynamic approach would emphasize the maturity structure of the assets and liabilities, as well as measurements of liquidity on a cash flow basis. The maturity structure can be evaluated from a liquidity standpoint by measuring the extent of maturity mismatching. The cash flow approach sets differentiated liquidity guidelines according to the degree of mismatching and the projected profile of cash flows. Given the complexity of measuring liquidity, it may be best to establish liquidity requirements in the form of guidelines, as opposed to set regulations.

3. Interest Rate Exposure

The spread between the interest rates at which a financial institution acquires deposits or other liabilities, and the rates at which it invests or lends those funds, usually constitutes the principal source of the institution's income. Thus an institution's income, and ultimately its financial health, can be markedly affected by changing interest rates. Bankers and their supervisors monitor these interest rate differentials, but the supervisors are just beginning to develop an effective regulatory response to them. Discussion among supervisors through the Basle Committee may well lead to a supplemental capital requirement for depository institutions calculated in relation to the impact of possible future interest rate changes on the market value of the institution's assets and liabilities.

D. Asset Risks.

1. Asset Quality and Provisions

Effective prudential regulation of financial institutions must establish standards for assessing asset quality and determining the appropriate level of provisions for potential losses and problem assets. Non-performing assets should be defined and all assets reviewed and classified in accordance with their credit quality. Based on these standards and procedures each financial institution may recognize potential future calls on the capital resources and make due provisions for deterioration in portfolio quality. Standards should also govern the accrual of interest on non-performing assets (including standards for the refinancing or capitalization of interest), and for writing-off uncollectible loans.

In many developing countries, financial institutions may not formally recognize problem assets. Problem loans are rolled over and accrued interest is capitalized. Therefore, the balance sheet does not reflect the actual condition of the institution. It may continue to operate as long as it remains liquid even though it may be technically insolvent. Often the true condition of the financial institution and the consequent threat to the overall system only become apparent with the onset of a liquidity crisis. By the time a liquidity crisis exposes insolvency, the problems are well advanced and their resolution can be costly to depositors, shareholders and taxpayers.

2. Concentration of Risk

Diversification of asset risk is one of the key factors impacting the safety of a financial institution. Heavy claims on one large borrower makes an institution extremely vulnerable. This vulnerability may be minimized by placing limits on risks to one person, one group, or one industry to prevent undue concentration of risk. In the U.S., for example, unsecured lending to one borrower cannot exceed 15 percent of capital. Many developing countries do not set lending limits for individuals or large groups. The resultant credit concentrations have been a contributing factor in many insolvencies.

IV. METHODS OF PRUDENTIAL SUPERVISION

Governments use a number of complementary methods to supervise financial institutions. These methods typically include the setting of legal standards, licensing, and on-site and off-site monitoring. Governmental supervision is often reinforced by non-governmental entities, such as trade associations, and financial institution customers and shareholders.

A. Governmental Supervision

1. Prudential Standards

Governments are largely responsible for establishing the rules of the game, i.e., the body of law and regulations that implement the public policy goals for the financial services industry. These rules establish the parameters within which financial institutions may operate and communicate other prudential governmental policies. These standards may be enacted by a legislature or may be established by supervisory agencies under general statutory authority. As formal regulations cannot cover all possible practices, governments should grant supervisory authorities the power to establish guidelines which may be more readily adapted to reflect changing conditions. Guidelines also afford supervisors greater flexibility to take into account unique situations.

Prudential rules should be implemented consistently and impartially to all domestic and international institutions competing in the same marketplace. When rules are not implemented equitably, competition is restricted. There is also a need for the gradual harmonization of national regulations with international standards to create a "level playing field" for domestic institutions in the international marketplace and for foreign institutions operating domestically.

Supervisory regulations should also be implemented with some flexibility to permit financial institutions the time they need to respond to unforeseen developments and the changing requirements of their customers and to adapt to structural changes in financial markets.

Prudential regulations and standards should address the risks discussed in Chapter III, and include the following areas:

- Market entry

- o Changes in ownership of financial institutions
- o Permissible business activity
- o Capital adequacy
- o Liquidity control
- o Asset quality and provisions
- o Limits on insider transactions
- o Concentration of risk
- o Financial disclosure

2. Licensing.

As already noted (see page 9), governmental licensing typically is used to regulate who may acquire or open a financial institution. Licensing procedures also are frequently required for an existing institution to accomplish proposed corporate or structural changes (such as mergers), the establishment of branches, the issuance of new capital instruments, or the acquisition of bank subsidiaries. Supervisors frequently use these opportunities to review not only the merits of the application, but also to raise and resolve any outstanding supervisory concerns. Licensing, therefore is an important component of ongoing supervision.

3. On-site Examination.

A vital supervisory program consists of regular prudential evaluations through routine on-site inspections, supported by off-site analysis of operating reports which institutions submit to supervisory authorities on a regular basis. The on-site examinations are excellent supervisory tools for detecting problems, correcting them, or preparing for the consequences. The examinations permit supervisors to follow the transactions, conditions, and management of financial institutions. Examinations also create a supervisory presence "on the street".

Supervisors are most effective when their role is clearly defined and focused primarily on prudential concerns. This is not the case in many developing countries where, in addition to prudential concerns, supervisors are called upon to carry out or enforce other public policies. These additional responsibilities may include determining tax compliance, ensuring compliance with credit allocation guidelines, checking reserve computations, and enforcing foreign exchange control regulations. These anomalous responsibilities distract the supervisor from his or her primary mission and sometimes, as with the enforcement of directed credit policies, can be in direct conflict with the supervisor's prudential role.[4] Care must be taken to avoid undermining the supervisor's effectiveness in ensuring the safety and soundness of the financial system.

On-site supervision provides information that cannot be obtained through off-site analysis. There are a number of key areas that can only be evaluated on-site, such as the quality of management, compliance with laws and regulations, the quality of assets, and the adequacy of internal and external controls. Legislation or other legal authority should provide supervisors with complete access to all records of financial institutions.

To assure disciplined and adequate on-site inspections, supervisors should develop and use a comprehensive manual containing guidelines and procedures for examinations. The supervisor using the manual as a tool should design each examination and emphasize the areas most important for that particular financial institution. Off-site surveillance, external auditors' reports (when available), and examiner visits to major operating areas all may be useful in establishing the appropriate scope of the on-site inspection or examination. These inspections should take place at least once a year and more often if the institution is experiencing problems.

The key components of an effective on-site supervisory program should include:

- A review of the policies, practices and procedures in every area of operation, including corporate and strategic planning activities;
- A determination of the integrity of internal and external controls;
- An evaluation of asset liability management policies;
- An appraisal of the quality of loans, investments and other assets;
- A review of the profile and composition of deposits or other liabilities;
- A judgement about the adequacy of capital;
- An analysis of other key factors, such as the quality of earnings, liquidity, and interest rate sensitivity;

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[4] Polizatto, p. 2

- An assessment of the capacity and competence of management;
- A determination of the degree of compliance with all laws and regulations; and,
- An identification of changes the institution can make to operate more efficiently and to correct weaknesses.

The examiner should conclude the on-site review by preparing a written report of conclusions, which also specifies the actions the institution should take to respond to those findings. This report becomes the basis for any later supervisory actions, including a minimum monitoring to determine whether the examiner's concerns are adequately addressed by the institution. The institution itself should receive a copy of the report. This report of examination is often more effective if accompanied by an examiner's oral presentation on the reports's main findings to the board of directors of the institution.

4. Off-site Surveillance

Off-site surveillance involves reviewing and analyzing reports which financial institutions submit regularly to the supervisory authorities. The results from prior examinations and information obtained from media and market sources is also analyzed as part of this process. Off-site surveillance supports the supervisory process by identifying institutions that require immediate examination, by monitoring the progress of troubled institutions, by helping to focus on-site examinations, and by providing input for supervisory policy. An off-site surveillance capability is highly important because it allows supervisory authorities to monitor institutions on an ongoing basis.

Institutions should be required to submit standard prudential reports to the supervisory agency on a quarterly basis. These reports should include a line-by-line consolidation of foreign and domestic operations, details of the loan portfolio by type of loan (loan amounts, delinquencies, earnings and losses), complete data about off-balance sheet commitments, and schedules to measure interest rate sensitivity. Analysis of this information is an important part of the supervision process. The supervisory agency should analyze this information regularly on an institutional, peer group (if there are a sufficient number of institutions), and systemic basis. Computerized information systems can facilitate this effort.

In many developing countries, off-site supervision has been limited to monitoring compliance with monetary and prudential policy regulations and has therefore not provided adequate support for the supervisory process. The reporting to supervisory agencies in many developing countries has often not been sufficient to provide supervisors with the information they need to monitor the condition and performance of institutions and the overall financial system. Specifically, these reports lack information on off-balance sheet items, asset quality, developments in profit and loss accounts, maturity of assets and liabilities, and interest rate risks.[5] In addition, these reports are often not completed on a consolidated basis, making an overall financial analysis of the institution impossible. Finally, many reporting systems capture static, point-in-time information which precludes analysis of the operating performance of an institution.

5. Enforcement Powers

When a financial institution has severe operating deficiencies or financial weaknesses, or is not in compliance with laws and regulations, regulators must take appropriate enforcement action. Supervisors should have the authority to carry out a variety of enforcement measures designed to force institutions to take corrective action and to bring them back into compliance. Supervisors may be able to resolve minor problems by communicating their concerns to the institution's management and directors and seeking their cooperation in resolving problems. A written memorandum or plan of corrective action, agreed to by the supervisor and the institution's directors, often is an effective means of directing attention to a problem and achieving an appropriate solution.

For more severe deficiencies or financial weaknesses, supervisors may require more formal enforcement powers. Such remedies might include:

- orders directing a halt to unsafe or illegal practices and requiring corrective measures;
- fines or monetary penalties against individuals and institutions for engaging in unsafe or illegal practices;
- suspension or removal of bank directors, officers or employees; and

[5] Snoek, Harry, "Problems of Banking Supervision in Developing Countries", IMF Central Banking Seminar, November 1988.

- o criminal prosecutions.

These enforcement measures should apply equally to government-owned and private financial institutions.

6. Receivership Authority

Many industrialized countries give supervisors extraordinary powers to deal with insolvent or otherwise severely troubled institutions. These powers range from rescue efforts such as injections of liquidity or capital, to forced liquidation and paying off of the depositors and other creditors. Prompt governmental action often can reduce the cost both to the government and to the institution's creditors.

In many developing countries, however, these options are not available. In these countries, financial institutions may be governed by the same bankruptcy laws as other corporations, thus depriving supervisors of the authority required to close an institution and to liquidate or merge it for the benefit of depositors and other creditors. The normal bankruptcy procedures may take months or even years to complete. During that time, depositors may not have access to their money. In addition, shareholders may retain an interest in their shares and may block attempts by the government to recapitalize the institution or transfer ownership to the government or new investors.[6]

In order for governments to effectively manage financial system distress in these countries, legislation permitting supervisors to declare institutions insolvent and to conduct a receivership outside the normal corporate bankruptcy process. To assist them in carrying out this process, supervisors should also receive broad enforcement powers to remove and replace management, eliminate the interest of shareholders, and purchase, sell, and transfer problem assets. Speedy resolution of such financially distressed institutions enhances public confidence in the government's ability to maintain a stable financial system.

7. Deposit Insurance

A number of countries, including the Dominican Republic, Kenya, Nigeria, and Trinidad and Tobago in the developing world, have institutionalized deposit insurance schemes as an integral part of their system of prudential regulation and supervision. The primary objective of these schemes is to enhance the stability of the nation's financial system by insuring bank depositors and reducing the economic disruptions caused by bank failure.

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[6] Polizatto, p. 10

Deposit insurance schemes provide an institutionalized mechanism, with policies and procedures, for handling insolvent institutions and, importantly for developing countries, this process is often insulated from political interference. For depositors the protection offered by deposit insurance decreases the likelihood of bank runs, protects them from undue losses, and therefore promotes overall confidence in the system.

History has shown that, even in countries where there is no formal deposit insurance, governments intervening to handle bank insolvency often offer full or partial protection to depositors. This protection is often prompted by fear of widespread bank runs and loss of confidence in the financial system. Given that most governments often offer implicit deposit insurance, Samuel Tally and Ignacio Mas have skillfully argued in their paper, "Deposit Insurance in Developing Countries", that explicit deposit insurance schemes should be evaluated relative to the implicit schemes and not against scenarios where deposit protection is absent.[7]

According to their study, which is based on developing country experience, formalized deposit insurance schemes offer a number of advantages over implicit schemes. Among these benefits are better administrative processes for resolving failing bank situations and protecting depositors, greater effectiveness at protecting the small depositor, and a lower taxpayer cost because some or all of the insurance cost is shifted to the institutions themselves.

The study also points out that the major problem with deposit insurance schemes, particularly in developing countries, is that they tend to be underfunded relative to the number of insolvent institutions that must be dealt with. As a result many deposit insurance facilities have faced large losses that they were unable to absorb. In order for the deposit insurance schemes to be effective, governments must be willing to adequately fund the scheme and to provide back-up support when necessary. Insurance losses should be minimized by strengthening systems of prudential regulation and supervision and bring stability to their financial systems prior to instituting deposit insurance.

B. Reporting and Public Disclosure.

The level of information available to market participants is

[7] Talley, Samuel H. and Ignacio Mas, " Deposit Insurance in Developing Countries", unpublished, p. 6.

related to a country's auditing and disclosure policies. The more information the market participants receive, the greater the role of market discipline in regulating the financial system. Disclosure policies, however, must balance the benefits of disclosure with the effects of disclosure on the stability of the financial system.

1. Private Auditor.

Internal and external auditors play an important role in promoting the safe and sound operation of financial institutions. The auditors' role is to ensure that the internal controls of the institution are adequate, that all areas of the institution adhere to the institution's policies, practices and procedures, and that financial statements are accurate. Their reports provide needed information to the institution's managers and directors, creditors, and stockholders.

Supervisors should communicate regularly with internal and external auditors as they are a useful source of information. Close cooperation between supervisors and auditors can also permit a "division of labor" in the area of financial institution examination. Indeed, supervisory agencies in some countries rely heavily on external auditors to conduct on-site inspection. In these countries the results are reported to the supervisors as well as the client financial institutions. The scope of such a supervisory audit would be extended beyond the accuracy of financial statements to include regulatory compliance and other matters of supervisory interest.

2. Market Discipline.

The market also plays a regulatory role. For market discipline to be effective, market participants need to be informed about the state of financial institutions and the attributes of new financial services. Armed with more information, customers and institutions are often more careful when purchasing financial services or investing in financial institutions. In this way, the market can perform a self-regulating function.

The self-regulation role of the marketplace can provide a complement to the government's supervisory role. New disclosure policies, however, must balance these benefits with the potential effects of disclosure on the stability of the financial system. It is important that a strong regime for prudential regulation and supervision be in place, and that the overall health of financial systems in developing countries be restored, prior to liberalizing disclosure policies. The broad circulation of information regarding the current weak state of many developing country financial institutions could be destabilizing both to the individual institution and the financial system.

C. Private Side of Governance.

In countries where governance promotes private ownership of banks, there is a private side to the process of regulation and supervision of financial institutions.

1. Management and Director.

A privately-owned financial institution's management and directors provide the first line of defense in ensuring the health of the institution. It is first and foremost the responsibility of management and directors to establish the policies and procedures for the financial institutions under their direction. Management is responsible for seeing that a system of internal and external controls is in place, and for ensuring that the institution is in compliance with financial statutes.

In order to ensure that directors fulfill these responsibilities, many countries choose to place heavy statutory responsibility on them to safeguard funds which the public has either deposited or invested. In the U.S., for example, each bank director has a personal and civil liability to review and consider the supervisory communications and to initiate appropriate responses. In addition, any directors who knowingly operate their banks in violation of the laws are subject personally to a host of criminal and civil laws which impose fines and imprisonment. These directors are also subject to personal financial liability to reimburse their bank, its shareholders, or its customers for any losses incurred as a result of illegal actions by a director.

In many developing countries, bank directors do not have clear cut management responsibilities or liabilities. The position of bank director is often titular/honorary in nature. The role of bank directors in many developing countries must be changed if the public interest is to be served. Directors should be held responsible for ensuring that their institutions comply with financial regulation and adopt and adhere to proper policies and procedures.

2. Private Associations.

To the extent that they exist in developing countries, private associations can also support the regulatory and supervisory process in a number of important ways. In some countries clearing houses or other associations also jointly undertake to guarantee and make good on each member's obligations. Even more commonly, bank associations frequently establish operational standards for check clearing, wire transfers, and other interbank transactions and communications. In some countries, associations also establish minimum qualifications or training requirements for employees or officers exercising particular functions within a financial institution, and also may perform valuable education and training functions. Associations additionally may adopt standards of conduct and discipline persons or institutions failing to comply with those standards.

A bank association also might establish a credit risk bureau to collect credit information on borrowers from banks and other sources and make this data readily available to authorized parties. Utilizing this resource, lenders would be able to better assess a borrower's credit risk prior to issuing loans. Supervisors would also benefit from easy access to credit information as they would be better able to value assets and determine the overall quality of the portfolio.

V. KEY COMPONENTS OF A SUPERVISORY TRAINING PROGRAM

In order to effectively monitor financial institutions supervisors require extensive training. As examiners move away from reviews that solely verify compliance to those that assess internal controls, training becomes even more critical. IBRD and Federal Reserve officials sponsoring a semi-annual training course for supervisors report that the demand for training developing country supervisors has increased dramatically over the past several years.

Training programs should focus on the key components of on-site examination of financial institutions. They should include practical case studies and be complemented by supervised on-the-job training.

An effective training program would offer separate courses for both junior and intermediate supervisors and include seminars on key issues for senior supervisors. Novice supervisors should have a basic understanding of bank records, accounting, terminology, and spreadsheet analysis prior to participating in training courses. Courses for these junior supervisors should focus on the fundamentals of bank supervision, basic report analysis, and the rudimentary elements of loan review. These courses should prepare the junior supervisor to serve as an integral member of a supervisory team.

The key components of an effective training program for junior supervisors are:

1. overview of the principles and systems of bank regulation and supervision;

2. overview of statutes and regulations pertaining to financial institutions;

3. analysis of the financial institution balance sheet and the flow of transactions within the institution and the financial system;

4. elements of the financial institution reporting system and analysis of prudential reports;

5. affiliate relationships and the fundamentals of consolidated reporting;

6. accrual accounting as applied to financial

institutions;

7. assessment of internal controls and operating systems;

8. discussion of capital, earnings, liquidity;

9. introduction to risk analysis, which includes the identification of the major areas of risks for financial institutions;

10. overview of the securities and the investment portfolio, including an examination of broker/dealer relationships;

11. examination of interest rate sensitivities;

12. basic concepts of loan review, e.g.

    a. definitions,
    b. fundamentals of credit analysis,
    c. documentation requirements,
    d. principles of secured transactions,
    e. specialized lending,
    f. classification,
    g. provisioning,
    h. concentration of credit, and
    i. insider activity;

13. key aspects of financial statement analysis, including operations management, liability management, cash flow, and projections sensitivity analysis;

14. basic concepts of cashflow analysis;

15. overview of trusts; and

16. overview of current issues in the financial services industry, such as risk-based capital.

Upon completion of at least two full years of bank examination, a supervisor should participate in more in-depth training that would prepare him or her for a managerial role in the examination process. A training program designed for intermediate supervisors should focus on the following elements:

1. major current issues impacting supervision worldwide;

2. problems of banking supervision in developing countries;

3. overview of banking risks and supervisory controls;

4. discussion of the role of the external auditor;

5. treatment of large exposures and evaluation of asset quality;

6. analysis of liquidity/funding;

7. analysis and discussion of the commercial loans;

8. examination of off-balance sheet innovations and the risks for banks;

9. investment portfolio appraisal and global trading risk management;

10. in-depth treatment of earnings;

11. measurement and analysis of capital adequacy;

12. overview of operational controls (EDP);

13. executive management appraisal;

14. presentation of enforcement proceedings;

15. analysis of trust operations;

16. supervision of branches of foreign banks; and

17. managing the examination.

VI. REQUIREMENTS FOR TECHNICAL ASSISTANCE IN DEVELOPING COUNTRIES

In order to modernize and strengthen their systems for regulating and supervising financial institutions to meet the challenges of the 1990s, developing countries may require technical assistance in the following areas:

A. Government Level

1. Creating an effective legislative and regulatory framework for financial supervision:

Most developing countries have in place statutes and regulations governing financial institutions. In some cases, however, the regulatory and statutory framework is inadequate and in others this framework must be modernized in order to keep up with the rapid changes taking place in the financial services industry. Many developing countries, therefore, will require assistance in upgrading their legislative and regulatory framework. Legal counsel experienced in dealing with the law and regulation of financial institutions may be required to review existing laws and recommend areas for improvement. An evaluation of a country's legislative and regulatory framework should focus on the following areas:

- approval of charters for financial institutions;
- changes in control of financial institutions;
- scope of permissible activity;
- capital adequacy standards;
- liquidity control;
- asset quality and provisions;
- limits on insider transaction;
- concentrations of risk;
- financial disclosure standards;
- on-site evaluations and systems for prudential reporting;
- cease and desist powers;
- civil and criminal penalties;
- authority to remove directors and officers; and
- conservatorship and receivership powers.

2. Strengthening systems for prudential supervision

a. Training supervisory staff

Examiners require extensive training to monitor financial institutions effectively. Examiners not only require expertise in the various laws and regulations, but they must also understand the financial services business, and know how to value assets and assess internal controls.

Examiners require both formal training and four to five years of on-the-job experience in order to fully develop their expertise. Since financial institution managers and supervisors require the same kind of skills, it is often efficient to combine training efforts. There are a number of internationally sponsored courses that developing countries can access to train their supervisors, including courses by the U.S. supervisory agencies, the IBRD/Federal Reserve, the Bank for International Settlements and the Caribbean Banking Supervisors (see Chapter VII for further details about these programs).

b. Designing an on-site supervisory examination program

Developing countries may require assistance in designing or upgrading their on-site inspection of financial institutions. An effective supervisory program assesses the quality of management, the overall portfolio and the adequacy of internal and external controls. While supervisory programs should contain certain standard elements, they should also be tailored to the specific institution, focusing on the areas of greatest risk. Assistance may be required in developing manuals of examination procedures and other guides to aid supervisors in accomplishing these objectives in conducting on-site inspections or examinations. Developing countries may require the assistance of experienced senior supervisors or supervisory agencies to assist them in modernizing their examination programs for financial institutions.

c. Developing standards and forms for consolidated prudential reporting.

Supervisory authorities must develop standards and forms for consolidated prudential reporting that would provide them with regular, current and accurate data on financial institutions. Developing countries may require assistance in revising guidelines for reporting so that financial institutions can be more effectively monitored. The supervisory authorities should require that financial institutions utilize uniform accounting principles in their prudential reports. Developing countries may require the assistance of experienced senior supervisors and foreign supervisory authorities to aid them in developing/revising these forms and standards. Governments may also obtain copies of standard prudential forms to serve as models.

d. Designing computerized systems to assist in the control and off-site analysis of bank returns by supervisors

To make effective use of limited staff and to take advantage of computer modelling capabilities to project future scenarios, developing countries' supervisory agencies will require modern computerized information systems to assist in off-site analysis. These countries may require assistance in the design of such systems. Specifically, the assistance of an accountant and a financial analyst experienced in working with financial institutions may be required to assist in the design of systems that emphasize the analysis of portfolios and identify the areas of greatest risk to financial institutions. These experts can work with the supervisory agency to determine what data comparisons are required for these agencies to adequately monitor both individual institutions and the financial system as a whole. A computer systems expert with experience in working with financial institutions can then design a computer program which can generate financial ratios and other forms of analysis from the prudential reports the institutions submit.

3. Strengthening accounting standards

A number of countries may not have accounting standards adequate for today's financial services business. As a result, sufficient information is not available to the financial institution to make an adequate financial analysis of the risks it takes, and supervisors are unable to adequately assess the quality of the institution's portfolio. In many cases supervisors must analyze reports which use different accounting systems. To strengthen accounting standards, countries may require the assistance of an experienced accountant/accounting firm to review/establish standards to be followed by all financial institutions in their public and supervisory reports.

4. Strengthening the role of external auditors in the supervisory process.

Auditors assess the internal controls established by banks to mitigate risk and provide a useful source of information for supervisors, lenders and investors. The role of the external auditors should be strengthened in many developing countries. Governments may wish advice in assessing and improving their standards for auditors. Countries may look to a number of foreign supervisory authorities like the S.E.C. and a number of internationally recognized accounting firms for assistance.

5. Improving financial legislation that allows for prompt seizure of assets and different treatment for insolvency for financial institutions

In many developing countries, there are a number of impediments to seizing collateral from a borrower who has defaulted on a loan. Without proper legislation and the backing of the legal system, financial institutions cannot rely on collateral. As a result they will adopt conservative lending policies, often lending only to their best customers. Developing countries may require the assistance of an attorney experienced in debt recovery procedures to review the legal impediments to the seizure of assets and to make recommendations for reform.

Financial legislation must also allow for a different treatment for insolvency for financial institutions. If financial institutions must go through the same bankruptcy procedures as other companies, the process may take months or years to complete. During the normal bankruptcy process depositors do not have access to their money and shareholders retain their interest, which permits them to block any attempt to recapitalize or sell off part of the institution. Legislation is necessary, therefore, to give supervisors the authority to declare financial institutions insolvent, and to close them and place them in receivership outside the normal bankruptcy process. Countries may require the assistance of an attorney experienced in regulation and supervision of financial institutions to assist them in revising financial legislation.

6. Establishing a credit risk bureau

Financial institutions require credit history information on potential borrowers to better evaluate loan requests, and supervisors require this information to better assess the value of loans. If sufficient credit information is not readily available, developing countries should establish a credit risk bureau which would make credit information available upon request to both lenders and supervisors. This credit risk facility could be established by the supervisory agency itself or by a private group that would charge for their services. The local bankers' association may also play a role in creating such a facility.

B. Institutional level

The directors of financial institutions bear primary responsibility for ensuring the safe and sound operation of their institutions and therefore need to strengthen their internal supervision and control systems. This will require technical assistance in training management and staff, strengthening/redesigning internal controls, and upgrading management information systems. Developing country governments and the financial institutions themselves can look to a number of internationally recognized professional services firms to assist them in these areas.

VII. SOURCES OF TECHNICAL ASSISTANCE AND TRAINING

A. U.S. Government Agencies

The Office of the Comptroller of the Currency, the Federal Reserve, the Federal Deposit Insurance Corporation, and the Federal Financial Institutions Examination Council all have a long history of providing assistance to developing countries for strengthening their systems of prudential regulation and supervision. With the advent of the savings and loan crisis in the United States, however, the U.S. supervisory authorities are facing serious human resource constraints. The FDIC, for example, must train 4,000 new employees this year to serve as supervisors for thrifts in the U.S. These demands make it increasingly difficult for these agencies to make their staff available for overseas assignments and has forced them to become more selective. The message from these agencies is clear: they are focussing their efforts on countries that demonstrate a strong commitment to carrying out modernization and reform of their regulatory and supervisory systems.

1. Office of the Comptroller of the Currency (OCC)

The OCC strongly supports providing technical assistance to developing countries to upgrade their systems of regulation and supervision of financial institutions. In the past, the OCC has been able to accommodate all requests from developing countries for technical assistance. Increasing demands are being placed on the OCC, however, to respond to recent developments in U.S. financial institutions. The OCC is also currently in the process of reducing its Washington, D.C. staff by approximately 20%. These developments have imposed human resource constraints on the OCC and therefore the agency may face some difficulties in honoring future requests for assistance.

a. Technical Assistance

If the request for short-term technical assistance is six months or less, the OCC will typically send someone from OCC headquarters or will identify someone else in the Washington area. If the assignment is for more than six months, the OCC will post the assignment at OCC offices nationwide through its personnel system. Requests for OCC technical assistance usually come through the Agency for International Development (A.I.D.), the World Bank (IBRD), or the International Monetary Fund (IMF), which intend to fund the assistance.

Given the human resource constraints facing the OCC, the agency prefers to work closely with the host government supervisory authorities to develop supervisory programs. The OCC advisor would make an initial visit of several weeks to assist in the design of a program which the local supervisory authority would then develop. The advisor would monitor the progress of the program in one or two follow-up visits and make him or herself available to respond to questions from the local supervisory authorities.

In addition to overseas assignments for short-term technical assistance, the OCC periodically hosts visits of developing country supervisors interested in specific topics. In these cases the OCC arranges a briefing for the visitors by the appropriate division within OCC. For example, if a particular country is interested in off-site surveillance systems, an orientation on the National Bank Surveillance System (NBSS) would be arranged. The OCC will also provide copies of its examiner manuals to developing country supervisory authorities upon request.

b. Training

The OCC also assists in training supervisors from developing countries. The OCC has a policy of allowing supervisors from other countries to participate in its domestic training programs. Of particular interest is the OCC course, " Bank Supervision School," which is a nine-day course covering a variety of supervisory issues including: off-site analysis, earnings, capital analysis, enforcement proceedings, executive management appraisal, investment portfolio analysis, analysis of liquidity/ funding, operational controls, etc. (see Appendix C for a complete list of courses offered by the OCC). The OCC schools are rapid paced and assume a high level of prior knowledge of supervisory systems. In the past, developing country supervisors with a strong command of English and prior knowledge of financial institution supervision have benefited most from participation in these programs.

For students who require further preparation prior to attending OCC schools, the OCC has available in its offices in Washington, D.C. a set of approximately 20 computer-based-training modules that cover the basic principles and procedures of regulation and supervision of financial institutions. These computer modules are based on the one-year bank supervision school that the OCC conducted in the past and are used to train newly-hired supervisors.

In addition to allowing developing country supervisors to participate in its domestic training programs, the OCC provides instructors for regional supervisory training programs, such as SEACEN, CEMLA, and the Caribbean Bank Supervisors. In 1989 the OCC and the IBRD also conducted a two-week training program for supervisors in Poland.

2. Federal Reserve System

a. Technical Assistance

The Federal Reserve System has been providing technical assistance to developing countries in the area of financial institution regulation and supervision for over forty years. FED policy is to support technical assistance for developing countries to the extent that it has the resources available. The need for technical assistance in specific countries is usually identified by A.I.D., the IBRD, or the IMF. The Federal Reserve prefers that all requests be directed to Larry Promisel, the Senior Associate Director of the Division of International Finance of the Board of Governors in Washington, D.C., who in turn will contact the district Federal Reserve Banks as necessary.

It is difficult even in the best of times for the FED to spare its supervisors for overseas assignments. With the broad demands currently being placed on U.S. financial institutions, it is becoming even more difficult for the FED to make its staff available. It is easier for the FED to respond to requests for short-term assistance. The Federal Reserve Bank of New York, for example, has seconded supervisors for short-term assignments to Costa Rica, Guatemala, Honduras, Poland, Indonesia, and Saudi Arabia. The Federal Reserve Bank of San Francisco has a policy of supporting technical assistance for Pacific Rim countries and has sent supervisors to Malaysia, Indonesia and China.

It is much more difficult for the FED to make available supervisors for longer-term assignments, but the agency makes its best effort to identify supervisors for such assignments within the Federal Reserve System or among retired supervisors. There is a FED-wide policy that positions will be held for supervisors participating in overseas assignments until they return. Given its limited resources, the FED has stressed that it is very important that the countries requesting assistance be firmly committed to reform.

In addition to providing overseas technical assistance, the FED periodically hosts foreign delegations interested in its assistance on specific issues. The FED will arrange a series of briefings for the visiting supervisors on topics of interest.

b. Training

The Federal Reserve is also very active in the area of training developing country supervisors. The FED, in conjunction with the World Bank, is sponsoring a semi-annual three week training course for developing country supervisors. The Federal Reserve plans the curriculum for the first two weeks. The FED places a heavy emphasis on financial and credit analysis and provides two to three instructors per session. The World Bank plans the third week, which consists primarily of case studies. The number of participants for each course is held to approximately forty. According to World Bank and FED officials, the demand for training far exceeds the supply. The 1990 spring IBRD/FED training program will be held overseas for the first time, taking place in Ghana.

In addition to the IBRD/FED training program, the Federal Reserve Bank of New York conducts an annual four week Central Banking Seminar, which contains some discussion of financial institution supervision, and a one week seminar dedicated specifically to supervision of financial institutions. Developing country supervisors are welcome to participate in these programs.

The Federal Reserve also allows 2-4 students per session, (or approximately 100 per year), from developing countries to participate in its training programs for domestic supervisors. The Federal Reserve System offers a series of courses for all levels of bank supervisors. (see Appendix C for a complete list of courses provided by the FED).

The FED also contributes to training developing country supervisors by providing instructors for regional training programs sponsored by SEACEN, Caribbean Bank Supervisors, and CEMLA.

3. Federal Deposit Insurance Corporation (FDIC)

a. Technical Assistance

Like the OCC and the FED, the FDIC has a policy of assisting developing countries upon request to strengthen their systems of regulation and supervision of financial institutions, or to consult on deposit insurance. If the FDIC cannot meet a request by drawing from its current staff, it will approach its retirees. As a result of the U.S. S&L problem and the Financial Institutions Reform and Recovery Act of 1989, however, the FDIC, particularly, faces significant resource constraints. The FDIC must train 4000 new staff to monitor thrifts in its schools this year and its staff is providing on-site examination assistance to the Office of Thrift Supervision.

The majority of requests for assistance received by the FDIC are for assistance in setting up deposit insurance programs. In responding to these requests, the FDIC often also provides advice on related supervisory issues. Additionally, the FDIC receives a number of informal visits from foreign supervisory authorities for which it arranges appointments as appropriate. Secondments for longer-term assignments are fairly rare for the FDIC. This institution, however, has sent longer-term advisors to Nigeria, the Netherland Antilles and Honduras in the recent past.

b. Training

The FDIC also participates in the training of developing country supervisors by making any extra openings in its domestic training programs available to foreign supervisors. The FDIC trained 41 students in 1988-89 from Gambia, Bahrain, the Netherland Antilles, Nigeria, Korea, Cyprus, Australia, Thailand, and China (see Appendix C for a complete listing of training courses offered by the FDIC).

Additionally, the FDIC has recently designed and implemented two four-week training programs for supervisors of different levels in Bahrain. Supervisors from the Gulf States and several African countries attended these sessions. The program materials were turned over to a training center in Bahrain and the FDIC advised the center on how to carry out future training programs. Resource constraints prohibit the FDIC from conducting similar programs in other countries at the present time. The FDIC also supports the training of developing country supervisors by providing instructors for the IBRD/FED training program.

4. Federal Financial Institutions Examination Council (FFIEC)

The majority of requests for assistance for training supervisors received by the FFIEC are directed to the OCC, the FED, and the FDIC which have established training programs for domestic supervisors. These training programs are the most relevant for foreign supervisors. Developing country supervisors, however, are also welcome to participate in courses and special seminars offered by the FFIEC. For example, the International Banking I & II courses which deal with the supervision of foreign branches may be of interest. (see Appendix C for a complete list of courses offered by the FFIEC).

5. Securities & Exchange Commission

The Securities & Exchange Commission has an ongoing program of providing technical assistance to foreign market regulators in both developed and developing countries. This technical assistance is provided in the form of visits to S.E.C. headquarters in Washington, D.C.. During these visits foreign regulators meet with the various S.E.C. departments and receive a briefing on the U.S. system. The S.E.C. also provides foreign regulators with copies of statutes, laws, and policy releases used in the U.S. system.

In order to coordinate and centralize its international activities and to establish greater linkages with international securities markets, the S.E.C. has made a policy decision to commit more resources to its international programs and established a new Office of International Affairs in 1989. The S.E.C. does not currently have an official policy of sponsoring in-country visits to provide technical assistance due to budgetary constraints.

The S.E.C. is also very active in the International Organization of Securities and Exchange Commissions (IOSCO), which includes a number of developing countries. IOSCO has working groups that focus on issues concerning securities markets worldwide.

B. International Donor Agencies

1. U.S. Agency for International Development

a. Financial Sector Development Project (FSDP)

AID/PRE's Financial Sector Development Project (FSDP) has made providing assistance in the area of prudential regulation and supervision one of its highest priorities. Price Waterhouse, prime contractor under FSDP, has an active Regulatory Advisory Practice which provides consulting services on regulatory and supervisory issues to governments and financial institutions. This group is headed by Mr. Peter Cooke, the former Chairman of the Group of Ten Committee on Banking Regulation and Supervisory Practices (the "Cooke Committee") and Associate Director of the Bank of England responsible for banking supervision. The group's Managing Partner is Robert R. Bench, former U.S. Deputy Comptroller of the Currency. PW's regulatory group consists of a number of long-term career supervisors. In addition, the Price Waterhouse's Financial Services Industry Practice also includes specialists on all types of financial institutions, including banks, investment companies, broker dealer operations, insurance companies, etc. Importantly, the team of former supervisors and financial services industry experts includes experienced attorney/regulators who can assist developing countries to strengthen their regulatory frameworks for the financial sector and to structure enforcement powers. These attorney/regulators include a former general counsel for the OCC and an expert on securities law. The Price Waterhouse Regulatory Advisory Practice also maintains a database of retired developed country financial institution supervisors, many of whom are former "Cooke Committee" members, whose services may be made available to developing countries.

As a major multinational accounting firm, PW can offer developing countries assistance in strengthening accounting standards and the role of external auditors. Price Waterhouse also offers a wide range of management consulting services designed to meet the needs of the financial services industry, including the design of internal controls, information systems, and training.

2. The World Bank

The World Bank finances technical assistance in the area of regulation and supervision of financial institutions in the context of financial sector loans and projects. The Financial Policy & Systems Division, which has three analysts with extensive experience in regulation and supervision of financial institutions, assists the operational departments within the World Bank to design projects and establish the conditionality for loans.

The World Bank does not normally provide technical assistance to countries outside of projects. A notable exception to this policy is World Bank technical assistance to Poland which has been ongoing since 1987. The World Bank and the OCC also conducted a two week training program on bank supervision in Poland during 1989.

The World Bank primarily draws upon U.S. and European supervisory authorities and retired supervisors for technical assistance. World Bank officials have noted that supervisory personnel have not been as available in the recent past.

The World Bank sponsors a semi-annual training program with the Federal Reserve. Two to three months prior to the training program, IBRD Division Chiefs from Industry & Energy, Trade & Finance, solicit nominations for the training program from developing countries. The World Bank gives priority to senior supervisors and attempts to have at least one supervisor per country in each course. According to IBRD and FED officials, the demand for this type of training is growing. The World Bank identifies programs in French as the biggest unmet need in the area of training of supervisors, and is examining ways to meet this need.

3. International Monetary Fund (IMF)

The IMF is currently sponsoring technical assistance in the area of regulation and supervision of financial institutions in eighteen countries through secondments of senior level supervisors. According to IMF officials, the demand for technical assistance in this area is growing at a rate of 18% percent per year. This year alone they have received over 100 requests for assistance in the area of regulation and supervision. The IMF has advised, however, that it is becoming increasingly difficult to find supervisors who are available for long-term secondments.

Due to the lack of availability of long-term advisors, the IMF is shifting its focus to providing short-term technical assistance. The IMF is establishing a new division within its Central Banking Department, that deals specifically with regulatory and supervisory reform in an attempt to meet the increasing demands for assistance. Staff members in this new division will participate in Fund missions and will offer short-term technical assistance to developing countries. The IMF will also continue to draw upon developed country supervisory agencies for assistance to supplement its in-house staff.

The Fund does not offer training courses specifically in the area of financial institution regulation and supervision. It does conduct, however, its Central Banking Seminar, which includes a supervisory component.

C. Regional Training Programs for Supervisors

1. Bank for International Settlements

The Bank for International Settlements conducts a bi-annual training course for senior developing country supervisors and one supervisor from each of the Group of Ten countries. This training course is one week long and covers current issues of importance in the area of regulation and supervision of financial institutions, such as capital adequacy, off-balance sheet risks, the role of the external auditor and the international convergence of supervisory requirements.

2. SEACEN

The SEACEN Centre, organized by Bank Indonesia, Bank Negara Malaysia, the Union of Myanmar Bank, Nepal Rastra Bank, the Central Bank of the Philippines, the Monetary Authority of Singapore, the Central Bank of Sri Lanka and the Bank of Thailand, offers training programs covering all policy and operational aspects of central banking, including supervision of financial institutions. Classes are open to staff from member central banks and selected financial institutions.

3. Caribbean Banking Supervisors Training Program

The Caribbean Banking Supervisors Training Program offers courses in bank supervision at both the junior and senior levels. Courses are not just limited to Caribbean supervisors; supervisors sponsored by any Central Bank are welcome. Courses are taught by the management of the Bank Supervision Department at the Central Bank of Barbados as well as outside lecturers from foreign supervisory agencies. The program is currently organizing a junior level training program to take place [illegible]-25 in the Cayman Islands. Developing country central banks interested in having supervisors participate in these programs should call Clyde Johnson, Director of Bank Supervision at the Central Bank of Barbados.

4. Centro de Estudios Monetarios de Latinoamerica (CEMLA)

CEMLA offers a wide variety of courses and seminars on regulation and supervision of financial institutions. CEMLA offers courses for both junior and senior supervisors. CEMLA courses and seminars are taught by CEMLA staff as well as outside banking and supervisory experts. These courses are typically two weeks in length and are conducted in English and/or Spanish depending on the participants. On average 25 supervisors participate in each course. Course participants are nominated by CEMLA sponsors, which include financial institutions from Latin America, the U.S. and Europe as well as international organizations such as ECLA and A.I.D. CEMLA also periodically offers 2-3 day seminars focussing on specific topics in the supervisory field.

D. Multinational Professional Services Firms

The major professional services firms can play a key role in assisting developing countries to strengthen their systems of prudential regulation and supervision. These firms have longstanding accounting and management consulting practices as well as a knowledge of local conditions through their worldwide offices. They are the leaders in the accounting profession worldwide and can assist developing countries to strengthen accounting standards and the role of external auditors.

Additionally, all of these firms have management consulting practices specializing in management information systems, which can be utilized both by the supervisory authorities to design off-site surveillance systems as well as by the developing country financial institutions themselves to upgrade their internal systems. Most of these firms also have consultants specializing in working with financial institutions, who can work with developing country financial institutions to strengthen/redesign internal controls that will ensure that the institution operates in a safe and sound manner.

APPENDIX A

List of Persons Interviewed

List of Persons Interviewed

A. U.S. Government Agencies

1. Office of the Comptroller of the Currency

Ron Lindhardt
Director, International Banking and Finance

Donna Duncan
National Bank Examiner/Technical Education Specialist

2. The Federal Reserve System

Joe M. Cleaver
Assistant Director, Division of Banking Supervision and Regulation
Board of Governors of the Federal Reserve System

Larry Promisel
Senior Associate Director, Division of International Finance
Board of Governors of the Federal Reserve System

Joseph J. Sciortino
Supervisory Financial Analyst, Division of Banking Supervision and Regulation
Board of Governors of the Federal Reserve System

Tom McQueeney
Assistant Chief Examiner, International Banking Supervision
Federal Reserve Bank of New York

Rodney Reid
Vice President
Bank Holding Companies and International Banking Supervision
Federal Reserve Bank of San Francisco

Merle Borchert
Vice President
Bank Examinations
Federal Reserve Bank of San Francisco

3. Federal Deposit Insurance Corporation

Robert Ruff
Chief, Training and Development Section

William Carruthers
Special Assistant to the Deputy to the Chairman

Joseph Duffy
Senior Financial Analyst
Division of Supervision

Charles V. Collier
Assistant Director
Division of Supervision

Robert V. Shumway
Deputy to the Director

4. Federal Financial Institutions Examination Council

John P. Newton
Manager for Examiner Education

5. Securities and Exchange Commission

Alden S. Adkins
Senior Specialist Counsel
Market Regulation

Edmund Coulson
Chief Accountant

B. International Donor Agencies

1. The World Bank

Vincent Polizatto
Senior Financial Analyst
Financial Policy and Systems Division

Joaquin Gutierrez
Financial Specialist
Financial Policy and Systems Division

2. International Monetary Fund

Justin Zulu
Director
Central Banking Department

Jacques Gautier
Advisor
Central Banking Department

C. Regional Organizations

1. CEMLA - Centro de Estudios Monetarios de Latinoamerica

Ximena Carretero
Training Department

2. SEACEN -

Ibrahim Bih Hashim
Manager
Bank Examination I

3. Caribbean Bank Supervisors

Clyde Johnson
Director
Bank Supervision
Central Bank of Barbados

APPENDIX B

Selected Bibliography

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APPENDIX C

Directory of U.S. Supervisory Agencies' Examiner Training Programs

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DIRECTORY

EXAMINER TRAINING PROGRAMS

1990

May 1989

Compiled by the Federal Financial Institutions Examination Council

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INTRODUCTION

This directory contains brief descriptions of the examiner training programs offered by the five federal financial institutions regulatory agencies and by the FFIEC. More detailed information about each of the courses can be obtained by contacting the sponsoring organization.

Registration policies and tuition rates are summarized at the beginning of each organization's list of programs.

Examiner training calendars are planned by each organization in the summer/fall of each year. It is best for state agencies and other non-member agencies to submit estimates at that time to the appropriate agency. As programs are planned in response to these planning requests, there is little remaining capacity to accommodate requests received during the training year.

Registration in programs sponsored by the five member agencies of the Examination Council is accomplished only by contacting one of the agencies.

Registration for FFIEC programs is usually accomplished by registering <u>through</u> an FFIEC member agency.

Some member agencies have limited funds to assist examiner training for state financial institutions regulatory agencies. Some organizations of state financial institutions regulatory agencies also have limited funds to assist examiner training. It is best to register through one of these sponsoring organizations if one wishes to seek funding for examiner training.

FEDERAL DEPOSIT INSURANCE CORPORATION

PROCEDURES TO PARTICIPATE IN FDIC & FDIC-SPONSORED TRAINING

Registration Procedures

In Spring, usually in late May or June prior to the training year, the FDIC requests the number of training slots wanted in sponsored FDIC or FFIEC courses via an informational letter sent to each state. After the response deadline, usually in July, slots in course sessions are assigned. In mid to late Fall, the dates of assigned training slots are communicated to the states and they are requested to forward the names of their trainees expected to occupy the assigned slots.

Cancellation Policy

Confirmed state student nominations in FDIC schools in this program must be cancelled at least 31 days prior to the start of a class. If no replacement student is offered, the state banking authority is responsible for the total tuition and lodging costs. In the case of cancellations of confirmed FFIEC school slots sponsored by FDIC, state banking authorities will be responsible for total tuition regardless of when they are cancelled. The state will also be responsible for the cost of lodging if the cancellation does not occur at least 31 days prior to the start of a class. Substitutions may be made in any course at any time.

Tuition

Tuition for FDIC schools range from $200 for one of the one-week courses to $500 for one that is three weeks long.

Funding

A cost sharing program that includes tuition, lodging and travel expenses is available in which the FDIC pays part of the costs. Details are provided in the informational letter.

Lodging

A separate indication of lodging needs must be provided when student names are submitted.

Contacts

General information requests and student cancellations/changes should be directed to Ms. Frances Childers. Questions regarding student lodging should be directed to Ms. Donna Hurley or Ms. Rita Herold. Address and telephone numbers are:

FDIC Division of Bank Supervision Training Center
1701 N. Fort Myer Drive -- Lobby Level
Arlington, Virginia 22209
202/898-3500

FEDERAL DEPOSIT INSURANCE CORPORATION

Examiner Training Courses

ASSISTANT EXAMINER SCHOOL I

This course stresses the fundamentals of bank supervision, bank accounting, and FDIC report preparation, and enhances understanding of FDIC's automated report.

Course Length:	3 weeks
Intended Audience:	Assistant Examiners with 3-6 months experience in bank supervision.

ASSISTANT EXAMINER SCHOOL II

This course introduces basic concepts such as funds management, trust, and audit, control and operating systems. Bank analysis is extensively covered.

Course Length:	2 weeks
Intended Audience:	Assistant Examiners with a minimum of 14-18 months experience.

ASSISTANT EXAMINER SCHOOL III

This course focuses on lending, credit analysis including specialized lending, loan discussion techniques, and FDIC classification procedures.

Course Length:	2 weeks
Intended Audience:	Assistant Examiners with 1 1/2 - 2 1/2 years experience.

ASSISTANT EXAMINER SCHOOL IV

Judgmental and communicative skills involved in bank supervision are stressed. Students evaluate a bank, its loan portfolio, and prepare an FDIC report.

Course Length:	3 weeks
Intended Audience:	Assistant Examiners with 3 years experience, completion of Assistant Examiner School III, and a good understanding of bank credits.

COMMISSIONED EXAMINER SEMINAR

This course focuses on the examiner's role in the supervisory process. Emphasis is on large and problem institutions, offsite analysis, and failing banks.

Course Length:	1 week
Intended Audience:	Examiners commissioned from 1-2 years.

Gr

TRUST EXAMINATION SCHOOL

This course introduces most aspects of fiduciary activity, focuses on exam techniques and FDIC report preparation.

Course Length:	2 weeks
Intended Audience:	Trust Examiners with 3-6 months experience or Commercial Examiners with 18-24 months experience.

CONSUMER PROTECTION SCHOOL

In-depth familiarity is provided on consumer laws, FDIC exam techniques and corrective actions required by civil rights and consumer laws.

Course Length:	1 week
Intended Audience:	Participants with a minimum of 2 years bank supervision experience.

EDP EXAMINATION SCHOOL

This course teaches bank examiners EDP exam procedures and covers the FFIEC EDP Handbook and Work Program. Report preparation and some programming is taught.

Course Length:	2 weeks
Intended Audience:	Bank examiners with EDP fundamentals background and some EDP exam experience.

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FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

PROCEDURES TO PARTICIPATE IN FFIEC TRAINING

Registration Procedures

Usually in June prior to the training year, the FFIEC issues a request for training numbers to the five member agencies of the FFIEC and selected non-member agencies. Any state wishing to register directly with the FFIEC may do so at this time. Estimated training needs are due by August 31, and a final program calendar is prepared by mid-September.

Cancellation Policy

Thirty days in advance of the opening day of a program, the FFIEC must be notified of a cancellation or the full tuition will be charged.

Tuition

State financial institutions regulatory agencies will be charged the same tuition as FFIEC member agencies. Current estimates of course tuition for 1990 will be approximately $50 per day; conferences may be subject to a higher tuition.

Funding

No FFIEC funding assistance is available for FFIEC schools or conferences. Contact the appropriate federal financial institutions regulatory agency regarding its training support programs.

Lodging

All state registrations effected through a member agency will obtain lodging through the registering member agency.

All state registrations effected directly with the FFIEC -- the FFIEC will forward lodging requests to the FDIC for room(s) in The Virginian lodging facility in Arlington, Virginia.

Contact

For further information:

FFIEC
1701 North Ft. Myer Drive, 10th Floor
Arlington, Virginia 22209
Telephone: 202/898-3528
FAX: 202/898-8558

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FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

Examiner Training Courses

CONDUCTING MEETINGS WITH MANAGEMENT

This course is designed to give participants practice and confidence in conducting meetings with management using a difficult examination report and with the ability to handle problem situations; good communication techniques are identified and developed.

Course Length:	5 days
Intended Audience:	Commissioned Examiners who are beginning to make presentations to management and others who want to improve their meeting/leadership skills.

INSTRUCTOR TRAINING

This course is designed to equip an instructor with fundamental teaching skills. At the conclusion of this course, the participant will be able to prepare lesson plans; effectively use lecture, question and discussion techniques in the classroom; and integrate appropriate audiovisual aids into a presentation.

Course Length:	5 days
Intended Audience:	Examiners who have been selected to teach in agency or Council courses.

MANAGEMENT WORKSHOP

The main objective of this course is to increase the participant's knowledge of major functional elements in the management process. A corollary objective is to give the participant insights into his/her interpersonal skills.

Course Length:	5 days
Intended Audience:	Participant should have between 5-10 years of examining experience and should have had some previous exposure to management concepts.

INTERNATIONAL BANKING I

This course emphasizes the basic functions of international banking and how to apply the appropriate agency regulations in carrying out bank supervisory responsibilities.

Course Length:	5 days
Intended Audience:	Participant should have a minimum of 1 year of experience as an examiner.

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INTERNATIONAL BANKING II

This school will build upon previous international banking training or experience. At the conclusion, attendees will be able to perform international examination functions with a moderate degree of guidance.

Course Length:	5 days
Intended Audience:	Attendees must have completed International Banking I and have on-going professional responsibilities in international banking.

INTERNATIONAL CAPITAL MARKETS

This advanced workshop will provide an in-depth analysis of new products in international capital markets. Presentations given by market practitioners will include a description of the markets and how commercial banks participate, a description of the transactions, identification of risks and discussion on how the bank controls the risks.

Course Length:	5 days
Intended Audience:	A select number of examiners and analysts who deal with international capital markets. Attendees must have had substantial exposure to international capital markets instruments either through examinations or multinational banks or research.

WHITE COLLAR CRIME

This course is designed to identify the major types of fraudulent and criminal activity involving financial institutions. Basic detection and investigation techniques will be covered. Relevant criminal statutes administered by the U.S. Department of Justice, as well as the civil and administrative authority of the federal financial institutions regulatory agencies, will be addressed.

Course Length:	5 days
Intended Audience:	Commissioned Examiners with a minimum of 5 years total experience in financial institution examination.

EDP SYMPOSIUM

A forum for the most senior EDP examiners to discuss important EDP issues and to develop recommendations for new policies and procedures.

Course Length:	1 week
Intended Audience:	EDP Examiners heavily involved in examining complex data processing centers.

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EDP TECHNOLOGY CONFERENCE

This conference is designed to update senior EDP Examiners regarding current developments in the area of EDP. Speakers for this program are nationally recognized leaders from industry, and occasionally, senior staff members from regulatory agencies.

Course Length:	Usually 5 days
Intended Audience:	Senior EDP Examiners.

INCOME PROPERTY LENDING CONFERENCE

This conference is designed to strengthen attendees' knowledge of project analysis, real estate finance, income property appraisal and loan underwriting. Attendees will have an improved ability to understand and challenge the assumptions behind income property loans.

Course Length:	Usually 3 - 3 1/2 days
Intended Audience:	Commissioned Examiners who have considerable involvement with income property loans.

INTERNATIONAL BANKING CONFERENCE

This conference is designed to update attendees regarding the latest developments in international credit analysis, country risk, international money markets, and concerns and policies of the bank regulatory agencies.

Course Length:	Usually 2-3 days
Intended Audience:	Senior International Examiners or Senior Examiners-in-Charge. Attendees must have attended International Banking I and II or have equivalent experience. The conference is intended only for those examiners who regularly have senior responsibility in the international banking or financial arenas.

LARGE DOLLAR TRANSFER RISK CONFERENCE

This conference deals with financial institutions' large dollar wire transfer systems and utilizes the FFIEC Funds Transfer Activities Uniform Examination Procedures Manual. Attendees will understand the risks involved in such transfers and, when called for, will be able to recommend procedures to reduce these risks.

Course Length:	2 days
Intended Audience:	Examiners who are likely to examine wire transfer systems, also Examiners-in-Charge who will be responsible for such examinations.

OFF BALANCE SHEET RISK CONFERENCE

This conference is designed to improve senior examiners' understanding of the incentives and implications of financial institutions moving certain income generating activities off their balance sheets. The overall goal is to train senior level examiners to better understand and evaluate the risks associated with off balance sheet activities.

Course Length:	Usually 3 - 3 1/2 days.
Intended Audience:	Senior field examiners with at least 10 years experience.

TRUST CONFERENCE

This conference is an update for Senior Trust Examiners on current developments in the area of trust banking. Speakers for this program are nationally recognized leaders from industry and, occasionally, senior staff from the regulatory agencies.

Course Length:	Usually 3 - 3 1/2 days
Intended Audience:	Senior Trust Examiners.

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FEDERAL HOME LOAN BANK SYSTEM

PROCEDURES TO PARTICIPATE IN FHLBS & FHLBS-SPONSORED TRAINING

Registration Procedures

The Bank Systems Office of Education (BSOE) calendar is derived from the FHLB System and ACSSS (American Council of State Supervisors) demand. The process begins in April of each year with the distribution of a "Survey of Training Needs" to the FHLBS and ACSSS, which together represent the majority of BSOE enrollments. From District projections and BSOE analysis, BSOE develops a course budget and calendar that accommodates the expected demand by September 1, which signals the beginning of registration of specific courses. Enrollments are accepted by phone, E-mail, or memo. When the calendar is published and enrollments begin, slots can be reserved in courses without providing specific names. In January, however, the number of "unknown slots" in any given session is limited to five per District/Agency and slots in excess of five are dropped after January 1.

Cancellation Policy

Enrollment substitutions are accepted at any time prior to the beginning of a course. Cancellations are accepted without a penalty if they are made at least ten working days prior to the starting day of the course. Cancellation of enrollments made less than ten working days prior to a seminar, with no replacement, are charged a cancellation fee equal to one-half of tuition. "No-Show" (i.e., no previous notification to BSOE) enrollments are charged full tuition. No cancellation charge is assessed if the slot can be filled by any individual in the FHLB System. BSOE will make every effort to fill their slots in order to avoid assessing a cancellation fee.

Tuition

Tuition ranges from $220 to $1,300 depending upon the length of the course. Most of the standard five-day courses range from $550 to $750.

Funding

The majority of state participants utilize the ACSSS funds which are allocated among the states based primarily on overall asset size of state charter S&L institutions. ACSSS pays 100% of the tuition for BSOE courses as long as funds are available. In the fiscal year 1989, the available tuition funding for state examiners in BSOE courses was $227,000. For FFIEC courses, ACSSS has a separate funding agreement established directly with the FFIEC.

Lodging

Approximately five weeks prior to the starting date of a course, pre-session materials are sent to the scheduled participants with a memo outlining course logistics. BSOE arranges hotel accommodations for all participants. With the exception of courses held at the BSOE Training Center in Irving, Texas, the lodging and seminar locations are one and the same. States are not assessed lodging costs.

Contact

For further information, please contact:

Ms. Lori McKee, BSOE Program Coordinator
FHLBS/BSOE, Suite 500
500 John Carpenter Freeway
Irving, Texas 75062
214/541-8776

FEDERAL HOME LOAN BANK SYSTEM

Examiner Training Courses

It should be noted that the FHLBS's Regulatory Handbook Examination Procedures are in the process of being incorporated into all of the FHLB courses.

ASSET LIABILITY MANAGEMENT I

Attendees will develop an understanding of the concepts and techniques of planning, directing and controlling the flow, level, mix, yield, cost and duration of funds for savings institutions. In addition, attendees will develop a better understanding of performance and risk concepts for savings institutions.

Course Length:	1 week
Intended Audience:	Generally less than 4 years experience.

ASSET LIABILITY MANAGEMENT II

Participants will learn to use the principles and concepts of asset/liability management through simulation and development of financial plans for thrift institutions. The planning model will help the participant develop strategies for the optimal income producing portfolios, and understand how savings institutions plan, direct and control the flow, level, mix, yield, cost and duration of funds.

Course Length:	1 week
Intended Audience:	Generally more than 4 years experience.

BUSINESS LENDING SCHOOL

Attendees will review the major regulations affecting business lending, as well as the content of a credit file. The classification process will be summarized and key factors identified that may be considered to avoid over-classification. Principles of an internal review of business loans will be introduced, as well as the procedures and implications of loan classification.

Course Length:	1 week
Intended Audience:	Generally less than 2 years experience.

FINANCIAL INSTRUMENTS, FUTURES AND OTHER AGREEMENTS

Provides participants with the basic concepts relating to financial instruments, financial futures and options markets. Attendees will gain fundamental knowledge of these markets and how they can be used to preserve the viability of a savings and loan association.

Course Length:	1 week
Intended Audience:	Generally 2 years experience.

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INTERMEDIATE THRIFT REGULATOR SCHOOL

Designed to teach an examiner to properly administer work and information flow and evaluate all findings for examination of a medium-sized, moderate-problem institution. The participant will determine the importance of each factor relative to the overall rating and condition of the institution and effectively communicate the findings and recommendations to FHLB and institution management.

Course Length: 1 week
Intended Audience: Generally 2 years experience.

LOAN ANALYSIS SCHOOL

The participant will analyze cashflow from real estate projects to evaluate association lending and appraisal policies, review specific loan transactions for policy compliance, analyze the ability of the borrower and the project's ability to service debt, and properly classify the loan and, if necessary, calculate the net realizable value. Loan classification and analysis of loan loss reserves is also included.

Course Length: 1 week
Intended Audience: Generally 12 months to 2 years experience.

MICROCOMPUTERS I/LOTUS

This course teaches essential LOTUS applications for a regulatory environment. Emphasis will be on spreadsheet development, template building, decision making, data merging, and financial analysis through pre-set, modifiable routines calculating NPV, APR, amortization and IRR.

Course Length: 1 week
Intended Audience: Generally less than 2 years experience.

MORTGAGE BANKING

This course provides regulatory personnel with a basic understanding of the mortgage banking business, key elements of risk management in mortgage banking operations and primary financial factors in mortgage banking. Students will be able to identify the fundamental conflicts between mortgage banking and portfolio lending strategies, differences in risk exposure and the results of failure to segregate the two approaches to mortgage lending. Accounting issues related to mortgage banking are also addressed, including: balance sheet presentation, loan sales, and accounting for servicing and loan origination fees.

Course Length: 2 days
Intended Audience: Generally less than 2 years experience.

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NEGOTIATION I

Designed to increase participants' understanding of the dynamics of the negotiation process and to increase skills in planning and executing negotiation strategies in a variety of professional settings.

Course Length:	3 days
Intended Audience:	Generally less than 2 years experience.

NEGOTIATION II

The course objective is to increase the negotiation skills of regulatory personnel involved in negotiating agreements with associations and other institutions.

Course Length:	2 days
Intended Audience:	Generally less than 4 years experience.

NEW THRIFT REGULATOR SCHOOL

NTRS is a 2-week program of study for examiners with 6 - 9 months experience who have completed the NTRS Self-Study Manual. The Self-Study manual, which takes 40 - 50 hours to complete, includes 16 modules on various consumer regulations and examination tools. The 2-week NTRS session concentrates on financial analysis, including reviews of operating results and interest rate risk; credit analysis, including reviews of asset classification and loan-related regulations and documentation; and other examination areas including CRA, Bank Secrecy Act and Regulation Z.

Course Length:	2 weeks
Intended Audience:	Generally 6 to 9 months experience.

REAL ESTATE APPRAISAL I

The course will acquaint participants with the fundamental principles, techniques and procedures in the examination of an appraisal report. It is designed to provide the examiner with the necessary understanding of appraisal practices and procedures of residential and relatively uncomplicated property appraisal reports.

Course Length:	2 weeks
Intended Audience:	Generally less than 2 years experience.

REAL ESTATE APPRAISAL II

This course will allow an examiner to evaluate an income property appraisal. The student will learn how to use the HP 12c and IBM compatible computers in assessing discounted cash flows and their impact on income property market values.

Course Length:	2 weeks
Intended Audience:	Generally less than 4 years experience.

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REAL ESTATE LENDING

This course will enable participants to evaluate a thrift's problem asset administration program. Students will gain an understanding of foreclosure issues such as foreclosure procedures, lender liability and bankruptcy. Additionally, students will be exposed to forms of fraudulent borrower/lender activities and other complex regulatory issues.

Course Length:	1 week
Intended Audience:	Generally less than 4 years experience.

ADVANCED CAPITAL MARKETS

This course is designed to enable regulatory personnel to evaluate the inherent risks and rewards associated with mortgage backed securities and risk controlled arbitrage.

Course Length:	1 week
Intended Audience:	Generally more than 4 years experience.

RISK MANAGEMENT

This program is designed to acquaint savings and loan examiners and supervisors with the primary types of risk which savings associations take, measuring those risks, and understanding and evaluating management decisions on controlling these risks while still earning an adequate return.

Course Length:	1 week
Intended Audience:	Generally less than 2 years experience.

SENIOR FINANCE SCHOOL

Participants will review and analyze financial instruments, transactions and concepts applicable to the thrift industry. The school emphasizes cash flow, the interest margin and interest rate risk.

Course Length:	1 week
Intended Audience:	Generally less than 4 years experience.

SUPERVISION: TRAINING, ACTION RESEARCH AND SOLUTIONS

This course is designed to prepare new supervisory analysts to increase their practice of effective supervision in protecting the FSLIC fund. In particular, participants will analyze supervisory actions, analyze thrift financial statements and discuss current examination procedures to current industry issues.

Course Length:	1 week
Intended Audience:	Generally less than 2 years experience.

WRITING

Participants will learn to refine writing and editing skills. Specific areas of concentration will be: principles of effective communication; analysis of communication problems; style, grammar, tone, planning and layout; and management functions related to writing.

Course Length:	3 days
Intended Audience:	Generally less than 2 years experience.

CREDIT & COLLATERAL

System personnel will learn to perform credit analysis of an S&L institution's portfolio and determine its financial viability. This seminar will also enable participants to evaluate an institution's collateral used to secure advances.

Course Length:	1 week
Intended Audience:	FHLBS Bank Operations Personnel with 1 to 3 years experience.

COMPLIANCE SCHOOL I

Attendees will address examination procedures and other regulatory concerns for each of the topics in the ORA Compliance Handbook. This school is currently under development and is scheduled to be offered during the last half of 1989.

Course Length:	2 weeks
Intended Audience:	Recently hired Specialist Compliance Examiners with at least 1 month on-the-job training or Examiners recently designated as Compliance Specialists.

HOLDING COMPANY

At the conclusion of this course, the participant should have developed the analytical skills necessary to assess a holding company's impact on its insured subsidiary. The course will begin with 1 1/2 to 2 days review of the examination program presented in the Regulatory Handbook. The following 2 1/2 to 3 days will consist of major case study sessions where students will work in small groups to analyze and examine a holding company. Students will work together to make recommendations and decisions.

Course Length:	1 week
Intended Audience:	FHLBS Regulators with 1 to 2 years experience who have participated in at least one holding company examination.

Other courses to be developed:

ADVANCED THRIFT REGULATOR SCHOOL
THRIFT ACCOUNTING AND OPERATIONS SCHOOL

FEDERAL RESERVE SYSTEM

PROCEDURES TO PARTICIPATE IN FRS & FRS-SPONSORED TRAINING

Registration Procedures

State attendees are to submit registration forms at least 45 days prior to each school to the training coordinator in the Bank Supervision Department at the Reserve Bank in whose district the state is located. If the state is one that is split between two reserve districts, the state is to register through the Reserve Bank in whose district the state capital is located. If more convenient, the state may phone in the nominations directly to the Reserve Bank and follow-up with registration forms.

In June of each year, the Board's training program surveys Reserve Banks for their training needs for the following year. Each Reserve Bank, in turn, surveys each state in its district for its training needs. The surveys are returned to the Board during July and are the basis for drawing up the System's training calendar. Thoughtful responses to the survey will assure that space will be available for state staff in the desired schools. If your state has not been contacted by June 30 for your training needs, call the training coordinator at the Reserve Bank in whose district your state capital is located.

Cancellation Policy

There is no cancellation penalty applied to Federal Reserve Schools.

Tuition

There is no tuition charge for Federal Reserve System schools with the exception of the Credit Analysis School where there is a charge for the course materials. The charge for 1989 is $165.

Funding

The Board of Governors' funding policy is for the Federal Reserve Bank, in whose district the state capital is located, to reimburse the states 40% of the costs the state examiners incur in attending the Federal Reserve System and FFIEC Washington schools. When state staff attend regional schools, the Reserve Bank will reimburse 60% of the total costs (lodging, tuition and travel) incurred by the state examiners in attending these schools. For further details, contact the Reserve Bank training coordinator.

Lodging

When a student is registered in a course through the appropriate Reserve Bank, a hotel room is reserved for him/her. All students during 1989 will be housed at The Virginian in Rosslyn, Virginia. The daily rate for 1989 is $55. There is a one night "late cancellation" charge for any cancellation made after the Thursday of the week prior to the school. States are responsible for all lodging expenses, unless different arrangements have been made with your Reserve Bank.

Contact

For additional information, contact:

Ms. Nancy Griggs, Examiner Training Administrator
Board of Governors of the Federal Reserve System
Division of Banking Supervision & Regulation
Washington, D.C. 20551
202/452-3848

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FEDERAL RESERVE SYSTEM

Examiner Training Courses

BANKING I

This course teaches the fundamentals of examinations, inspections, applications and surveillance, and stresses interdependence among these four supervisory specialities.

Course Length:	14 1/2 days
Intended Audience:	Examiners with approximately 3 months experience.

BANKING II

This course is designed to teach the student how to use financial data taken from performance, examination, and inspection reports and to analyze the condition of financial institutions. The first week of the school is an introduction to credit analysis.

Course Length:	14 1/2 days
Intended Audience:	Examiners with 18 months experience.

BANKING III

This course will enable the student to more fully understand specific banking functions, gain an overview of the operations of a banking institution and participate in BANKSIM, a computer model that simulates a real-world banking environment.

Course Length:	14 1/2 days
Intended Audience:	Examiners with 24 - 30 months experience.

CREDIT ANALYSIS SCHOOL

This course builds upon the credit analysis and loan classification work taught in Banking II and provides the student with a systematic strategy for analyzing different types of credits.

Course Length:	9 1/2 days
Intended Audience:	Examiners with more than 18 months training.

BANK HOLDING COMPANY APPLICATIONS

This course is designed to provide basic understanding of applications processing and familiarize students with related Board decisions.

Course Length:	4 2/3 days
Intended Audience:	Applications Caseworkers with 2-9 months experience.

CONSUMER COMPLIANCE EXAMINATION I

This course offers an overview of consumer laws and regulations. The student will work with loan files and case studies and will participate in a mock examination.

Course Length:	15 days
Intended Audience:	Inexperienced Consumer Examiner.

CONSUMER COMPLIANCE EXAMINATION II

This course examines complex consumer affairs issues and demonstrates how to effectively conduct an examination and present findings to management.

Course Length:	5 days
Intended Audience:	Individuals with at least 18 months consumer compliance examination experience.

BASIC ENTRY LEVEL TRUST

This course discusses the major functions of a financial institution's trust department and the duties and responsibilities regarding its fiduciary obligations.

Course Length:	9 1/2 days
Intended Audience:	Individuals with 3 months trust examining or 2 years general examining experience.

ADVANCED TRUST

This course offers an overview of the complex elements of the fiduciary and other services offered by trust departments; emphasizes examination techniques and report writing.

Course Length:	9 1/2 days
Intended Audience:	Individuals with 2 years trust examination experience.

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EFFECTIVE WRITING FOR BANKING SUPERVISION STAFF

This course stresses good writing skills, proper planning and organization, and editing techniques. The student will participate in class writing assignments and small group critiques.

Course Length:	3 days
Intended Audience:	All levels of examiners and reviewers.

BANK HOLDING COMPANY INSPECTION

This specialized course provides an in-depth overview of BHC inspections, including how to perform an inspection and how to analyze a BHC's financial condition.

Course Length:	5 days
Intended Audience:	Individuals who will be responsible for holding company inspections.

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NATIONAL CREDIT UNION ADMINISTRATION

PROCEDURES TO PARTICIPATE IN NCUA & NCUA-SPONSORED TRAINING

The Office of Examination and Insurance, National Credit Union Administration, is responsible for developing and conducting technical examiner training programs. These programs are offered to NCUA and State credit union examiners.

Registration Procedures

Federal Examiners

On or about July 1 of each year, the NCUA provides its staff with a current catalogue of course offerings. New examiners, those with less than one year of experience, are automatically enrolled in the New Examiner Training Program. As such, they automatically attend each of the five levels on New Examiner Training (the 100 series of classes). Each employee with at least one year of experience completes an Individual Development Plan (IDP) which outlines training requests for the year. These training requests include available seminars conducted by the NCUA and the FFIEC (the 200 and 300 series courses). Individual Development Plans are received in Washington in August and all examiners are scheduled into courses. Specific dates and locations for each course session are determined in August and notifications are sent to participants in September. Courses are conducted throughout the year.

State Examiners

State examiners can participate in Levels III, IV and V of the New Examiner series and in all available NCUA and FFIEC seminars. The NCUA works through the National Association of State Credit Union Supervisors (NASCUS) to schedule state examiner participation in all programs. NASCUS employees contact an individual, who is located at the NCUA's Washington Office, to coordinate all training activities with the NCUA. The registration process is similar to NCUA's. In July, NASCUS forwards a course catalogue and detailed registration procedures to each state regulator. State regulators have the opportunity to request slots in any NCUA program. (These slots may, or may not, be funded by the NCUA. See funding section for further details.) State regulators are notified in September of specific course dates and locations.

Cancellation Policy

There is no penalty for cancellation of participants in NCUA sponsored courses.

Tuition

No tuition is charged to attend NCUA in-house sponsored programs. If NCUA is assessed a tuition by the organization conducting a course, and the state participant is not attending the course under an NCUA scholarship, NCUA will assist the state in obtaining a favorable tuition rate.

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Funding

The NCUA awards a specific number of scholarships for state participants in NCUA and FFIEC programs. The number of scholarships is determined during the NCUA budget process. State participants will receive reimbursement for allowable travel expenses incurred in attending a training program. In addition, the NCUA will pay any tuition charges. NASCUS is responsible for determining the allocation of scholarships to the various states. In the event sufficient funds are not available to meet the demand for training, states have the opportunity to send participants to training programs on a non-reimbursable basis.

Contact

For further information, please contact:

Ms. Sunye Kwon
National Association of State Credit Union Supervisors
c/o NCUA
1776 G Street, Suite 600
Washington, D.C. 20456
202/682-9640

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NATIONAL CREDIT UNION ADMINISTRATION

Examiner Training Courses

COURSE 101: NEW EXAMINER TRAINING - LEVEL I - ORIENTATION

PURPOSE OF COURSE: To provide the new examiner, that has just entered on duty, with a background on the history and organization of the credit union movement, and basic familiarity with the laws, regulations and accounting procedures that govern federally insured credit unions. Information regarding the administrative and financial procedures of the agency will be presented, and the new examiner will be issued a personal computer.

Course Length:	4 days
Intended Audience:	NCUA entry level Examiners.

COURSE 102: NEW EXAMINER TRAINING - LEVEL II - REGIONAL TRAINING

PURPOSE OF COURSE: To provide the new examiner with an exposure to NCUA's examination procedures and first-hand knowledge about the operation of credit unions. Portions, or all, of this program are conducted at a credit union. Members of the management team of the credit union are invited to share their insights on how their credit union operates and the role of the examiner in the operations of the credit union. Included in the material covered is information on the purpose of each examination procedure, a discussion of verbal communications skills, and an extensive module on the operation of NCUA's laptop computer and the automated examination program.

Course Length:	15 days
Intended Audience:	NCUA Examiners with 1 week of experience.

COURSE 103: NEW EXAMINER TRAINING - LEVEL III - EXAMINER SKILLS

PURPOSE OF COURSE: To provide the new examiner with a review of basic analytical skills, a detailed review of verbal and written communications skills, and additional training on the NCUA laptop computer. The end result will be an examiner that is prepared to assume the assignment of a district.

Course Length:	10 days
Intended Audience:	Credit Union Examiners with 3 months on-the-job experience.

COURSE 104: NEW EXAMINER TRAINING - LEVEL IV - FINANCIAL ANALYSIS

PURPOSE OF COURSE: To provide the new examiner with a detailed review of the use of the Financial Performance Report and in-depth information on each component of the CAMEL rating system. Emphasis will be placed on the use of case studies and the ability of the participant to communicate findings of his/her analysis.

Course Length:	5 days
Intended Audience:	Credit Union Examiners with 6 months on-the-job experience.

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COURSE 105: NEW EXAMINER TRAINING - LEVEL V - SPECIALIZED TRAINING

PURPOSE OF COURSE: To provide the new examiner with a review of specialized areas, such as lending, asset-liability management, investments, and problem case credit unions. The course is designed to introduce the examiner to complex areas rather than make them specialists in each of the areas. This program will cap the first year of formalized technical examiner training.

Course Length:	5 days
Intended Audience:	Credit Union Examiners with 9 months on-the-job experience.

COURSE 201: AGRICULTURAL LENDING SEMINAR

PURPOSE OF COURSE: To provide a background in the highly specialized area of agricultural lending. Information will be provided on what should be in a good loan file and a good credit file. Participants will learn how to evaluate the soundness of the lending decision. Included in the seminar will be an on-site visit to a family farm to learn, first-hand, the problems of the farmer and how these problems can impact on the lending decision. Many of the principles discussed in this seminar will be valuable to the examiner who needs information on commercial lending decisions.

Course Length:	2 days
Intended Audience:	Examiners with one or more years experience.

COURSE 202: ASSET-LIABILITY MANAGEMENT SEMINAR

PURPOSE OF COURSE: To provide the examiner with an introduction to the concept of asset-liability management (ALM) and GAP Management. The examiner will learn how to review the individual components of an ALM policy and be alerted to "Red Flags" that might be observed during an examination. This seminar is conducted for the NCUA by an outside source with extensive experience in teaching ALM.

Course Length:	3 days
Intended Audience:	Examiners with one or more years experience.

COURSE 203: INTRODUCTION TO COMMERCIAL LENDING SEMINAR

PURPOSE OF COURSE: To provide the examiner with an understanding of the analytical tools and the philosophy of commercial lending. Topics discussed include types of commercial loans and their characteristics, financial statement analysis, cash flow projections, introduction to problem loan management, risk based pricing and approaches to examining the commercial loan portfolio. Case studies are utilized throughout the course to supplement the lectures. This seminar is conducted for the NCUA by an outside source with extensive experience in teaching commercial lending.

Course Length:	5 days
Intended Audience:	Examiners with one or more years experience.

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COURSE 204: ADVANCED COMMERCIAL LENDING SEMINAR

PURPOSE OF COURSE: To build on the material presented in the Introduction to Commercial Lending by examining more advanced topics in commercial lending. These topics include complex commercial lending decisions, problems in the cash flow cycle, lender liability and the management of problem loans. Actual cases drawn from a variety of industries will supplement the lectures. This seminar is conducted for the NCUA by an outside source with extensive experience in teaching commercial lending.

Course Length:	3 days
Intended Audience:	Examiners that have attended Introduction to Commercial Lending and possess a good working knowledge of financial statement and cash flow analysis.

COURSE 205: REAL ESTATE/CONSUMER LENDING SEMINAR

PURPOSE OF COURSE: To provide the examiner with the ability to analyze and evaluate real estate and consumer lending programs in credit unions. The first three days of the seminar will provide information on credit union mortgage lending regulations and programs, mortgage lending products, the underwriting decision, the secondary mortgage market, appraisals, and delinquency problems. The remaining two days of the program will deal with consumer lending issues such as consumer loan products, the loan review process, underwriting consumer loans, credit reports, home equity credit lines, collection programs and dealing with consumer compliance issues.

Course Length:	5 days
Intended Audience:	Examiners with one or more years experience.

COURSE 206: AUDITING PRINCIPLES AND STANDARDS*

PURPOSE OF COURSE: To provide the examiner with a review of procedures and techniques that can be used to verify the accuracy of credit union records, deal with recordkeeping problems and some hints on quick methods to spot problems. There will also be an in-depth review of how to analyze a credit union audit.

Course Length:	3 days
Intended Audience:	Examiner with one or more years experience.

*This is a first time offering of this seminar. Delivery is subject to demand for the course content.

COURSE 207: INVESTMENTS SEMINAR

PURPOSE OF COURSE: To provide up-to-date information on the various types of investments, both legal and illegal, in credit unions. The positive and negative aspects of various investment opportunities will be reviewed. Also, time will be allotted to reviewing examination procedures and accounting issues involving investments and how to make an overall evaluation of an investment portfolio.

Course Length:	3 days
Intended Audience:	Examiner with one or more years experience.

COURSE 208: PROBLEM CASE CREDIT UNION SEMINAR*

PURPOSE OF COURSE: To provide a forum to discuss the problems associated with dealing with complex problem cases, special actions and workout plans. Emphasis will be placed on developing innovative solutions to problems. Complex special actions case studies will be utilized. Participants will be expected to actively participate in the sharing of experiences and knowledge in this forum.

Course Length:	3 days
Intended Audience:	Problem Case Officers and Senior Examiners with extensive experience in dealing with problem case situations.

***This is a first time offering of this seminar. Delivery is subject to demand for the course content.**

OFFICE OF THE COMPTROLLER OF THE CURRENCY

PROCEDURES TO PARTICIPATE IN OCC & OCC-SPONSORED TRAINING

Registration Procedures

The courses offered by the OCC are specific to its responsibilities as the regulatory agency for national banks. Courses are scheduled and conducted based upon need, with the majority of all courses held at the six district offices. Each district is responsible for determining the types and frequency of formal training it will hold. OCC training courses are not held with student vacancies. The specific courses and number of sessions offered are initially determined in the fourth quarter of each calendar year in conjunction with examiners' requests for training made through the budget process. Courses may be added or cancelled during the year as a result of a change in training needs or agency priorities. OCC participants are officially notified of their enrollment through a training announcement 45 days in advance of a school. Other agencies may request slots for national schools annually through the FFIEC budget process. If OCC can accommodate a request for training, the requesting agency is so notified. It is the requesting agency's responsibility to notify its nominees.

Cancellation Policy

Notification of cancellations should be given at least 30 days in advance.

Tuition

Tuition will be set annually and will be the same as charged by the FFIEC for attendance at interagency courses.

Funding

The OCC does not provide funding assistance to participants from other agencies for either its own or FFIEC courses.

Lodging

The OCC does not provide for, nor arrange, lodging for non-OCC participants.

Contact

Requests for training will be evaluated on a case by case basis. Agencies interested in obtaining further information should contact the:

Director, Training & Development
Office of the Comptroller of the Currency
490 L'Enfant Plaza East, S.W.
Washington, D.C. 20219
202/447-1670

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OFFICE OF THE COMPTROLLER OF THE CURRENCY

Examiner Training Courses

ADVANCED WHITE COLLAR CRIME (FBI)

This interagency class addresses problems encountered in the investigation of bank fraud cases and includes: presentation of evidence, investigative techniques, needs of prosecutors, and the uniform criminal referral process.

Course Length:	4 days
Intended Audience:	Examiners who have taken the White Collar Crime class and who deal with bank fraud situations.

AGRICULTURAL CREDIT COURSE (SELF-STUDY)

This course covers the basic concepts and vocabulary in agricultural credit.

Course Length:	3-5 hours
Intended Audience:	All examining personnel with credit experience but little or no background in agricultural credit.

APPLIED COMMUNICATION TECHNIQUES (ACT)

This workshop focuses on advanced communication techniques including presentations, preparing and conducting interviews with bank personnel, and writing skills.

Course Length:	5 days
Intended Audience:	Associate National Bank Examiners II.

BANK SUPERVISION SCHOOL

Students will perform offsite analysis case studies, study individual areas such as earnings and capital analysis, enforcement proceedings, executive management appraisal, investment portfolio appraisal, analysis of liquidity/funding, operational controls (EDP), analysis of trust operations, and analysis and discussion of a commercial line deck.

Course Length:	9 days
Intended Audience:	Associate National Bank Examiners II who will take the Uniform Commission Examination within 6 months.

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BANK SECURITIES DEALER/MSRB SEMINAR

By the end of the course, students will be able to examine a bank's municipal securities dealer department for compliance with rules and regulations and detect potential unsafe and unsound banking practices.

Course Length:	4 1/2 days
Intended Audience:	Only those examiners with 3 years experience who have examined or expect to examine a bank securities dealer department should attend.

COMMERCIAL BANK MANAGEMENT (AIB)

This is a complete introduction to the handling of day-to-day bank activities, for example: the formulation of objectives and policies; the management of assets and liabilities; the sources and uses of funds; the administration of deposits, loans, and other investments; and the short-term management of funds.

Course Length:	5 days
Intended Audience:	Assistant National Bank Examiners I as a part of the Training Team Program.

CONSUMER ORIENTATION (SELF-STUDY)

This course, through self-paced instruction, is designed to provide the participants with the history and technical content of consumer regulations. The course will emphasize the substantive provisions of these regulations as defined by the Deputy Comptroller of Compliance. (See also Consumer Regulations B and Z Tutorials noted separately.)

Course Length:	The material is self-paced; the average time needed is approximately 40 hours.
Intended Audience:	Assistant National Bank Examiners II.

CONSUMER REGULATIONS B AND Z (COMPUTER-BASED)

These ABA tutorials were created for the study of Regulations B and Z. Their primary purpose is to help the student bridge the gap between learning the provision of the regulations and understanding the application in actual situations. The tutorial consists of a series of multiple choice questions that test the student's understanding of the regulations.

Course Length:	Self-paced. The average time is approximately 36 hours.
Intended Audience:	Assistant National Bank Examiners II who have completed the Consumer Orientation (self-study).

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BANK ANALYSIS SCHOOL

This school is presented in two segments. Students will work through a series of computer based training modules prior to attending the classroom segment. The classroom learning environment involves practical application of funds management concepts consistent with the OCC's supervisory approach. Case studies and bank simulation exercises are used.

Course Length:	4 days
Intended Audience:	Assistant National Bank Examiners.

DISTRICT CONSUMER COMPLIANCE EXAMINATION SCHOOL

This school, which centers on a case study, provides participants the tools necessary to evaluate a bank's supervision over the compliance area. Sessions will focus on the judgmental parts of consumer compliance and on examination techniques and procedures. Emphasis is on evaluating compliance with Fair Lending and the Community Reinvestment Acts and on the supervision function.

Course Length:	8 days
Intended Audience:	Assistant National Bank Examiners II. Individuals attending must have completed the Consumer Orientation (self-study) and the Regulation B and Z Tutorials. Individuals will also be expected to assist in performing consumer compliance procedures before and after training.

DISTRICT CREDIT ANALYSIS SCHOOL

Students will learn to analyze businesses' financial statements to assist in determining credit quality in accordance with OCC guidelines.

Course Length:	4 days
Intended Audience:	Associate National Bank Examiners I who have loan file review experience before attending this class and have completed the five-part ABA Statement Analysis Series or its equivalent.

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DISTRICT EDP EXAMINATION TECHNIQUES SCHOOL

This course introduces examiners to the data processing and information systems functions of financial institutions, with focus on the examination procedures and techniques that are used in examining those institutions and/or the independent data processing centers serving those financial institutions.

Course Length:	5 days
Intended Audience:	Associate National Bank Examiners II who have completed the District Fundamentals of Data Processing school and assisted in the examination of a data processing department or an independent data center.

DISTRICT FUNDAMENTALS OF DATA PROCESSING

Students will learn the basics about computers and their relationship to bank supervision through audiovisual learning modules.

Course Length:	2 1/2 days
Intended Audience:	Assistant National Bank Examiners I.

DISTRICT ORIENTATION

Newly-hired Assistant National Bank Examiners will be introduced to the OCC and its mission, administrative matters, personnel policies, and the duties and responsibilities of a bank examiner.

Course Length:	5 days
Intended Audience:	Newly-appointed Assistant National Bank Examiners.

DISTRICT TRUST EXAMINATION TECHNIQUES SCHOOL

This course furthers the education of commercial examiners who participate in trust examinations. Various districts have modified this course to suit their needs.

Course Length:	5 days
Intended Audience:	Examiners; need and experience as determined in district.

EVALUATING BANK STRATEGIC PLANS

The course provides the examiner with an understanding of the strategic planning process and the background to challenge that process when appropriate. It also provides the examiner a basis for evaluating a bank's actual plan and the ability to evaluate the bank's monitoring of strategic implementation.

Course Length:	3 days
Intended Audience:	Commissioned Examiners primarily involved in regional bank supervisory activities.

EXAMINER'S GUIDE TO INTERNATIONAL CREDIT (SELF-STUDY)

This course covers the basic concepts and vocabulary in international credit.

Course Length:	3-5 hours
Intended Audience:	All examining personnel with credit experience but little or no background in international credit.

FOREIGN EXCHANGE/INTERNATIONAL TREASURY OPERATIONS

This course gives examining personnel advanced concepts regarding foreign exchange operations, and familiarizes them with the accounting aspects and the various risks inherent in these operations.

Course Length:	4 1/2 days
Intended Audience:	Associate National Bank Examiners II or above who have participated or will participate in an overseas examination or in the examination of an international department, a foreign branch or agency, or foreign exchange department shortly after the seminar.

INDUSTRY INSIGHT SEMINAR

This high level, semiannual seminar will focus on current banking industry issues. New topics will be selected for each session and will be presented by prominent industry speakers.

Course Length:	2 days
Intended Audience:	All Multinational Examiners, Examiners-in-Charge of large regional bank examinations, District Managers of the regional bank program, and selected Washington office examiners.

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