



WEST AFRICAN ECONOMIC AND MONETARY UNION

FINANCIAL SECTOR ASSESSMENT PROGRAM

December 2022

DETAILED ASSESSMENT REPORT ON THE BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

This detailed assessment report on the Basel Core Principles for Effective Banking Supervision was prepared by a staff team of the International Monetary Fund and World Bank in the context of a joint IMF-World Bank Financial Sector Assessment Program (FSAP). It is based on the information available at the time it was completed in December 2022.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: <http://www.imf.org>
Price: \$18.00 per printed copy

International Monetary Fund
Washington, D.C.

WEST AFRICAN ECONOMIC MONETARY UNION (WAEMU)

November 18, 2022

FINANCIAL SECTOR ASSESSMENT PROGRAM

DETAILED ASSESSMENT REPORT

BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING
SUPERVISION

Prepared By:
Monetary and Capital
Markets Department, IMF,
and Finance,
Competitiveness and
Innovation Global
Practice, World Bank

This report was prepared in the context of a joint IMF-World Bank Financial Sector Assessment Program (FSAP) mission conducted remotely during September 7-28, 2021, by Sophie Imani and Jean-Marie Weck, Consultants, IMF and World Bank, and overseen by the Monetary and Capital Markets Department, International Monetary Fund, and the Finance and Markets Global Practice, World Bank. The note contains the technical analysis and detailed information underpinning the FSAP assessment's findings and recommendations. Further information on the FSAP program can be found at <http://www.imf.org/external/np/fsap/fssa.aspx>.



INTERNATIONAL MONETARY FUND



THE WORLD BANK

CONTENTS

| | |
|---|-----------|
| Glossary | 3 |
| EXECUTIVE SUMMARY | 4 |
| INTRODUCTION | 5 |
| A. Information and Methodology Used in the Assessment | 5 |
| INSTITUTIONAL FRAMEWORK AND MARKET INFRASTRUCTURE | 7 |
| A. Institutional Framework for Banking Regulation and Supervision | 7 |
| B. Market Infrastructure | 8 |
| PRECONDITIONS FOR EFFECTIVE BANKING SUPERVISION | 12 |
| A. Sound, Sustainable, Macroeconomic Policies | 12 |
| B. A Well-Established Framework for the Formulation of Financial Stability Policies | 13 |
| C. Well-Developed Public Infrastructures | 14 |
| D. A Clear Framework for Crisis Management and Recovery and Resolution Mechanisms | 15 |
| E. An Appropriate Level of Systemic Protection (or Public Safety Net) | 16 |
| F. Effective Market Discipline | 16 |
| SUMMARY OF THE ASSESSMENT OF THE CORE PRINCIPLES | 17 |
| A. Powers and Responsibilities (Core Principles 1 to 7) | 17 |
| B. Functions of the Supervision Authorities (Core Principles 8 to 13) | 18 |
| C. Prudential Requirements and Regulations (Core Principles 14 to 29) | 20 |
| SUMMARY OF THE RESULTS OF THE DETAILED ASSESSMENT | 22 |
| RECOMMENDED ACTION PLAN AND RESPONSE FROM THE AUTHORITIES | 31 |
| DETAILED ASSESSMENT | 44 |
| TABLES | |
| 1. Structure of the Financial System | 8 |
| 2. Distribution of Credit Institutions by Area Country | 9 |
| 3. Banking Landscape | 9 |
| 4. Systemic Institutions | 10 |
| 5. Key Prudential Indicators for the Banking System | 11 |

Glossary

| | |
|----------|---|
| AC | Additional Criteria |
| AML-CFT | Anti-Money Laundering and Combating the Financing of Terrorism |
| BCA | Banking Chart of Accounts |
| BCBS | Basel Committee on Banking Supervision |
| BCEAO | Central Bank of West African States |
| C | Compliant |
| CAC | Auditors |
| CBU | Banking Commission of the West African Monetary Union |
| CED | Code of Ethics and Conduct |
| CEMAC | Central African Economic and Monetary Community |
| CIMA | Inter-African Conference of Insurance Markets |
| CIPRES | Inter-African Conference on Social Welfare |
| CP | Core Principle |
| CREPMF | Regional Public Savings and Financial Markets Board |
| CSF-WAMU | Financial Stability Committee of the West African Monetary Union |
| DCPEME | On-Site Supervision of Credit and Electronic Money Institutions Directorate |
| DERI | Studies and International Relations Directorate |
| DSF | Financial Stability Directorate |
| DSP | Off-Site Supervision Directorate |
| EC | Essential Criteria |
| EMI | Electronic Money Institutions |
| EP | Prudential Statement (Etats Prudentiels) |
| FGDR | Deposit Guarantee and Resolution Fund |
| FISEC | Register of Accounting Statements for Credit Institutions |
| FODEP | Prudential Statement Declaration Form |
| FSAP | Financial Sector Assessment Program |
| LC | Largely Compliant |
| LDS | Follow-Up Letter |
| NC | Non-Compliant |
| OHADA | Organization for the Harmonization of Business Law in Africa |
| ONECCA | National Association of Accounting Experts and Chartered Accountants |
| MNC | Materially Non-compliant |
| SFD | Decentralized Financial Systems |
| SGCB | Office of the Secretary General of the WAMU Banking Commission |
| SIB | Systemically Important Banks |
| SNEC | Rating System for Credit Institutions |
| WAEMU | West African Economic and Monetary Union |
| WAMU | West African Monetary Union |

EXECUTIVE SUMMARY¹

- 1. The BCEAO has conducted a comprehensive reform during the past five years.** The regulatory and prudential framework were aligned with international standards and the conditions for supervision have been strengthened, although the efforts must be continued (liquidity ratio/net stable funding ratio and tools for monitoring liquidity, transfers of ownership, acquisitions of holdings, guidelines on nonperforming claims, and anti-money laundering and combating the financing of terrorism—AML-CFT). The transition to Basel III has made it possible to incorporate additional capital requirements, while the rules applicable to credit institutions were upgraded with the 2017 publication of four circulars on governance, risk management, internal supervision, and compliance.
- 2. While more resources have been allocated to supervision, they would still seem to be insufficient in light of the changes occurring in the banking sector (the number of institutions and their complexity) and the risk factors that remain substantial within credit institutions (credit, concentration, information systems, and AML-CFT).** The shortage of resources has had particularly harmful effects in the area of forward-looking risk analysis (stress tests). The frequency of cross analyses should also be increased, and systemic risk mapping should be expanded. Similarly, investments in information technology must be continued to optimize and automate the tools of the Off-site Supervision Directorate.
- 3. Supervision mechanisms stand to be strengthened, despite the adoption of a risk-based approach.** Where methodology is concerned, the rating system for credit institutions of the Off-site Supervision Directorate must be updated to reflect the various risks and to include banking groups. The reporting system would also benefit from consolidation, so that risks, both current (particularly the internal capital adequacy assessment process—ICAAP and AML-CFT) and emerging (interest rate risk in the banking book), can be monitored more effectively. On-site supervision of groups should also be enhanced, and the number and duration of topical missions on risk management, governance, and AML-CFT should be increased. More specifically in the case of credit risk, it would be useful to schedule a comprehensive review of asset quality. Last, the CBU might make greater use of the potential under Pillar 2 to gain a better grasp of risk factors for institutions, such as concentration in sovereign risk as well as in credit exposure to the private sector.
- 4. From the institutional standpoint, reforms since the last financial sector assessment program (FSAP) in 2008 clarified the responsibilities of the BCEAO and the WAMU Banking Commission (CBU) and strengthened the CBU's legal autonomy and implementation powers, particularly in the area of licensing.** The new banking law established an overall framework for the practice and supervision of banking activities, including the introduction of a bank resolution system and the establishment of a deposit guarantee fund. By contrast, there is scope for improvement in

¹ This Detailed Assessment Report has been prepared by Sophie Imani and Jean-Marie Weck, consultants, World Bank and IMF.

the conditions required for the independence of the CBU (from the countries and political authorities). This includes limiting the influence of the country representatives on the Supervision Board and introducing the principle of the Board's independence from the countries into the Annex to the Convention.

5. Preventive action by the supervisory authority should be accompanied by more vigorous enforcement efforts. While the CBU has a broad range of penalties that can be combined, corrective measures (particularly reprimands) would seem to be insufficiently stringent in light of the violations observed, both in the prudential area and in AML-CFT. Against this backdrop, it might be beneficial for the CBU to issue more fines, and to publish its decisions, for deterrent purposes. In addition, credit institutions having negative equity should be closed. Last, the financial transparency requirements under Pillar 3 of the Basel Standard have yet to be observed.

INTRODUCTION

6. This assessment of compliance with the Basel Fundamental Principles for Effective Banking Supervision was carried out within the framework of the Financial Sector Assessment Program (FSAP) of the West African Monetary Union (WAMU).² This assessment is an integral part of the FSAP report. The evaluation, conducted during September 7-28, 2021,³ focused on the framework and practice of banking supervision of the WAMU Banking Commission (CBU). Its scope covers some of the institutions subject to the supervision of the CBU, i.e., credit institutions, including banks and bank-like financial institutions. No specific investigations were conducted on the regulatory framework or supervision of the microfinance and electronic money sectors. This assessment reflects the regulatory and supervision framework in place at the time of the mission. It is not intended to present an analysis of the status of the banking sector or the framework for crisis management. This topic is addressed in a technical note in connection with the FSAP.

A. Information and Methodology Used in the Assessment

7. The assessment was conducted using the methodology described in the publication of the review of the Core Principles for Effective Banking Supervision by the Basel Committee on Banking Supervision in September 2012. To assess compliance, the methodology proposes a series of essential and additional criteria for each core principle (CP). The essential criteria (EC) are the only criteria used to assess compliance with a core principle, while the additional criteria (AC) correspond to the best practices against which the authorities have agreed to be assessed. Comments were provided on compliance with additional criteria, but they were not rated. The compliance assessment was conducted by applying the four-level rating scale provided by the methodology: compliant, largely compliant, materially non-compliant, and non-compliant. The rating "not applicable" may be used under certain conditions.

²The assessment was conducted by Sophie Imani and Jean-Marie Weck, Consultants, World Bank and IMF.

³Interviews were also conducted on July 19, 22, and 23 and on August 24 and 25, 2021.

- **Compliant (C)**—Full compliance with one of the principles generally implies that all essential criteria applicable to the country have been met without any significant deficiencies. Of course, a country may prove in different ways that the principle has been observed. By contrast, as a result of the specific conditions in a given country, the essential criteria may be insufficient to achieve the objective under a given principle, and, in this case, other measures may be required so that the aspect of the banking supervision system envisaged by the principle can be considered in fact to be in place.
- **Largely compliant (LC)**—Large compliance means that only negligible deficiencies have been observed, that are insufficient to seriously jeopardize the supervisory authority's capacity and its clear intention to fully achieve the objective under the principle within the assigned time limit. A "largely compliant" rating may be issued when the system does not meet all of the essential criteria, but its effectiveness is generally satisfactory, and no significant risks have been left unaddressed.
- **Materially non-compliant (MNC)**—Material noncompliance with a principle corresponds to a situation of serious deficiencies, despite the existence of formal rules, regulations, and procedures, and when it has been established that the existing supervision system is ineffective, that the practical implementation of the principle is deficient, or that the shortcomings cast doubt on the capacity of the supervisory authority to ensure compliance. It is acknowledged that there is a wide gap between "largely compliant" and "materially non-compliant," and that it can be a difficult matter to decide such ratings. However, the aim is to compel the assessors to adopt a clear position.
- **Non-compliant (NC)**—A "non-compliant" rating reflects the failure to truly implement the principle, the failure to meet several essential criteria, or a situation in which banking supervision is clearly ineffective.

8. The compliance assessment for each core principle was conducted on a qualitative basis, to judge how the criterion was being met in practice. The mission reviewed the self-assessment of the Basel Principles conducted by the CBU and the Central Bank of West African States (BCEAO) in July 2021. The assessors also conducted an analysis of the legislative and regulatory framework for the financial sector, as well as a detailed review of the policies and practices implemented by the CBU in the supervision of credit institutions. They had access to the survey conducted in the framework of the 2021 FSAP of the WAMU, on the business model, and risk policies of banking institutions. A total of 139 institutions responded to the survey, including 124 banks, 14 financial institutions, and one unclassified institution. The detailed assessment conducted of each individual principle was used to create a description of the system implemented in connection with each principle, an evaluation, and a comments section.

9. The mission highlighted the broad cooperation received from its interlocutors from the Office of the Secretary General of Banking Commission of the WAMU (SGCB) and the Central Bank of West African States, despite an environment made difficult by the context of the COVID-19 pandemic. The assessors held virtual meetings with the Secretary General of the CBU, members of the SGCB and the Financial Stability Directorate (DSF) of the BCEAO, members of senior management from credit institutions, the Secretary General of the Regional Public Savings and Financial Markets Board (CREPMF), representatives from the Inter-African Conference of Insurance Markets (CIMA), and the auditors (CAC). A meeting was also held between the mission and the CBU with members of the supervision and resolution boards. The team worked closely with CBU and BCEAO officers and staff, and on the basis of the information and documents they provided before and during the assessment mission. Some of the documentation was shared digitally, while other documents considered to be confidential were made available at the BCEAO offices in Paris. The results and conclusions of this evaluation were presented and discussed with members of the SGCB, the Secretary General, and the DSF of the BCEAO.

INSTITUTIONAL FRAMEWORK AND MARKET INFRASTRUCTURE

A. Institutional Framework for Banking Regulation and Supervision

10. The banking regulation and supervision system within the Union involves the interaction of four institutional players:

- The WAMU Council of Ministers is responsible for defining the regulatory environment of the banking system in accordance with Article 17 of the WAMU Treaty.
- The BCEAO, whose duties include strengthening the WAMU financial system and technical and professional capacities in the banking and financial sector, contributes to the development of accounting and prudential regulations and to banking supervision through the resources it allocates to the CBU.
- The CBU is responsible for ensuring the organization and supervision of credit institutions and has powers to issue administrative and disciplinary penalties for that purpose.
- The Minister of Finance has decision-making authority on certain matters under the Banking Law. However, for all activities involving a decision of the Minister (licensing of credit institutions and various authorizations to engage in certain operations), the CBU must be consulted, and its opinion must be obtained.

11. The CBU is chaired by the Governor of the BCEAO and includes an Office of the Secretary General, headed by a Secretary General, assisted by a Deputy Secretary General. In addition to the Governor, the CBU has 16 members, eight representatives, one from each WAMU member country, and eight persons appointed by the WAMU Council of Ministers for their expertise,

on the proposal of the Governor. The SGCB is comprised of six directorates: The Crisis Resolution and Legal Affairs Directorate, the Studies and International Relations Directorate, the Off-site Supervision Directorate (DSP), the On-Site Supervision of Credit Institutions and Electronic Money Institutions Directorate (DCPEME), the On-Site Supervision of Decentralized Financial Systems Directorate (SFD), and the General Resources Directorate.

B. Market Infrastructure

12. The financial sector of the West African Economic and Monetary Union (WAEMU) is shallow and substantially involves banking. The banking sector accounts for more than half of the WAEMU's GDP. The contribution to the development of the financial sector from other players (microfinance, insurance, and pension funds, as well as securities custodians) is still modest.

| | Total Assets (In billions of CFAF) | Percentage of WAEMU GDP | Percentage of WAEMU Financial Sector Assets |
|--|---|------------------------------------|--|
| Banks | 47,718.50 | 53.87% | 72.35% |
| Decentralized Financial Systems | 2,561.00 | 2.89% | 3.88% |
| Securities Custodians | 8,494.90 | 9.59% | 12.88% |
| Insurance | 1,964.46 | 2.22% | 2.98% |
| Pension Funds | 5,215.50 | 5.89% | 7.91% |
| Total | 59,935.82 | 74.46% | 100% |

Source: CSF-WAMU, end of 2020.

13. At the end of 2020, the banking system of the Union included 152 licensed credit institutions, comprised of banks and bank-like financial institutions throughout all member countries of the Union (see Tables 2 and 3) under the supervision of the CBU. Decentralized financial systems under Article 44 of the Law on Regulation of Decentralized Financial Systems, i.e., 188 institutions, are also supervised by the CBU and BCEAO. There were 12 electronic money institutions also under the supervision of the CBU.

| Table 2. WAEMU: Distribution of Credit Institutions by Area Country | | | |
|--|--------------|---|--------------|
| Country | Banks | Bank-like Financial Institutions | Total |
| Benin | 14 | 1 | 15 |
| Burkina Faso | 15 | 4 | 19 |
| Côte d'Ivoire | 28 | 2 | 30 |
| Guinea Bissau | 5 | | 5 |
| Mali | 14 | 3 | 17 |
| Niger | 14 | 4 | 18 |
| Senegal | 27 | 4 | 31 |
| Togo | 14 | 3 | 17 |
| Total | 131 | 21 | 152 |

Source: CBU, end of 2020.

| Table 3. WAEMU: Banking Landscape | |
|--|------|
| | 2020 |
| Licensed Credit Institutions | 152 |
| Of which, Banks with Majority Public Ownership | 16 |
| Active Financial Groups and Companies | |
| Banking Groups Active in the WAMU | 32 |
| Financial Companies Active in the WAMU | 17 |

Source: CBU Report, 2020.

14. The majority of the banking sector is controlled by international and regional private banking groups. Since 2011, banking groups in North and Sub-Saharan Africa have gradually acquired stakes in existing banks or have established new banks in the region. The banking sector is controlled by regional or international banking groups primarily from the WAEMU, North Africa, and the European Union. At end-2020, 73 percent of the banks operating in the region were owned by 32 banking groups. The latter account for a total of 85 percent of banking sector assets, 83 percent of the automated teller machines, and 84 percent of the bank accounts. Some of these groups are subject to consolidated supervision within the WAMU at the level of their financial companies. The other players are smaller unaffiliated domestic private and public banks. There are 16 banks in which the majority of the capital is publicly owned in the region.

15. In 2019, the BCEAO published the methodology for identifying systemically important banking institutions in the WAMU. The 2020 list of systemically important banking institutions in the WAMU was distributed by the CBU. It includes six systemically important banking groups at the regional level and 22 systemically important banks at the national level (Table 4).

| | Number of Systemic Institutions | Total Balance Sheet (Billions of CFAF) | Share in Total WAMU Banking Assets |
|---|--|---|---|
| Benin | 2 | 1,819.9 | 3.8% |
| Burkina Faso | 4 | 3,666.3 | 7.7% |
| Côte d'Ivoire | 3 | 5,645.2 | 11.8% |
| Guinea Bissau | 1 | 75.8 | 0.2% |
| Mali | 3 | 2,385.4 | 5% |
| Niger | 3 | 944.0 | 2% |
| Senegal | 4 | 3,248.2 | 6.8% |
| Togo | 2 | 1,172.9 | 2.5% |
| Total National Systemic Institutions | 22 | 18,957.7 | 39.7% |
| Total Regional Systemic Institutions | 6 | 6,725.7 | 14% |

Source: CBU, end of 2020.

16. The business areas of the financial institutions of the WAEMU have evolved along with the changes in shareholding. More than 74 percent of WAEMU banks are traditional full-service banks. However, other players have emerged during the past 10 years, including specialized banks focusing primarily on housing, agriculture, and investment (long-term financing) as well as financial institutions offering mobile payment, leasing, and factoring services.

17. The economic model of the banking sector is heavily reliant on loans financed primarily with short-term deposits. The banking sector has not diversified much since the previous FSAP in 2008. At end-2020, banks' balance sheets consisted primarily of loans to customers (60.3 percent) and investment securities (25.9 percent), most of which are government securities. The loan portfolio includes 51.5 percent short-term, 39.2 percent medium-term, and 4.4 percent long-term loans. On the liabilities side, banks' balance sheets include 85.3 percent deposits and borrowing (including 46 percent demand deposits and 39 percent time deposits) and 14.7 percent capital and other resources.

18. Although WAEMU banks are profitable, we observe a high level of portfolio concentration, limited capital components, and substantial, persistent nonperforming exposures. WAEMU banks are profitable with a return on equity at end-2020 of 13.3 percent and a return on assets of 1.2 percent, which is in any case below the average observed in emerging countries. The loan portfolio is also highly concentrated. Only 27 institutions were able to comply with the concentration limit of 25 percent at end-2020, equivalent to 21.4 percent of the supervised institutions. The solvency ratio for the banking sector has grown stronger in recent years, although it

appears to be low (12.4 percent at end-2020—Table 5), and its levels are heterogeneous, while some banks even have negative capital levels. Credit risk is also still substantial. Nonperforming loan levels have declined over the years (from 13 percent in 2017 to 11.4 percent at end-June 2021), although they remain high. As for the liquidity ratio, at December 31, 2020, 108 credit institutions, accounting for 85.9 percent of the assets and 90.5 percent of the weighted risks, met this requirement with an average ratio of 105.8 percent for the sector.

| WAMU | 2018 | 2019 | 2020 | Change 2020/2019 |
|--|-------------|-------------|-------------|-----------------------------|
| Effective Capital in Billions of CFAF | 2,565.90 | 2,873.4 | 3,284.0 | 14.0% |
| Weighted Assets in Billions of CFAF | 23,662.00 | 24,865.1 | 26,473.5 | 6.0% |
| Total Solvency Ratio | 10.8% | 11.6% | 12.4% | 0.8 |
| Leverage Ratio | 6.3% | 6.2% | 6.4% | 0.2 |
| Liquidity Ratio | NA | 100.5% | 105.8% | 5.3 |
| Source: Office of the Secretary General of the WAMU Banking Commission with provisional data for 2020; data not provided for the 2018 liquidity ratio. | | | | |

19. Within the framework of its mandate, the central bank has adopted a series of measures alongside the member countries of the Union to fight the spread of the pandemic and to limit its negative economic effects in the area. The measures taken for banks have been to increase the central bank's liquidity supply to enable the banking system to continue to play its financial intermediation role to the full extent. In addition, on a proposal from the BCEAO, at its ordinary session of June 26, 2020, the Council of Ministers of the Union decided a one-year extension of the timetable for implementing the transitional measures of the prudential system transposing the Basel II and Basel III rules. In conjunction with the banking system and microfinance institutions, the central bank established a mechanism to support enterprises struggling to repay their loans as a result of the pandemic. In particular, the BCEAO invited credit institutions to grant institutions that so request a deferral of their loan maturities for a period of three months, subject to one renewal, without any interest charges, fees, or late penalties. It relaxed the accounting and prudential rules relating to the treatment of these claims.

20. During the first half of 2021, the banking sector of the Union continued to show its resilience against the COVID-19 health crisis.⁴ The gross portfolio impairment ratio was 11.4 percent at end-June 2021. Banks' structural cash deficit narrowed, owing to a larger increase in resources than in applications. The solvency ratio remained at 12.4 percent at end-May. As the maturity deferral measure ended in December 2020, a monitoring mechanism was established to assess changes in the stock of deferred maturities. This stock, valued at CFAF 769.4 billion at end-December 2020, amounted to CFAF 306.5 billion at June 30, 2021, taking fully reimbursed credit operations into account. A normal payment pattern was regained for a substantial share of this

⁴ Source: BCEAO note on the situation of the WAMU banking system at June 30, 2021.

outstanding balance at end-June 2021 (77.5 percent). By contrast, 22.5 percent of the outstanding balance was downgraded to overdue claims.

PRECONDITIONS FOR EFFECTIVE BANKING SUPERVISION

21. To be effective, a banking supervision system must be able to design, implement, monitor, and enforce prudential policies, both in normal times and in times of economic and financial tensions. The supervision authorities must be able to react to external conditions that may negatively impact the banking system. There are a number of preconditions that, in practice, have a direct impact on the efficacy of banking supervision.

A. Sound, Sustainable, Macroeconomic Policies

22. The WAEMU region experienced steady economic growth from 2012 until 2019. It was one of Africa's strongest performers, with GDP growth of 6 percent per annum during the past eight years, driven primarily by strong domestic demand. Inflation remained stable at below 2 percent. External reserves amounted to 4.3 months of imports in 2019 as the result of a more effective repatriation of export revenue and the large issuance of Eurobonds by Côte d'Ivoire and Senegal. Macroeconomic stability was maintained, supported by the peg to the euro, fiscal consolidation efforts, and improved debt management in most countries. However, economic growth was uneven among the member countries and did not lead to a significant reduction in poverty. The region has also faced certain challenges, including unfavorable trade shocks and persistent security problems in the Sahel region.

23. The effects of the COVID-19 pandemic on regional growth were clearly evident during 2020. GDP growth in 2020 amounted to 1.5 percent, as against 5.7 percent in 2019. Fiscal deficits in member countries have increased. Both monetary and fiscal policies were eased considerably in 2020 to contain the pandemic and to support the economy. This stance involved a risk of fiscal deterioration and caused banks to be increasingly dependent on refinancing from the BCEAO. The regional budget deficit almost doubled in 2020, and accounted for 5.8 percent of GDP in 2020, up from 2.4 percent the previous year. Inflation increased in 2020 from an annual average of -0.7 percent in 2019 to 2.1 percent in 2020.

24. Growth is expected to return quickly to its precrisis level in 2021–2022. We can expect this recovery to be driven substantially by a rebound in private consumption and investment, as the result of a relaxation of lockdown measures and the return of foreign direct investment. However, the outlook for economic recovery depends on a decrease in worldwide risks and the implementation of policies that promote growth and preserve fiscal and external equilibria.

25. The global pandemic has delayed implementation of the monetary reforms in connection with the historic monetary cooperation agreements with France. In December 2019, it was announced that the terms of monetary cooperation with France would be reviewed. Some changes have already been implemented. The BCEAO is no longer required to deposit 50 percent of its reserves with the French treasury, and France has withdrawn from the governance bodies of the BCEAO and CBU. However, the establishment of the ECO to replace the CFA was suspended as a result of the pandemic, and because of the need to coordinate this reform with the roadmap for the creation of the single currency of the Economic Community of West African States, that will also be known as the ECO, and that will have a flexible exchange rate regime. This reform is expected to enter into force in 2027 for countries that meet the convergence criteria, including a budget deficit of less than 3 percent of GDP.

B. A Well-Established Framework for the Formulation of Financial Stability Policies

26. The BCEAO ensures the stability of the WAMU financial and banking system in accordance with its mandate defined in Article 9 of its Charter. It conducts systemic risk assessments through its macroprudential policy committee with a view to proposing measures applicable to the banking, microfinance, and payment infrastructure sectors, when appropriate. Nevertheless, the macroprudential policy objectives have yet to be defined. The BCEAO plans to fill this gap as part of its strategic action plan.

27. Systemic risk assessment across the WAMU financial system is coordinated in the framework of the activities of the Financial Stability Committee (CSF) of the WAMU. Under the mandate defined by the Memorandum of Understanding of May 20, 2010 on the establishment of the CSF-WAMU, the Committee is responsible for fostering consultation, cooperation, and coordination between the authorities whose actions contribute to financial stability (BCEAO, CBU, CREPMF, CIMA, and CIPRES⁵) and one representative from each member country of the Union. The CSF-WAMU is chaired by the Governor of BCEAO. The Committee is assisted in its mission by a group of experts comprised of the Executive Secretary of the CIPRES, the Secretaries General of the CIMA, CBU, and CREPMF, and the BCEAO director responsible for financial stability. The CSF-WAMU is responsible for: (i) assessing risks likely to affect the stability of the financial system as a whole, including through the analysis of the macroprudential indicators defined by mutual agreement, as well as for (ii) making recommendations to strengthen the resilience of the Union's financial sector against internal and external shocks, for which each authority that is a member of the Committee will be responsible. However, the CSF-WAMU does not yet have the leverage to guarantee that its recommendations will be implemented.

⁵ Inter-African Conference on Social Welfare, the control and regulation authority for the social welfare sector.

28. Macropprudential analyses and the results of risk assessments are currently not being reported to the public. The BCEAO includes in its annual report a brief paragraph presenting the work of the CSF-WAMU and the main sources of vulnerability potentially affecting the financial stability of the Union.

C. Well-Developed Public Infrastructures

29. The monetary authorities adopted the revised banking chart of accounts (PCBR) in an approach designed to converge with the Basel Standards and the International Financial Reporting Standards (IFRS). Work is in progress on the full application of the IFRS, including IFRS 9, to the banking sector. The latter can be expected to have a substantial impact in terms of provisioning, and the data required for implementation may be a considerable challenge for small-scale institutions. The Uniform Act on Accounting Law and Financial Reporting (AUDCIF), that has been in force since January 1, 2018, requires the production of annual financial statements according to the size of the enterprise, measured primarily by its turnover excluding tax. However, a substantial majority of small and medium-scale enterprises are not in a position to maintain standardized accounting systems despite the establishment of entrepreneurial status, under which they are entitled to concessions in the production of accounting documents.

30. The publication in 2018 of a circular on the operating conditions of the Audit Office with credit institutions and financial companies made it possible to control the appointment and activities of the auditors more effectively. More specifically, the appointment of the auditors and their renewal are subject to the approval of the CBU, which reserves the right to reject or to remove the auditors when it considers that they do not have the necessary expertise or independence.

31. The Union has a structured, modernized payments ecosystem that includes regional interbank payments systems and an automated interbank payments group. A number of projects are in progress to strengthen the capability of the various electronic payment mechanisms to work together.

32. The BCEAO has a number of regional information databases (the risk reporting center, payment incident reporting center, and balance sheet reporting center) and an information sharing system through credit information bureaus (BIC). However, the existing mechanisms have yet to be deployed in fully satisfactory conditions. A variety of improvement projects at different stages of advancement are designed to make the financial data more reliable and accessible.

33. Despite the acknowledgement of the law of the Organization for the Harmonization of Business Law in Africa (OHADA) before the national courts of the member countries, the legal system is still not functioning properly in certain areas. Ordinary law applicable in member countries of the WAMU derives from the legal system of OHADA, which now comprises 17 countries, including those of the WAMU. The OHADA legal framework consists of 10 Uniform Acts covering, *inter alia*, business activities, security interests, commercial companies and economic interest groups,

simplified recovery procedures and enforcement mechanisms, simplified debt collection procedures, corporate accounting, and arbitration and mediation. However, the rules of civil procedure in each member country govern the procedures for the settlement of commercial disputes before the courts. These procedures are still lengthy, complex, and uncertain, with substantial disparities between countries. The execution of collateral can be particularly difficult. The identified weaknesses include the shortage of human resources in the courts and the insufficient specialization of magistrates.

34. There are persistent weaknesses in the legal and institutional framework for the business environment, despite the reforms undertaken, particularly in the establishment of enterprises. The Union is still weakened by insufficient protection for investors, owing in particular to the absence of transparent regulations, as well as red tape, despite the increasing use of paperless procedures. For example, with the exception of Togo and, to a lesser extent, Côte d'Ivoire, which have significantly improved their position, most countries in the Union are ranked near the level of 150th in the World Bank's Doing Business survey.

D. A Clear Framework for Crisis Management and Recovery and Resolution Mechanisms

35. The institutional framework for the management and resolution of banking crises in the Union, which entered into force in 2017, is gradually being established. The Banking Commission is the resolution authority, through the Resolution Board, which is chaired by the Governor of the BCEAO. We should also note that three of the members of the Resolution Board are also members of the Supervision Board. Accordingly, their independence is not fully guaranteed.

36. The relatively broad arsenal of resolution measures, however, could be supplemented in a number of different areas. The Resolution Board has broad powers that it can exercise with full legal autonomy. However, the resolution measures do not include liquidation. In addition, the Banking Commission should be authorized to require continuity for critical services and essential functions from the operational entities of the group, whether or not they are regulated. Its operating scope vis-à-vis the shareholders of defaulting institutions stand to be improved. The CBU is not explicitly exempt from the requirement to provide advance notice to the shareholders of measures it decides to take, or even from obtaining their approval before exercising its powers. Similarly, the CBU does not have the power to cancel the preemptive rights of the shareholders in defaulting institutions.

37. In urgent cases, the Resolution Board may also adopt resolution measures on a provisional basis without a procedure with input from both parties. Its chair is only required to inform the Council of Ministers of the Union. Decisions of the Resolution Board can only be appealed to the Council of Ministers.

38. Delays in establishing the schedule for the submission of recovery plans by institutions and in the submission of the schedules from some of them have delayed the analysis and assessment of the quality of the plans.

E. An Appropriate Level of Systemic Protection (or Public Safety Net)

39. The recently established deposit insurance and resolution financing systems require further strengthening from the legal, operational, and financial standpoints. Having legal status and financial autonomy, the Deposit Guarantee and Resolution Fund (FGDR) provides protection for deposits taken by credit institutions and decentralized financial systems. It consists of two separate funds dedicated to these two categories of supervised institutions and is funded with their contributions.

40. The FGDR, established in 2014,⁶ aims to protect small depositors against the loss of their savings in the event of the cessation of payments by a Member Credit Institution or Decentralized Financial System. It is not yet fully independent. Its board of directors does not have decision making power over all of its prerogatives. Similarly, the composition of the board of directors, which mainly includes representatives from the industry, and the insufficient legal protection provided for its members, are likely to have adverse effects on its integrity.

41. The operational capacity of the FGDR is subject to ongoing development, with significant recruitment and staff training efforts. However, the mechanisms for the compensation of depositors have yet to be adopted, owing to the failure to validate the circular provided for that purpose. The deadlines established for the repayment of depositors exceed the seven-day period allowed by international practices.

42. Moreover, a significant increase in the FGDR's financial reserves would seem to be required to provide depositors with the coverage that would be needed if several institutions should fail at the same time.

F. Effective Market Discipline

43. The regulatory governance requirements have been strengthened. Corporate governance in the WAEMU area is regulated primarily by the Uniform Act Relating to the Law of Commercial Companies and Economic Interest Groups. The OHADA legislator has upgraded shareholders' rights, separated the functions of the administration and General Manager, and has increased the responsibilities of corporate management. In the area of banking, the governance obligations imposed by the circular published in 2017 by the BCEAO constitute a particularly demanding framework that is consistent with best practices.

44. Financial transparency is insufficient according to international standards. The practices for granting credit to small and medium-scale enterprises (SME) are based more on knowing the customer (reputation of the enterprise, executives, and shareholders) than on an analysis of the accounts, in the absence of available financial data approved by the auditors. While Pillar 3

⁶ Its Charter was revised in 2018 to create a resolution fund.

requirements have been introduced into the banking regulations, they have yet to be controlled by the supervisory authority and are not fully observed by banks.

SUMMARY OF THE ASSESSMENT OF THE CORE PRINCIPLES

A. Powers and Responsibilities (Core Principles 1 to 7)

45. The WAMU banking supervision and regulation system involves four institutional players (the CBU, BCEAO, WAEMU Council of Ministers, and the Minister of Finance from each member country) whose functions and prerogatives are defined in the Banking Law of 2010.

The powers vested with the CBU have been strengthened since the last FSAP, particularly in the area of licensing, and are now binding on the Minister of Finance.

46. From the regulatory standpoint, the BCEAO has been conducting a major reform effort during the past five years that has made it possible to consolidate the prudential base substantially and to set the conditions for enhanced supervision. Implementation of the new regulatory standards might be facilitated by the issue of guidelines specifying the supervisor's expectations.

47. The objectives, prerogatives, and conditions for the supervision of the CBU, that are established in detail in the Specific Convention of April 6, 2007, signed by the WAMU member countries, and its Annex, are clearly defined. However, appeals for supervised parties in the case of penalties or member countries in the case of opinions should be limited to the sole Court of Justice of the Union, which also has jurisdiction on these matters. Clarifications might also be made on the powers granted to the BCEAO in the area of prudential supervision and control (that are insufficiently used) that are likely to be a source of confusion, making the supervision mechanism difficult to understand. The mechanism the CBU uses to report on the proper execution of its tasks should be improved with the publication of its objectives in its annual report, and through the establishment of performance indicators.

48. While the CBU is expressly authorized to issue differentiated prudential standards, to date, it has only used them for systemically important banks. The establishment of prudential rules targeted at and more effectively correlated with the risk profiles of the institutions might strengthen the efficacy and efficiency of the supervision system. In another area, the ceilings established on fines are still insufficient for them to be fully deterrent.

49. The CBU's independence vis-à-vis the countries should be strengthened. This includes: (i) limiting the influence of the countries on the Supervision Board through participation without voting rights for the members currently appointed by the countries; (ii) introducing the principle of the independence of the Supervision Board from the countries into the Annex to the Convention; (iii) creation of clearly established selection criteria and a transparent procedure for the recruitment of members appointed by the Council of Ministers on a proposal from the Governor; and (iv) the

requirement to publicly disclose the reasons for the dismissal of members of decision making bodies of the CBU. While the BCEAO's process of divestiture from banks' capital is being finalized, it should be prohibited from acquiring holdings in credit institutions and decentralized financial systems.

50. The resources the BCEAO has made available to the CBU, and its secretariat are still insufficient, despite the recent recruitment efforts. While the SGCB has experienced and more extensive teams, they still need to be strengthened in light of the changes occurring in the banking sector, involving more complex (systemic and cross-border) groups and new risks. Investments in information technology must be continued to optimize and automate the tools of the DSP.

51. Cooperation with other domestic and foreign regulatory authorities should be consolidated. The regulatory texts clearly define the terms of cooperation activities in memorandums of understanding. However, the CBU has not formally established protocols with all foreign authorities, and their content could be supplemented to promote cooperation in the area of resolution. In the absence of periodic bilateral meetings, the sharing of information with the other regulators (the CREPMF, CIMA, and CIPRES) does not permit the authorities to discuss the details of the supervision of individual cases for banks or banking groups having linkages with insurance companies, management and intermediation companies, or pension funds.

52. The legal and regulatory framework governs banking activity in a satisfactory manner, although the responsibilities for detecting the misuse of the word "bank" have not been determined in the banking law. In practice, it is incumbent on the minister responsible for finance to ensure in his or her country that there are no unlicensed entities engaging in banking activities illegally.

53. The increase in the minimum capital to CFAF 10 billion has helped to double the capital requirements for licensing and has made the issue of licenses more secure. The BCEAO has proven to be rather conservative in the review of applications for licenses and the establishment of branch facilities.

54. The CBU's powers to approve major acquisitions of credit institutions are nonexistent, and those involving changes in shareholders must be strengthened. Acquisitions that require prior approval from the CBU must be defined. The limit currently applied for the approval of significant ownership transfers, which is set at the blocking minority, would seem to be much higher than the relevant international best practices. The collection of information to track and approve significant changes in control involving the beneficial owners should be implemented.

B. Functions of the Supervision Authorities (Core Principles 8 to 13)

55. The supervision system is now structured according to a risk-based approach, although it requires consolidation. The DSP bases its analyses on a tool to assist in the rating of credit institutions, for which the methodology must be updated. Some risk criteria (market risk and overall interest rate risk) are not included, while the weightings assigned to certain factors (concentration risk) are inadequate. In addition, the frequency of cross analyses and systemic risk mapping, as well

as the SGCG's stress testing expertise are also limited in terms of adequately capturing and managing risk trends and accumulation in the sector. Plans for the resolution of institutions have yet to be formally established as a result of delays in the distribution of the regulatory schedule for the submission of their preventive recovery plans.

56. The off-site surveillance of institutions is currently suffering from the absence of tools for the processing and analysis of financial statements, as well as management indicators providing summary data, alerts, and comparative data. While the supervision methodologies have been updated to reflect many regulatory developments, this process has not been fully completed. In addition, special meetings should be held between the Off-site Supervision and senior managers or persons responsible for control functions in systemic institutions, to expand the sources of information available to the SGCB. While the frequency of on-site missions is commensurate with the resources that have been allocated, it would be useful to increase the proportion of topical missions and to establish a minimum frequency for inspections that would be differentiated for systemic, vulnerable, and lower-risk institutions. Similarly, it might be beneficial to increase the duration of on-site supervision activities to allow more comprehensive activities to be conducted.

57. The entry into force of the revised banking chart of accounts has helped to bring the accounting standards applicable to credit institutions in the Union closer to international standards. The new standards require more detailed qualitative information from institutions accompanying the submission of their accounts. However, prudential statements are not always submitted with the appropriate frequencies.

58. Preventive action by the supervisory authority, leading to the issuance of numerous administrative orders, is not accompanied with enforcement activities commensurate with the stakes and risks involved. However, the CBU has a broad range of penalties that can be used in combination. However, it has been tolerant with institutions that have committed sustained violations of the prudential regulations (such as minimum capital and solvency requirements) or that have seriously violated the regulations. In such situations, in the best cases, the CBU has almost systematically resorted to reprimands. It can also use deferrals (sometimes in consecutive sessions) in case of persistent violations, potentially allowing the situations to worsen, with adverse effects on its credibility. Last, it was found that the Resolution Board could be assigned the task of monitoring a number of vulnerable credit institutions.

59. The system for supervising groups, that was established in 2016, has yet to guarantee special monitoring for their activities and risks. The CBU has defined quantitative and qualitative prudential standards for governance, internal supervision, and risk management for groups. Their supervision is partly ensured through the supervision boards for cross-border groups. However, on-site supervision of groups is still limited, while off-site supervision does not have a rating tool suitable for this population. In addition, some groups are slow to meet the regulatory requirements on a consolidated basis. Last, the rules governing exemptions (involving 14 groups) are insufficient in connection with the principle of consolidated supervision.

C. Prudential Requirements and Regulations (Core Principles 14 to 29)

60. The publication in 2017 of four circulars on governance, risk management, internal supervision, and compliance, aligned with international best practices, significantly enhanced the regulatory requirements applied to institutions. However, some provisions could be further enhanced in areas such as remuneration or information system security. These regulations are also being implemented on a very gradual basis. In particular, increasing disparities in their application have been observed between small and large-scale banks.

61. Investigations conducted in connection with on-site supervision on governance and risk management mechanisms for institutions might be expanded for certain risk topics, through topical surveys, for example. In particular, the involvement of the governing bodies in risk steering should be given greater consideration. Similarly, in light of the importance of cyber security risks mentioned several times by CBU representatives, the supervisory authority should be careful to issue severe precautionary recommendations against institutions that it considers to be highly exposed to such risks.

62. Where the expected reports on internal supervision, risk management, and compliance are concerned, the absence of a submission template means that the information reported by the institutions is not uniform. Similarly, institutions should be supported in the formal establishment of their own internal capital adequacy assessment process (ICAAP) with the design of a model report as soon as possible.

63. Significant progress has been made in integrating regulatory capital requirements that are fully compliant with the Basel standards. However, some mechanisms have yet to be defined in detail and are therefore not fully operational: conversion/depreciation of additional Tier 1 capital, countercyclical buffers, and Pillar 2 (ICAAP and stress tests). Moreover, prudential rules covering Islamic finance activities have yet to be defined. In addition, a solvency requirement should be introduced in the framework of Pillar 2 (or Pillar 1) to take into account sovereign risk of the WAMU area countries and concentration risk. Where liquidity is concerned, a study should be undertaken on adapting the Basel standards to risks differentiated in terms of signatures or liquidity of government securities. The solvency ratio of the banking sector was 12.4 percent in 2020, which exceeds the current minimum requirement of 10.125 percent. This level can be expected to increase during the next few years with the finalization of the transitional arrangements for the entry into force of the new requirements that had been delayed as a result of the health crisis. Last, it should be pointed out that approximately 20 institutions, largely state-owned banks, have failed to meet the minimum solvency ratio, and some even have negative equity. It is recommended that credit institutions with negative equity should be closed.

64. There are still weaknesses in the regulatory framework covering doubtful assets, despite the improvements deriving from the prudential system and the 2016 instruction. Of course, the criteria for classifying doubtful loans are compliant with the accepted rules. However, the rules on contagion are disproportionately conservative. Moreover, the writing off of bad loans after the sixth year is still not effective or applied by most institutions in the Union, as the member

countries have not transposed the directive, that the BCEAO adopted with a delay, on the relevant tax system. The provisions on the frequency used for the revaluation of assets provided as mortgage collateral and the conditions for revaluation were properly specified by the supervisor at the beginning of 2021, although this did not compensate for the absence of precise rules for the valuation of collateral and the selection or renewal of the assessors.

65. Optional provisioning for doubtful loans during the first two years and the absence of collective provisioning are likely to delay and to undermine the depreciation effort. Moreover, many institutions in the Union do not always strictly apply the instruction on the accounting of overdue claims. In this connection, the review of a panel of reports from the DCPME and the auditors highlights numerous reclassifications and significant provisioning requirements. It would, therefore, be appropriate to schedule a comprehensive review of the quality of banks' assets with very substantial levels of impaired loans, with uniform sampling and investigation mechanisms by type of portfolio. By contrast, the credit risk control approach is fairly effectively managed from the standpoint of the DSP and the DCPME with consistent methodological approaches based on relatively comprehensive questionnaires and rigorous investigations.

66. The narrowness of the market and the preference of credit institutions for large enterprises` having reliable financial statements effectively led to a structural concentration of liabilities within the Union. Against this backdrop, the gradual reduction of the large exposure limit with a target of 25 percent at the horizon 2023, following the one-year postponement as the result of the health crisis, represents a considerable step forward from the regulatory standpoint, as well as a real challenge for credit institutions. More than the ability of the Union's institutions to observe the ceilings, the issue is the lack of maturity of a substantial share of the institutions in light of concentration risk. The introduction of enhanced support measures, as well as an increase in Tier 1 capital or the development of syndicated loans, will be required to encourage institutions to comply with this requirement.

67. The regulatory framework for liquidity risk management standards published in 2017 would appear to be complete and consistent with the Basel Core Principles, although the Basel ratios (the liquidity coverage ratio and net stable funding ratio) are not yet in force. Institutions are currently subject to a short-term liquidity ratio and transformation ratio that are not applied on a consolidated basis and for which the calculation mechanisms differ from the Basel standard, with minimum requirements of less than 100 percent. However, implementation of the Basel III liquidity standards is in progress. It is recommended that the timetable for the implementation of these new standards should be finalized, and plans should be made to implement monitoring tools to strengthen the liquidity reporting mechanisms available to SGCB. The SGCB's supervision methodologies for liquidity and interest rate risks in the banking book also need to be fleshed out. The absence of quantitative reporting and precise requirements on the information to be provided by the institutions on the framework for interest rate risk management in the banking book do not guarantee a sufficient level of information from the SGCB on this subject. This risk, that the SGCB has considered to be limited, is on the rise, along with the increasing share of long-term government debt securities on the banks' balance sheets.

68. The framework for operational and market risks has improved substantially with the introduction of quantitative requirements in connection with the solvency ratio and the introduction of more advanced qualitative rules. The SGCB's expert resources are still limited in terms of information systems and require strengthening. There will also be a need to incorporate market risks more effectively into the SGCB's supervision processes, even if the institutions in question are exposed to low levels of risk.

69. The chart of accounts was revised in 2016 to be closer to ordinary law applicable to enterprises and to initiate convergence with the IFRS. Work is in progress on the application of all IFRS standards, including IFRS 9, to the banking sector. The regulatory framework for the appointment and work of the auditors was substantially strengthened with the circular published in 2018, that vested the auditors with supervision responsibilities extending beyond the accuracy of the accounts to the review of internal supervision, prudential regulation, and the 50 largest risks.

70. Despite the introduction of Pillar 3 requirements in 2016, the system is not yet fully operational and is not supervised by the SGCB. The implementing text for Pillar 3, specifying, in particular, the required information and the formats in which they must be included, has not yet been published. There is a draft instruction, but it has not been communicated to the banks and its implementation date has not been established. In practice, the requirements under Pillar 3 of the Basel Standard have not been effectively observed, including by major banking groups, and some banks are not publishing any information on their financial situation at their websites.

71. In terms of anti-money laundering and combating the financing of terrorism, some legislative and regulatory provisions would appear to be relatively vague (remote onboarding, additional vigilance measures, and politically exposed persons), or are not applied, at the risk of reducing the effectiveness of AML-CFT measures. The process of drawing up national asset freeze lists is not operational in all jurisdictions as the national committees authorized for that purpose have not been established. There is also a serious shortage of institutional cooperation. The BCEAO and the National Financial Information Processing Units (CENTIF) have yet to formally establish a memorandum of understanding on information sharing. Last, there are also serious inadequacies in the implementation of the regulatory requirements by institutions.

SUMMARY OF THE RESULTS OF THE DETAILED ASSESSMENT

| Principle | Assessment | Comments |
|---|------------|---|
| CP1. Responsibilities, objectives, and powers | LC | The regulatory and supervision architecture of the WAMU, that involves four institutional players, would seem to be fairly complex, despite the clarifications that have been made since the 2007 FSAP and the strengthening of the supervision responsibilities of the CBU with regard to the Council of Ministers of the Union. |

| Principle | Assessment | Comments |
|--|------------|---|
| | | <p>The powers granted to the BCEAO in the area of prudential supervision and control are still a source of confusion, making the supervision mechanism difficult to understand. The regulatory base and conditions for supervision have benefited during the past five years from large-scale reform activities conducted by the BCEAO, making it possible to define in detail the international standards within the Union, that, in some cases, have been in place for a long time. The draft banking law, announced to be in the process of finalization, will enable the current system to be properly consolidated. However, the CBU is not yet using Pillar two measures, even though this is permitted by the regulations. Although the disciplinary arsenal has been supplemented, it might be restricted as a result of the ceiling on fines adopted by the BCEAO. The authorized fine amounts would appear to be an insufficient deterrent, particularly for large banking groups in the Union.</p> |
| CP2. Independence, accountability, resourcing and legal protection for supervisors | MNC | <p>The CBU's independence is still adversely affected by the substantial presence of the countries and the revocation mechanisms that have not been defined in the texts and have not been made public. The CBU does not engage in satisfactory reporting on the execution of its missions in the absence of published objectives and performance indicators. The staff assigned to supervision functions are still insufficient to address the increasing number and complexity of the institutions supervised. The law does not provide staff of the SGCB and CBU with sufficient protection against possible prosecution.</p> |
| CP3. Cooperation and collaboration | LC | <p>The framework for cooperation and collaboration with local or foreign authorities is clearly defined in the regulatory texts and bilateral agreements. These provisions reflect the need to protect confidential information. However, exchanges on individual cases with the market and insurance authorities are still too limited. Furthermore, memorandums of understanding have not yet been signed with all of the foreign authorities concerned.</p> |

| Principle | Assessment | Comments |
|--|-------------------|---|
| CP4. Permissible activities | C | The legal and regulatory framework adequately cover banking activities, except for the responsibilities for detecting and monitoring the misuse of the word "bank." |
| CP5. Licensing criteria | LC | The issue of licenses is not explicitly contingent on qualitative preconditions (such as in the area of governance) while the absence of agreements with certain jurisdictions reduces the opportunities to consult with the supervisors in connection with license applications from applicants outside of the Union. |
| CP6. Transfer of significant ownership | MNC | Significant changes of ownership require approval from the CBU. However, the threshold above which authorization is required would seem to be excessive as compared to international standards. The checks carried out are complete and comparable to those carried out in connection with license applications. However, no information is collected, or checks conducted on beneficial owners. The texts do not give the CBU power to cancel changes in control made without its authorization, when required, or on the basis of false information provided to the supervisory authority. Banks are not required to disclose to the supervisory authority any substantial information that may have a negative impact on the acceptability of a shareholder. |
| CP7. Major acquisitions | NC | The current legal framework does not define the categories or amounts of acquisition and investment operations that require prior approval from the CBU and those that must be reported to the CBU. The regulatory framework has been strengthened by enabling the CBU since 2016 to limit the activities of groups that are exposed to excessive risks or if there are obstacles to consolidated supervision, although this power has yet to be used. There is a system of limits and/or capital deductions for nonoperating capital assets and fixed investments. <i>Ex-post</i> monitoring of acquisitions is carried out by the SGCB. However, the CBU does not conduct prior analyses to ensure that banks have the required financial and organizational resources to address the acquisitions. |
| CP8. Supervisory approach | MNC | The rating system for credit institutions (SNEC) uses a consistent methodology, despite some weaknesses that have already been identified (the failure to reflect certain |

| Principle | Assessment | Comments |
|---------------------------------------|------------|---|
| | | <p>risk factors and weighting of risk factors). However, since its deployment, it has never been subject to an <i>ex-post</i> review to assess its performance level in terms of predictability. It should also be noted that the SNEC cannot be used to rate banking groups or electronic money institutions (EMI). The CBU does not yet have any capacity for forward-looking risk identification. It has not yet developed expertise in stress testing, despite its quantitative resources. However, the studies unit still has limited staffing, while the work in progress in the CSF-WAMU, including the risk mapping of the financial system, has yet to be finalized. The delays in the release of preventive recovery plans have impacted the efforts to formally establish resolution plans. Not all systemically important banking institutions have submitted their recovery plans. Regulatory adjustments will be required to make the resolution architecture more robust.</p> |
| CP9. Supervisory techniques and tools | LC | <p>The CBU uses an appropriate, effectively coordinated combination of on-site and off-site supervision activities. However, a minimum frequency should be introduced for on-site inspections. It has procedures for planning and carrying out activities, and off-site supervision procedures must be updated to reflect the latest regulatory reforms. It uses different sources of information and appropriate mechanisms to analyze the soundness of banks, with the exception of horizontal peer assessments. While the BCEAO conducts crisis simulations, the CBU does not make sufficient use of them. Banks are not required to inform the supervisory authority of any substantial changes in their activity or overall situation. While the work of the internal audit function is effectively assessed by the SGCB, the DSP does not hold regular meetings with the supervision functions for systemic and vulnerable institutions. Meetings with senior management are not held frequently enough. The findings of the supervision activities are reported in a timely manner and the implementation of the recommendations is monitored. Information technology tools for off-site supervision are insufficient (there are no management indicators, and, as a result, the data are collected manually).</p> |

| Principle | Assessment | Comments |
|--|-------------------|--|
| CP10. Supervisory reporting | LC | The submission of nonliquidity prudential statements on a semiannual basis would seem to be insufficient. Penalties are not systematically applied for recurring errors in the submission of prudential statements. |
| CP11. Corrective and sanctioning powers of supervisors | NC | Preventive action by the CBU is not combined with enforcement activity commensurate with the stakes and risks involved. The CBU has been very tolerant with institutions that have committed sustained violations of the prudential regulations or that have seriously failed to comply with the regulations. Similarly, the placement of fragile institutions under special surveillance can extend indefinitely. Penalties are insufficiently deterrent. In addition, the CBU has not used its ability to publish penalties to date. There is currently no legal period of time for the provisional administration system. For the implementation of resolution processes for institutions, the CBU has only signed memorandums of understanding with the supervisors, without ensuring that all institutional players potentially involved have been identified and mapped. |
| CP12. Consolidated supervision | MNC | The supervision system for groups, established in 2016, does not yet guarantee special monitoring for their activities and risks. The CBU has defined quantitative and qualitative prudential standards for governance, internal control, and risk management applicable to groups. Their supervision is partly covered through supervision boards. However, the on-site supervision of these entities is still limited, while off-site supervision does not have a rating tool adapted to this population. In addition, some groups are slow to meet the requirements of the regulatory framework on a consolidated basis. Last, there are insufficient rules to govern exemptions (involving 14 groups) in connection with the principle of consolidated supervision. |
| CP13. Home-host relationships | LC | Memorandums of understanding have been signed with 10 supervisory authorities for the establishment of a framework for cooperation and the exchange of confidential information. The CBU has established supervision boards for cross-border groups in its area and participates in boards organized by the supervisory authorities in the home countries when asked to do so. On-site supervision activities and communication |

| Principle | Assessment | Comments |
|-------------------------------|------------|---|
| | | strategies would seem to be coordinated between the CBU and foreign supervisory authorities. However, there is no exchange of information or cooperation on crisis management and the preparation of resolution plans. |
| CP14. Corporate governance | LC | Governance requirements imposed by Circular 0162017/CB/C constitute a particularly demanding framework that is consistent with best practices. Only the recommendations for the compensation system would clearly stand to be improved. However, we observe increasing disparities between large and small-scale banking institutions in the application of the provisions. Last, we should acknowledge that there have been no recent missions on governance issues in several publicly owned banks that are in great difficulty. |
| CP15. Risk management process | MNC | Circular 04/2017/CB imposes stringent risk control requirements on supervised institutions. However, this circular does not provide the security requirements for information systems or new products in sufficient detail. The creation of specific variants for each institution is still quite incomplete. In addition to the absence or inadequacy of risk measurement and surveillance methodologies, most institutions do not have effective or adapted tools, meaning that risks cannot be monitored closely, and that regulatory requirements cannot be met. By contrast, the CBU has not undertaken any specific missions on risk management by supervised parties. Some factors in connection with risk supervision (risk steering by the management authorities, a widespread risk culture, and the definition and detailed specification of a risk appetite policy) are still insufficiently developed in connection with on-site supervision activities. The CBU does not have expert resources to develop stress tests to regularly assess the resilience of the banking sector and to assist institutions more effectively in carrying out such exercises. |
| CP16. Capital adequacy | LC | Significant progress has been made in integrating a regulatory framework for capital requirements compliant with the Basel standards. However, some mechanisms have yet to be defined in detail and are therefore not fully operational: conversion/depreciation of additional Tier 1 capital, countercyclical buffer, and Pillar 2 (ICAAP and stress tests). The solvency ratio of the banking sector |

| Principle | Assessment | Comments |
|--|------------|---|
| | | <p>was 12.4 percent in 2020—a level that exceeds the current minimum requirement of 10.125 percent. This level can be expected to increase in the next few years with the finalization of the transitional arrangements for the entry into force of the new requirements that had been delayed as a result of the health crisis.</p> <p>Approximately 20 institutions, largely publicly owned banks, have failed to meet the minimum solvency ratio, and some even have negative equity.</p> |
| CP17. Credit risk | LC | <p>The CBU has not conducted topical missions on credit risk that might make it possible to expand on certain risk factors (credit granting and rating systems). In addition, the CBU does not conduct stress tests on the credit component. The information sharing systems developed by the BCEAO (credit information bureau or balance sheet reporting center) are not yet being implemented in fully satisfactory conditions by credit institutions.</p> |
| CP18. Problem assets, provisions and reserves | MNC | <p>Despite improvements deriving from the prudential framework and Instruction 026-2016, there are still weaknesses in the regulatory framework. The rules on contagion are disproportionately conservative. The write-off of bad claims after the sixth year is still not effective or applied by most institutions in the Union. Optional provisioning for all overdue claims during the first two years and the absence of collective provisioning are likely to delay and to reduce the depreciation effort. Moreover, many institutions in the Union do not always strictly apply the instruction on the accounting of overdue claims. The circular letter on asset valuation did not correct the absence of rules on the valuation of guarantees and on the selection/renewal of the assessors. No studies have been conducted on this subject by the SGCB or BCEAO on recovery rates for doubtful claims. While the reporting system has been properly consolidated, there is still scope for improvement in the quality of the information.</p> |
| CP19. Concentration risk and large exposure limits | MNC | <p>At December 31, 2020, only 27 institutions in the Union, equivalent to just over 20 percent of the total, met the target large exposure limit of 25 percent, while the transitional ratio of 55 percent was only met by 68 percent of the institutions. A substantial number of institutions in the Union still do not have major risk</p> |

| Principle | Assessment | Comments |
|--|------------|---|
| | | monitoring systems. On-site supervision activities are insufficiently focused on the quality of banks' information systems and their ability to cover related customers effectively. |
| CP20. Transactions with related parties | LC | Frequent anomalies are observed in the context of on-site supervision activities on the institutions' compliance with their obligations in connection with the supervision of related parties (absence of procedures and failure to declare exposures to related parties exceeding 5 percent). |
| CP21. Country and transfer risks | MNC | The SGCB considers country and transfer risk exposure to be low, although it has not conducted a detailed assessment in this connection. Monitoring of country and transfer risks is not in fact covered by the SGCB's methodological tools and is not used as a basis for checks in connection with on-site and off-site supervision. |
| CP22. Market risks | LC | Substantial progress has been made in the establishment of rules for the management of market risk and the introduction of capital requirements in connection with this risk. Although this risk is still limited, it would now seem to be necessary to incorporate its monitoring more effectively into the various control tools and procedures so that institutions engaging in market activity can be detected and checked. |
| CP23. Interest rate risk in the banking book | MNC | The risk management circular establishes requirements for institutions in connection with interest rate risk in the banking book. However, the SGCB does not have a sufficient level of information or a supervision methodology in this area. This risk, that the SGCB had considered to be limited, is on the rise, with an increasing share of long-term government debt securities on the banks' books. |
| CP24. Liquidity risk | LC | The current liquidity and conversion ratios do not allow sufficient monitoring of liquidity risk. The CBU has made substantial progress in the implementation of the liquidity coverage ratio, the net stable funding ratio, and Basel III monitoring tools, although there are delays in defining the implementation schedule. While the regulatory framework in connection with liquidity risk |

| Principle | Assessment | Comments |
|--|------------|--|
| | | management standards is compliant with international standards and is regularly verified by the SGCB, there are deficiencies in some areas. |
| CP25. Operational risk | C | The framework governing operational risk was improved substantially with the introduction of quantitative requirements for the solvency ratio and the introduction of more advanced qualitative rules. This risk is subject to comprehensive controls by the SGCB, which makes recommendations to correct the most frequently detected deficiencies in the continuity plans and on the collection of losses in connection with operational risks. |
| CP26. Internal control and audit | LC | The quality of the reports submitted by institutions on their internal supervision arrangements and risk management is highly variable and illustrates a certain lack of maturity in small institutions with regard to the regulatory concepts. The absence of a template on reports from the supervisor does not promote uniformity in the information that is submitted. The DSP does not organize working meetings with the banks' internal control and compliance staff. |
| CP27. Financial reporting and external audit | LC | The chart of accounts was revised in 2016. Although an effort was undertaken to converge with the IRFS, it still needs to be finalized. IFRS 9 is not mandatory for credit institutions. The use of fair value and SGCB supervision in this connection is limited. The regulatory framework for the appointment and work of the auditors was substantially strengthened with the circular issued in 2018, that vested the auditors with supervision responsibilities extending beyond the accuracy of the accounts to the review of internal supervision, prudential regulation, and the 50 largest risks. |
| CP28. Disclosure and transparency | MNC | The adoption of the prudential system in 2016 made it possible to introduce Pillar 3 requirements on a consolidated or individual basis. However, the reporting mechanisms are not specified. In practice, it was found in the review of the annual reports of banks in the WAMU area that the requirements under Pillar 3 of the Basel Standard were far from being met. In addition, some banks do not publish any information on their financial |

| Principle | Assessment | Comments |
|-----------------------------------|------------|---|
| | | situation at their websites, or do not even have a website. Last, the SGCB has yet to effectively control the quality of financial reporting from the supervised institutions. |
| CP29. Abuse of financial services | NC | A number of provisions of the Uniform Law would appear to be relatively vague or are not being applied, at the risk of adversely affecting the impact of AML-CFT activities. The process of drawing up national asset freeze lists is not operational in all jurisdictions, as the national committees authorized for that purpose have not been established. The provisions on the freezing of assets are not complete, and, in the absence of any guidelines, do not provide extensive technical or operational support for the supervised institutions. The definition of national politically exposed persons does not reflect relatives and affiliates. The BCEAO and CENTIFs have yet to formally establish a memorandum of understanding on information sharing. The review of DCPME and auditors' reports highlights numerous, significant weaknesses in AML-CFT processes in all institutions. |

RECOMMENDED ACTION PLAN AND RESPONSE FROM THE AUTHORITIES

| Principle | Recommended Action |
|--|--|
| CP1. Responsibilities, objectives and powers | <ul style="list-style-type: none"> • Intervention procedures for the BCEAO in the area of supervision should be clarified in the context of the new banking law. More specifically, the regulatory provisions that give the BCEAO the option to initiate on-site supervision should be specified by providing that the BCEAO should initiate on-site supervision activities as required for the conduct of its missions. • Appeal for supervised parties in connection with penalties or for member countries in the case of opinions should be limited to Court of Justice of the Union, taking into account the current practice of the supervised parties being permitted to appeal to this jurisdiction. • Differentiated prudential regulations should be applied, particularly under Pillar 2, to consolidate the supervision approach for credit institutions. • The regulations of the Union should be aligned more quickly with international standards. • The ceiling established for fines should be reviewed to make them more deterrent. |

| Principle | Recommended Action |
|--|---|
| CP2. Independence, accountability, resourcing and legal protection for supervisors | <ul style="list-style-type: none"> • The level of independence of the Supervision Board vis-à-vis the governments should be strengthened (i) by including in the Supervision Board only members appointed by the Council of Ministers on the proposal of the Governor, or by introducing participation without voting rights for members appointed by the countries; and (ii) by introducing into the Annex to the Convention Governing the CBU the principle that the Supervision Board should be independent from the countries. • The process of divestiture from the last bank in which the BCEAO is a shareholder should be completed and the BCEAO should be prohibited from acquiring stakes in credit institutions and decentralized financial systems. • The requirement should be introduced into the regulatory texts to publicly disclose the reasons for the removal from office of the members of the decision-making bodies of the CBU and BCEAO, and the cases in which the members of the CBU appointed by the Council of Ministers can be removed from office should be specified in the law. • A transparent, competitive procedure should be established for the appointment and selection of the members of the CBU appointed by the Council of Ministers, with specific requirements in terms of training, experience, and specialization in connection with an organized, transparent, and competitive selection process, including an interview with a panel of experts. • The frequency of the sessions of the Supervision Board should be increased by introducing sessions between the general session focusing on a specific risk, for example. • The mechanism for the supervisory authority to report on its performance should be improved. • Staffing of the SGCB assigned to supervision functions should be increased, particularly in the area of off-site supervision, and a budget should be provided for the use of external consultants for short-term assignments. • The rule requiring staff to observe a period of two years in order to work in a financial institution should be limited to the institutions the officer has recently supervised; and • The legal protection for the CBU and staff members of the SGCB responsible for supervision functions should be strengthened. |
| CP3. Cooperation and collaboration | <ul style="list-style-type: none"> • The establishment of cooperation agreements with supervision authorities of the home countries of foreign groups located in the WAMU and the host countries of cross-border groups from the WAMU should be continued. • Periodic bilateral meetings should be planned with each of the three supervision authorities (the Regional Public Savings and Financial Markets Board—CREPMF, the Inter-African Conference of Insurance Markets—CIMA, and the Inter-African Conference on Social Welfare—CIPRES) to address |

| Principle | Recommended Action |
|--|---|
| | individual cases of banks having linkages with insurance companies, management and intermediation companies, or pension funds. |
| CP4. Permissible activities | <ul style="list-style-type: none"> • Structured surveillance of the “abuse” of the word “bank” should be established. |
| CP5. Licensing criteria | <ul style="list-style-type: none"> • The financial soundness of the cases and projections under the prudential rules should be analyzed, taking into account the most conservative assumptions of the applicants, as required, and applying discounts. The instruction guide should be amended accordingly. • The regulatory texts should include the possibility of accompanying the issue of licenses with qualitative conditions, and licenses should be revoked if any false information is submitted. • The instruction on procedures for preparing license applications should be amended to require the collection of data on the beneficial owners when the license applications are filed, and these data should be examined. • Meetings should be systematically organized with the sponsors and future senior managers and attended by the supervision authority and BCEAO staff responsible for prudential supervision. • For license applications from applicants outside of the Union, possibilities for the consultation of supervisors from the host country should be strengthened with continued efforts to promote the signing of cooperation agreements. |
| CP6. Transfer of significant ownership | <ul style="list-style-type: none"> • A reduced threshold of 10 percent should be introduced for approval by the supervisory authority of a change in shareholders. • An internal procedure should be established for the grouping of shares to more effectively identify the persons acting in collaboration by defining the rules applicable to individuals as well as to legal entities. • The concept of beneficial owner should be introduced and defined in the banking law and information should be collected to track and approve significant changes in control involving the beneficial owners. • An explicit requirement should be included for banks to submit to the supervisory authority any significant information that may have a negative impact on the acceptability of a major shareholder or shareholder having controlling interest. • Provisions should be introduced into the regulatory texts that the CBU has power, when required, to cancel or modify changes in shareholders made without its authorization, or on the basis of false information provided to the supervisory authority. |
| CP7. Major acquisitions | <ul style="list-style-type: none"> • In connection with the review of the banking law, the categories and amounts of acquisitions and holdings requiring prior authorization from the CBU and those for which it is sufficient to report their execution after the fact should be introduced; and |

| Principle | Recommended Action |
|---------------------------------------|---|
| | <ul style="list-style-type: none"> An implementing text should specify the mechanisms for authorizing major acquisitions and investments, particularly the criteria that should be used to assess proposals. |
| CP8. Supervisory approach | <p>The methodology of the rating system for credit institutions (SNEC) should be updated and an <i>ex-post</i> review exercises should be conducted on at least a semiannual basis.</p> <p>The rating process should be consolidated with the establishment of specific rating tools for groups.</p> <p>Assess the capacity of banks to implement robust and credible strategies for orderly resolution. Formalize, after analysis and evaluation of the solvency of the institutions, a program for the development of recovery plans organizing the conditions and modalities of their financial stabilization, along with a timetable for implementation.</p> <p>The frequency of cross analyses and mapping of systemic risks should be increased to gain a better understanding of risk accumulation and trends in the sector, so that they can be more effectively managed.</p> <p>Continue development of expertise (DERI, DSF) in the conduct of stress tests so as to better support the banks on the methodological level in introducing such tools (introducing a development outline).</p> |
| CP9. Supervisory techniques and tools | <ul style="list-style-type: none"> The quality control approach, as has been established for on-site supervision, should be extended to off-site supervision. The work of the internal and external supervision functions should be put to greater use for systemic institutions by (i) reflecting the internal audit missions the institutions have scheduled in preparing the schedule of on-site supervision missions; (ii) ensuring that the findings of internal audits are systematically obtained; (iii) planning regular meetings between the internal and external control functions of the institutions and off-site supervision for vulnerable and systemic institutions; The frequency of meetings between the SGCB, senior management, and the board of directors (including the independent directors) of supervised institutions should be strengthened and a minimum frequency should be established for vulnerable and systemic institutions. The multiple review process for the report should be streamlined to reduce the time allocated to the drafting phase and to allow more time for on-site investigations. A minimum frequency should be established for on-site supervision, and the distinction should be made between vulnerable, systemic, and lower risk institutions. The frequency of on-site missions should be increased to monitor implementation of the recommendations in the follow-up letters. |

| Principle | Recommended Action |
|--|--|
| | <ul style="list-style-type: none"> • Banks should be required to report any substantial changes in their overall situation and activities to the CBU in advance. • The effort to improve the tools available to the SGCB should be continued by (i) improving the computer system available for off-site supervision; (ii) developing comparisons between counterpart banks; (iii) updating the off-site supervision methodology and template for the analysis of compliance, risk management, and internal supervision reports; and (iv) finalizing the system the CBU uses to conduct its own stress tests, with the relevant improvements (a better database with time series, more granular information, and macroeconomic model), while ensuring that the results of stress tests are integrated more effectively into the supervision activities. |
| CP10. Supervisory reporting | <ul style="list-style-type: none"> • A quarterly periodicity should be established for the submission of prudential statements, particularly systemic ones. • A survey of institutions should be prepared using an internal model for valuation of the trading book, and the necessary steps should be taken to verify the regulatory requirements. • It should be ensured that the system of penalties for delays in receiving reporting statements is properly applied. |
| CP11. Corrective and sanctioning powers of supervisors | <ul style="list-style-type: none"> • It should be ensured that an effective policy of penalties is in place. The full range of penalties provided should be applied, with the more frequent use of fines, and those issued against institutions should be published for deterrent purposes. • The issue of several consecutive deferrals in connection with the same case should be avoided so that decisions can be made as quickly as possible. • Extraordinary sessions should be used so that cases can be subject to special supervision. • The authorities should formally establish the use of votes to adopt decisions on individual cases when no consensual solution has been found. • The files for the institutions whose situations meet the acceptance criteria should be transferred to the Resolution Board. • The establishment of a maximum period should be considered for provisional administrators' assignments. • The procedures for the signing of cooperation agreements should be continued, and it should be ensured that all parties involved in the resolution processes are properly identified for cross-border groups or foreign institutions, and they should be contractually included in the cooperation agreements. |
| CP12. Consolidated supervision | <ul style="list-style-type: none"> • The supervision of groups should be strengthened (i) through establishing a rating system for groups in the framework of the SNEC; (ii) by increasing the frequency of meetings between the SGCB, senior managers, and the board of directors of the groups, with the establishment of a minimum frequency for systemic groups; (iii) by strengthening the on-site supervision |

| Principle | Recommended Action |
|-------------------------------|--|
| | <p>of financial companies and establishing on-site supervision of major foreign subsidiaries of local cross-border groups.</p> <ul style="list-style-type: none"> • More coercive measures should be applied to groups that do not meet the requirements on a consolidated basis. • Financial companies should be taken into account in the future draft banking law. • An internal policy and methodology should be established to determine cases in which the establishment of an intermediary financial holding company is not required (verification of the existence of consolidated supervision, assessment of the quality of supervision, existence of a memorandum of understanding with the home foreign authority, regular sharing of information on the different entities in the group, size criterion, systemic nature, etc.) along with the method for monitoring these groups. • Regular analyses should be conducted for groups not monitored on a consolidated basis, with regard to the defined methodology, and those for which consolidated monitoring would be required. |
| CP13. Home-host relationships | <ul style="list-style-type: none"> • Information sharing and coordination agreements executed by the CBU with foreign supervision and resolution authorities should include an explicit coordination commitment in addressing banking difficulties and crisis resolution situations as well as cooperation in the preparation of resolution plans, at least for systemically important banking institutions. • Information sharing and cooperation with foreign supervision and resolution authorities on management of crisis situations and the preparation resolution plans for systemic cross-border groups should be strengthened. |
| CP14. Corporate governance | <ul style="list-style-type: none"> • The provisions on governance should be supplemented in the area of remuneration, and more specifically, remuneration in connection with supervision functions. • An audit cycle should be programmed on governance of public banks in order to verify the correct breakdown of the principles of the Circular. • A governance reporting template should be finalized as soon as possible, to provide information on compliance with the requirements that is useful to the DSP. • DCPME inspectors should be encouraged to conduct more comprehensive investigations on the involvement of executive and legislative bodies in strategic and operational steering and risk supervision and control. Longer mission should be used, as required. • The credit institution rating system should be supplemented with a questionnaire on the business model and strategic planning for banks. |
| CP15. Risk management process | <ul style="list-style-type: none"> • Investigations of the development, use, and governance of stress tests (in the credit, liquidity, and market areas) that are useful to the institutions should be expanded. |

| Principle | Recommended Action |
|------------------------|---|
| | <ul style="list-style-type: none"> • More on-site supervision activities should be conducted on the subject of risk management and steering. In particular, investigations into the involvement of the decision-making bodies in the definition of risk appetite and on risk supervision should be enhanced and more stringent penalties should be applied in the event of noncompliance. • Institutions that do not have internal expertise in the area of information systems security should be ordered to have external audits conducted. • Regulations on information system security should be strengthened, including, for example, the conduct of intrusion tests at regular intervals by external audit firms. • A system should be established to ensure that recovery plans are formally established and regularly updated. |
| CP16. Capital adequacy | <ul style="list-style-type: none"> • Regulatory texts in connection with the implementation of Basel II/Basel III should be completed as follows: (i) the regulatory texts relating to certain mechanisms should be finalized: the threshold for triggering conversion/ depreciation of additional Tier 1 capital indirect holdings; (ii) the provisions required for the establishment of the countercyclical buffer should be finalized; (iii) the banking law should be updated, in particular, to include the introduction of new categories of capital, and to reflect Pillar 2 and 3 requirements. • Regulated provisions that do not meet the Basel III eligibility criteria should be excluded from the definition of capital. • The prudential provisions relating to Islamic finance should be introduced, and the SGCB should be given human resources specializing in this area. • The implementing texts relating to ICAAP, and stress tests should be finalized, and methodologies should be established to ensure comprehensive supervision by the SGCB in these areas. • The capacities to supervise off-site supervision in connection with the new ratios should be enhanced with the establishment of supervision methodologies. • The introduction of the more granular treatment under the Basel III standard approach should be considered (December 2017) for certain unrated counterparties. • Provisions should be applied to impose additional capital requirements under Pillar 2 to cover risks not taken into account under Pillar 1, and in particular, public and private concentration risk and emerging risks such as interest rate risk in the banking book. • More coercive measures should be adopted for institutions that fail to comply with solvency ratio requirements on an ongoing basis, and credit institutions with negative equity should be closed. |
| CP17. Credit risk | <ul style="list-style-type: none"> • Topical missions on credit should be scheduled so that more comprehensive investigations can be conducted on credit granting |

| Principle | Recommended Action |
|--|---|
| | <p>processes (definition of granting criteria, assessment procedure, quality of scoring tools, and validation process for rating systems).</p> <ul style="list-style-type: none"> • The statistical information transmitted in credit information bureau reporting when credit institutions consult solvency reports should be used to summon or potentially to penalize the most persistently uncooperative institutions without waiting for DCPME investigations to confirm the anomalies. • The standard (loan to value) approach governing the granting of real property loans should be reviewed with a more conservative approach. • Regular credit stress tests should be established, and institutions should receive support in implementing such tools. |
| CP18. Problem assets, provisions and reserves | <ul style="list-style-type: none"> • The regulatory requirements in the area of credit risk should be supplemented with precise provisions on monitoring and assessing guarantees and the procedures for using assessors. • Consider the possibility of using the 90-day arrears threshold for the classification of all non-performing exposures. • Guidelines should be formally established on the management of bad claims, to specify in greater detail than the regulatory texts the expectations and requirements the supervisor applies to the institutions (governance of assets in default, the concept of technical default, consideration of the unlikely to pay downgrading criterion and quantitative examples, identification of structured claims, and asset valuation methodology). • Institutions not having automated systems for identifying doubtful loans should be ordered to correct this issue as soon as possible. • A reminder should be issued of the need to transpose, as soon as possible, the Directive on harmonization of the tax system for losses on doubtful and contentious claims recorded by banks in the countries of the Union that have yet to do so. • A comprehensive review of the quality of the assets of banks having highly deteriorated claims (more than 30 percent) should be programmed with uniform sampling and investigation methodologies by type of portfolio. • Institutions should be encouraged to strengthen their out-of-court collection mechanisms, and risk management reports should require the remittance of recovery indicators. Studies should be conducted on the recovery of doubtful loans by credit institutions. • Cross studies should be developed on banks' credit portfolios, and the results of credit stress tests should be taken into greater consideration in banks' ratings. |
| CP19. Concentration risk and large exposure limits | <ul style="list-style-type: none"> • Institutions should be required to establish systems for the identification and monitoring large exposures, incorporating formally established procedures and policies, and the use of the appropriate tools. |

| Principle | Recommended Action |
|--|--|
| | <ul style="list-style-type: none"> • Institutions should be required to recapitalize gradually so that the target large exposure limit can be observed. • Investigations into the process of identifying banks in connection with groups of related customers should be strengthened. • With a view to the implementation of the 25 percent large exposure limit, institutions should be encouraged to use syndicated loans or additional guarantees and increases in capital. • Action plans should be provided, if required, using Pillar 2 measures, for any institutions unable to achieve the ratio within the deadline. • Indicators should be established to monitor institutions' customer diversification. • Regular bank studies should be conducted on the exposure of institutions in the Union to systemic counterparties and/or those most vulnerable to commodities fluctuations. |
| CP20. Transactions with related parties | <ul style="list-style-type: none"> • The auditors should be reminded of the obligation to conduct thorough investigations of all information, contracts, and transactions involving related parties, and more specifically to verify whether the agreements signed with them are normal. |
| CP21. Country and transfer risks | <ul style="list-style-type: none"> • Institutions potentially exposed to country and transfer risks should be mapped, and as required, information should be collected on the mechanisms established to manage these risks. • The future risk management template should include a section that addresses these risks. |
| CP22. Market risks | <ul style="list-style-type: none"> • Market risk should be integrated more effectively into the supervision processes for off-site supervision (a mandatory item in the internal supervision report template, with a description of the types of market activity and products, supervision methodology and procedure, and a warning indicator for growth in the trading book) so that market risks can be detected and surveyed, and institutions whose trading books are developing or that have new market finance instruments can be identified and supervised. • More comprehensive controls should be introduced, particularly trading book valuation models, for institutions engaged in significant market activity. |
| CP23. Interest rate risk in the banking book | <ul style="list-style-type: none"> • Credit institutions should be subject to quantitative reporting on interest rate risk exposure. • The information that institutions are expected to report on interest rate risk management and crisis simulations should be specified. • Supervision methodologies and procedures specifically designed for this risk should be established in off-site and on-site supervision, and this risk |

| Principle | Recommended Action |
|----------------------------------|---|
| | <p>should be integrated into the overall assessment of each institution's risk profile.</p> <ul style="list-style-type: none"> • The requirements for crisis simulations should be supplemented to require interest rate scenarios to be incorporated. |
| CP24. Liquidity risk | <ul style="list-style-type: none"> • Liquidity coverage ratio and net stable funding ratio reporting, along with certain Basel III liquidity monitoring tools should be provided, and more specifically, credit institutions should be subject to quantitative reporting on the remaining maturity gaps between assets and liabilities, without waiting for the minimum LCR/NSFR requirements to enter into force. • The possibility should be assessed of establishing discounts on government securities to reflect secondary market liquidity levels and member country sovereign risk, while applying the interim measures required to implement this more conservative measure, or at least a uniform discount should be provided for government securities of the countries in the WAMU area. • The possibility should be studied at the level of the BCEAO of including all of the central bank's reserves in Level 1 high-quality liquid assets under the liquidity coverage ratio, including the reserve requirement. • The LCR/NSFR implementation schedule should be finalized, and banks should be duly informed. • The liquidity risk management questionnaire used for ratings should be supplemented and the quantitative indicators used should be reviewed to reflect the new Basel III ratios and monitoring tools. • Controls applied to liquidity monitoring tools used by the institutions should be strengthened and the on-site supervision methodology should be fleshed out. • The requirements applicable to crisis simulations should be supplemented by indicating that short and long-term, bank-specific, and generalized liquidity stress scenarios (or any combination of these options) should be used. |
| CP25. Operational Risk | <p>The information technology skills of the supervisory authority should be strengthened through the establishment of a team dedicated to on-site supervision of information systems and the use of external consultants.</p> <p>Cross analyses should be developed for operational risk, to detect common areas of vulnerability.</p> |
| CP26. Internal control and audit | <ul style="list-style-type: none"> • The feedback templates for organizations and the work of the compliance and control functions should be finalized as soon as possible. • The practice of special interviews by the DSP with control functions of the institutions should be generalized. • Severe corrective measures should be applied to institutions having staffing shortages in their control functions and/or that have not defined the three lines of defense in detail. |

| Principle | Recommended Action |
|--|--|
| CP27. Financial reporting and external audit | <ul style="list-style-type: none"> • Convergence with international accounting standards should be continued. • Meetings between the off-site supervision and the auditors should be scheduled without the presence of senior management to discuss the individual situation of a given bank when vulnerabilities are detected. • More precise guidelines should be established for the format of the auditors' reports so that the content will be more uniform, and templates for the analysis of these reports should be prepared. • Checks conducted by the on-site supervision in terms of the approval of the auditors should be eliminated when these issues have already been verified by the SGCB legal affairs unit, to avoid duplicated supervision activities. Supervision should be limited to changes in the situation of the auditors in terms of the quality of the work, competence, and independence. • The SGCB's information levels should be enhanced for portfolios assessed at fair value. |
| CP28. Disclosure and transparency | <ul style="list-style-type: none"> • The mechanisms for implementing the Pillar III requirements in the prudential system should become effective as soon as possible so that the system can become operational. • Controls should be established for banks' compliance with Pillar III requirements. • The current requirement to publish information at the website for Pillar 3 should be extended to all financial reporting requirements (financial statements and annual reports). |
| CP29. Abuse of financial services | <ul style="list-style-type: none"> • Guidelines should be formally established, in accordance with Financial Action Task Force (FATF) Recommendation 34 providing clarification on a number of different gaps or unclear areas in the regulations (remote establishment of relationships, additional oversight measures, definition of national politically-exposed persons, validation of the establishment of relationships with politically exposed persons by members of senior management, incentives to abandon correspondent banking activities in high-risk countries, and the requirement to report suspicious activities to the supervision authority). • Member countries should be reminded of the requirement to establish, as soon as possible, national committees responsible for preparing lists of penalties and measures to freeze assets. • The DCPEME methodology on AML-CFT risk factors and the controls required by the specialized nature of certain lines of business (correspondent banking) should be supplemented. • The inclusion of a program of AML-CFT topical missions in the annual survey program should be confirmed. • Formalize a memorandum of understanding between BCEAO and the CENTIFs in order to provide a framework for and guarantee the sharing of AML/CFT information and to ensure the implementation of regular |

| Principle | Recommended Action |
|-----------|---|
| | <p>exchanges between the SGCB teams and the CENTIFs on AML/CFT risk factors.</p> <ul style="list-style-type: none"> • An AML-CFT expertise center should be developed within the SGCB (off-site supervision) and AML-CFT risk mapping should be formally established to highlight all identified weaknesses. • The policy of applying more stringent penalties to institutions in violation of the AML-CFT regulations should be continued. |

Response from the Authorities

72. The authorities of the West African Monetary Union are grateful to the staff of the International Monetary Fund and World Bank for the quality of the discussions that have taken place in the update of the Union’s Financial Sector Assessment Program. The open, constructive discussions took place in a context characterized by the ongoing COVID-19 pandemic, which required the work to be conducted by video conference.

73. When these activities were completed, the mission observed that substantial progress had been made since the 2008 FSAP in connection with the regulatory and supervision framework of the banking sector in the WAMU. It noted the implementation (i) of stringent regulatory texts aligned with the best international standards, including a largely successful transition to Basel III; (ii) an effectively managed supervision approach and a robust methodological foundation; (iii) experienced but numerically insufficient staff; and (iv) a good level of efficiency with strong ambitions for digitization.

74. The authorities of the WAMU welcomed the improvements identified by the assessors. They acknowledged the recommendations made by the mission in connection with the Basel Core Principles Assessment Report. Further detail is required in some of these areas to reflect the clarifications on the issues outlined below.

Independence of the WAMU Banking Commission (CBU) from the Countries

75. The analysis should more effectively reflect the specific features of a monetary union. In fact, the special feature of the presence of country representatives on the CBU Supervision Board derives from the institutional architecture of the WAMU, that is characterized by a division of responsibilities between the countries and regional institutions. This representation of the countries in the decision-making bodies is one of the foundations of regional integration. In this connection, it does not undermine the independence of bodies such as the Banking Commission. On the contrary, this composition reinforces the collegial aspect of decision making, which, we might add, none of the countries has challenged. They support implementation of the decisions of the Banking Commission.

76. As a result, the proposal to make country representatives members of the Banking Commission without voting rights would instead undermine the institutional framework of supervision. It would remove any substance from the role of the countries that have delegated the

management of money and supervision of the banking system to the Community institutions and bodies. However, studies could be conducted so that the representation of the member countries within this body might be adjusted more effectively.

Resources of the WAMU Banking Commission

77. Strengthening the resources of the Office of the Secretary General of the Banking Commission is an important step towards improving the quality of supervision in the Union.

The analysis of the mission to update the FSAP must, however, more effectively reflect the actions the central bank has already undertaken to provide the Office of the Secretary General of the Banking Commission with appropriate, sufficient resources to carry out its mission. In this connection, specific budgets have been established for the development of information technology tools for supervision; substantial progress has been made in increasing the quality and number of inspectors; the capacity building process is ongoing, particularly through the diversification of training provided by the West African Center for Banking Studies and Training (COFEB) and collaboration with external partners such counterpart central banks and the IMF Technical Assistance Center for West Arica (AFRITAC West).

Policy of the Banking Commission for Applying Penalties

78. The Banking Commission must ensure that appropriate penalties are applied to supervised institutions when the situation requires. These measures have been supplemented by giving the Banking Commission the option to require the penalties to be published. In this connection, at its December 2021 session, the Supervision Board decided on the publication of disciplinary penalties and fines applied to supervised institutions and members of their senior management. This more deterrent measure will be continued in the future.

Anti-money Laundering and Combating the Financing of Terrorism (AML-CFT)

79. The commitment to combating money laundering and the financing of terrorism in the Union is steadfast. In this connection, a review of the body of AML-CFT laws is in progress to enhance compliance with recent international standards in this area.

* * *

80. In general, the WAMU authorities are pleased with the ambitious structural reforms that have been achieved in recent years. They have helped to make the banking sector in the area more resilient. These dynamics must be pursued to strengthen the stability of the Union's banking and financial system and to promote sound, inclusive financing for the Union's economies. In this connection, the authorities of the Union intend to continue their beneficial collaboration with the IMF and World Bank.

DETAILED ASSESSMENT

| | |
|----------------------------------|--|
| Principle 1 | <p>Responsibilities, objectives, and powers</p> <p>An effective system of banking supervision has clear responsibilities and objectives for each authority involved in the supervision of banks and banking groups.⁷ A suitable legal framework for banking supervision is in place to provide each responsible authority with the necessary legal powers to authorise banks, conduct ongoing supervision, address compliance with laws and undertake timely corrective actions to address safety and soundness concerns.⁸</p> |
| Essential Criteria | |
| EC1 | <p>The responsibilities and objectives of each of the authorities involved in banking supervision⁹ are clearly defined in legislation and publicly disclosed. Where more than one authority is responsible for supervising the banking system, a credible and publicly available framework is in place to avoid regulatory and supervisory gaps.</p> |
| Description and Conclusions, EC1 | <p>Institutional Architecture of the WAMU</p> <p>There are four players in the institutional architecture for banking regulation and supervision in the WAMU area:</p> <ul style="list-style-type: none"> • The WAMU Council of Ministers is responsible for defining the regulatory environment for the activity of the banking system in accordance with Article 17 of the WAMU Treaty. It should be clarified that the WAMU Council of Ministers may "authorize waivers of the agreed provisions that do not affects its principles, that it deems to be justified by the conditions and specific requirements of a WAMU member country." • Under Article 10 of its Charter, the BCEAO may conduct "missions, in compliance with monetary equilibrium, in connection with specific projects to support the improvement of the monetary policy environment, the diversification and strengthening of the WAMU financial system, and the technical and professional capacities of the banking and financial sector." • The Minister responsible for finance of each WAMU member country, who has the power to make decisions on certain matters incumbent on him or her under the Uniform Act on Banking Regulation (the Banking Law). • The WAMU Banking Commission (CBU), that is responsible for banking supervision in the WAMU area under the Treaty of the West African Monetary Union of April 6, 2007 (the WAMU Treaty). |

⁷ In this document, "banking group" includes the holding company, the bank and its offices, subsidiaries, affiliates, and joint ventures, both domestic and foreign. Risks from other entities in the wider group, for example non-bank (including non-financial) entities, may also be relevant. This group-wide approach to supervision goes beyond accounting consolidation.

⁸ The activities of authorizing banks, ongoing supervision and corrective actions are elaborated in the subsequent Principles.

⁹ Such authority is called "the supervisor" throughout this paper, except where the longer form "the banking supervisor" has been necessary for clarification.

Uniformity of Texts Applicable to Member Countries

The texts are applied uniformly. The Council of Ministers has not granted any waivers to member countries of the Union in the area of banking regulation. However, transitional arrangements may be decided in the implementation of regulatory texts to reflect the operational and/or financial significance and impacts of regulatory changes (prudential system or regulation on risk limits).

Areas of competence of the CBU

Where the CBU is concerned, Article 23 of the WAMU Treaty provides that it "is a body of the WAMU responsible in particular for the organization and supervision of credit institutions." The CBU's supervision prerogatives and conditions are governed by a specific convention signed by the WAMU member countries: the Convention of April 6, 2007, Governing the CBU (the Convention) and its Annex (the Annex to the Convention).

Organization of the CBU

The Annex to the Convention contains the functional provisions, i.e., the composition, organization, and operation of the banking supervision body of the Community. The CBU includes two boards (the Supervision Board and Resolution Board), each of which is comprised of country representatives and members appointed *intuitu personae*. Article 12 of the Annex to the Convention mentions that "the Central Bank shall provide the secretariat, by making the required staff and resources available, and shall cover the operating costs of the Banking Commission."

Sharing of Competence Between the CBU and BCEAO

The CBU may use the central bank for off-site and on-site supervision (Article 21 of the Annex to the Convention).

In addition to the resources it provides for the SGCB, that in fact contribute to the implementation of supervision, the BCEAO may also carry out, in accordance with Article 23 of the Annex to the Convention, supervision of systemic credit and banking institutions after having duly informed the CBU.

Regardless of the intervention mechanism it uses, the central bank can also initiate controls incumbent on the CBU, after having duly informed the latter. It must report to the CBU on the results of supervision activities, and any violations of the banking regulations and any other legislation applicable to the supervised institutions, noncompliance with the rules of ethics of the industry, and any other anomalies in the management of the supervised institutions that may be brought to its attention (Section 23).

During October/November 2017, the central bank conducted investigations with 14 WAMU banks to monitor compliance with the provisions on external financial relations.

The results of these supervision activities were brought to the attention of the CBU, that initiated disciplinary proceedings against the banks involved as a result of the significant shortcomings discovered. In addition, the SGCB is responsible for control in respect of regulations on external financing and to conduct missions on nonprudential monetary policy implementation.

In fact, the possibility offered by the Annex to the Convention may lead to overlapping between the areas of competence of the central bank and those of the CBU. In practice, the BCEAO's missions with banks involve central banking responsibilities. However, the respective operating areas of the two authorities in banking supervision have not been formally defined.

The BCEAO is also responsible for processing applications for licenses and various authorizations submitted by credit institutions to the Minister of Finance. Decision 421-12-2015 of the Governor of the Central Bank organizes the examination by the BCEAO of applications for licenses or prior authorizations. In practice, license applications are processed by the SGCB on behalf of the BCEAO.

Role of the Minister of Finance

The Minister of Finance has decision making authority in certain matters under the Banking Law. This involves the licensing of credit institutions or the various authorizations for the credit institutions to engage in certain operations, withdrawal of licenses at the request of the institution involved, when the supervisor has found that the institution has been inactive for at least one year, as well as the suspension of all or some of a credit institution's operations, or all credit institutions in a given country.

However, the decision-making power of the Minister of Finance is shared with the CBU. The legal system applicable to this division of powers derives expressly from the Banking Law (Articles 15, 20, 25, 31, 39, 40, and 41 of the Banking Law) and the Annex to the Convention (Articles 40, 41, 42, and 44).

The Minister makes decisions subject to the opinion of the CBU. For all acts involving a decision of the Minister, the CBU must be consulted, and its opinion must be obtained in all cases provided by the banking regulations under Article 40 of the Annex to the Convention.

Legal Scope of the Opinion

The opinion of the CBU, whether favorable or unfavorable, must be issued to the Minister of Finance, who, under Article 42 of the Annex to the Convention, will have a period of 30 calendar days to adopt an order. When the minister fails to take the appropriate action within this period of time, the CBU will notify the interested party of the content of the opinion, and it will become binding.

The opinion is binding on the Minister. Where the national authorities disagree with this opinion, they may submit the matter, pursuant to Article 44 of the Annex to the Convention, to the WAMU Council of Ministers for arbitration. In practice, arbitration by the Council of Ministers has never been requested. When arbitration is used, decisions must be adopted unanimously, in accordance with the rules provided in Article 15 of the WAMU Treaty.

Appeals Against Decisions of the CBU

Decisions of the CBU against credit institutions and members of their senior management may, according to Article 43 of the Annex to the Convention, be appealed only to the Council of Ministers of the WAMU, which will function as a chamber of appeal. Appeals must be filed within two months from notification.

Appeals may not be filed against decisions to withdraw a license in connection with a disciplinary penalty, after having been announced, within seven days, by the minister responsible for finance of the country in which the decision was made.

Similarly, Article 43 of the Annex provides that appeals may not be filed against decisions to place institutions in provisional administration or liquidation, after the provisional

| | |
|----------------------------------|--|
| | <p>administrator or liquidator has been appointed by the minister responsible for finance of the country in which the decisions are binding.</p> <p>Neither the appeal period nor the appeal has suspensive effects.</p> <p>Article 15 of the WAMU Treaty provides that decisions must be made unanimously. In the event of an appeal to the Council of Ministers, penalties can only be upheld by unanimous decisions, reflecting the decision mechanism provided in Article 15 of the WAMU Treaty. Based on this principle, a veto from one country is sufficient to cancel the CBU's decision. This situation also would not appear to be completely satisfactory, as it may delay decision making, particularly in urgent situations.</p> <p>It is also important to note that the Council of Ministers would no longer seem to be the only remedy in the event of penalties issued by the CBU. Some penalties the CBU has issued to individuals have already been appealed to the Council of Ministers of the Union. Moreover, the penalties had been upheld by the Council of Ministers and justified as the last resort by the complainants before the Court of Justice of the Union. The practice of appealing to the Court of Justice of the Union therefore already appears to be effective.</p> |
| EC 2 | The primary objective of banking supervision is to promote the safety and soundness of banks and the banking system. If the banking supervisor is assigned broader responsibilities, these are subordinate to the primary objective and do not conflict with it. |
| Description and Conclusions, EC2 | <p>The functions of the CBU are set out in Article 2 of the Annex to the Convention. The CBU is responsible for ensuring the soundness and security of the WAMU banking system through, <i>inter alia</i>, the oversight of the supervised institutions and the resolution of banking crises. In fact, the CBU comprises two decision making bodies: the Supervision Board and the Resolution Board (Article 3 of the Annex to the Convention).</p> <p>The CBU's prerogatives also include the protection of depositors and the maintenance of the stability of the regional financial system. In this connection, we should note that the Governor of the BCEAO is the Chair of both the CBU and the WAMU Financial Stability Committee (CSF-WAMU).</p> <p>The consumer and customer protection component is not one of the prerogatives of the CBU. It is specifically incumbent on the member countries, although not all of them have observatories to monitor the quality of the financial services implemented within the Union.</p> |
| EC3 | Laws and regulations provide a framework for the supervisor to set and enforce minimum prudential standards for banks and banking groups. The supervisor has the power to increase the prudential requirements for individual banks and banking groups based on their risk profile ¹⁰ and systemic importance. ¹¹ |
| Description and Conclusions, EC3 | The CBU is empowered under the Banking Law (Article 56, paragraph 5) and the Annex to the Convention (Article 21, paragraphs 2 and 5 and Article 29.1) to establish "different" prudential standards for supervised institutions to reflect their individual circumstances |

¹⁰ In this document, "risk profile" refers to the nature and scale of the risk exposures undertaken by a bank.

¹¹ In this document, "systemic importance" is determined by the size, interconnectedness, substitutability, global or cross-jurisdictional activity (if any), and complexity of the bank, as set out in the BCBS paper on *Global systemically important banks: assessment methodology and the additional loss absorbency requirement*, November 2011.

| | |
|----------------------------------|--|
| | <p>(size, structure, risk profile, the nature and complexity of their activities, and systemic importance).</p> <p>To date, the supervisory authority is still applying this functionality on a limited basis to institutions not classified as systemically important banks.</p> <p>Similarly, in accordance with Article 22 of the Annex to the Convention, the supervisory authority has the right to establish more stringent prudential requirements for systemically important banks. For example, regional systemically important institutions must establish extra capital, primarily in the form of core Tier 1 capital. This extra requirement and the list of systemically important banking institutions will be decided and published by the Banking Commission based on a methodology issued by the BCEAO (paragraphs 101 and 102 of the prudential system).</p> |
| EC4 | Banking laws, regulations and prudential standards are updated as necessary to ensure that they remain effective and relevant to changing industry and regulatory practices. These are subject to public consultation, as appropriate. |
| Description and Conclusions, EC4 | <p>Strengthening of the Regulatory and Prudential Framework</p> <p>The WAMU area has been subject to major regulatory changes and reforms during the past five years, enabling it to move to a higher prudential level. The new regulatory texts are largely in line with international best practices.</p> <p>First, at the prudential level, the WAMU has transposed the Basel II and Basel III provisions, resulting in the establishment of a new prudential system for credit institutions and financial companies. This new system entered into force on January 1, 2018.</p> <p>It is also worth mentioning the three circulars formally established in 2017 on governance, internal supervision, and risk management, that have significantly enhanced the requirements and obligations applicable to credit institutions and financial companies in connection with their operations.</p> <p>Last, the Annex to the Convention governing the CBU was revised in 2017, which involved the introduction of a banking crisis resolution mechanism. A circular on the mechanisms and conditions for the implementation of the resolution system was also published at the end of 2020.</p> <p>In accounting matters, the new revised chart of accounts entered into force on January 1, 2018.</p> <p>In the area of supervision, the WAMU also adopted a new consolidated supervision system for parent credit institutions and financial companies in the WAMU on June 24, 2016.</p> <p>Process of Developing and Validating the Regulations</p> <p>"The updating of the regulations may be delayed from time to time in light of the adoption of international standards, at the risk of affecting the supervision conditions of the WAMU and weakening the financial and banking system. The lengthy delays that have been observed from time to time in updating the regulations primarily involve the texts of laws, which must be adopted by each of the national parliaments of the eight WAMU member countries.</p> <p>The structured, iterative method involves numerous directorates within the BCEAO. It is dictated by the division of roles and responsibilities between the units of the central bank</p> |

| | |
|------------|---|
| | <p>responsible for regulation (the Financial Stability Directorate—DSF) and those responsible for supervision (primarily the SGCB). In a dynamic of complementarity, the aim is to combine all available skills and expertise to produce robust regulations." Publication of the texts, in accordance with the operations of the Union, will then require arbitration and validation at country level and subsequently at the community level.</p> <p>The guidance note will be forwarded for comments to the relevant directorates at headquarters, the national directorates, and to the SGCB. The version of the guidance note, amended to reflect the comments received, will be subject to validation by the bank authorities.</p> <p>After the proposed guidelines have been adopted, the services involved will prepare a preliminary draft text, which will be validated within the directorate responsible for drafting the regulations. The draft validated by the Directorate will then be forwarded for comments to the relevant directorates at headquarters, the national directorates, and the SGCB.</p> <p>The amended version of the draft text will be the subject of consultations with the relevant players and/or the national authorities and will then be submitted to the bank authorities for validation.</p> <p>The draft text will then be finalized to reflect the comments made by the bank authorities, where appropriate. Depending on the type of text, the validated text will be:</p> <ul style="list-style-type: none"> • Forwarded to the Governor for signing. • Submitted to the Monetary Policy Committee or to the Council of Ministers for adoption, depending on the area of competence. • Communicated to the countries to be incorporated into their domestic legal systems. <p>Should a draft text not be adopted by the competent authority (the Monetary Policy Committee or Council of Ministers of the Union), it will be revised to reflect the comments and guidelines provided.</p> <p>Public Consultations Prior to the New Prudential Standards and Supervision Guidelines</p> <p>The consultation process for texts occurs upstream and downstream. The DSF will question credit institutions and the financial sector in connection with the regulatory authority's concerns involving any amendments or changes to the current text that may be required. It will then use consultations to obtain a formal statement of the opinions of the supervised institutions. The BCEAO may also combine these activities with impact studies.</p> <p>When the text has been validated, the BCEAO will give the institutions feedback on the choices adopted, inform them of any points not reflected in the final version of the text and the supervisor's expectations on the implementation of the regulatory provisions. It was found in the mission's discussions with a panel of institutions that this participative approach is appreciated in the industry.</p> |
| EC5 | <p>The supervisor has the power to:</p> <ol style="list-style-type: none"> (a) have full access to banks' and banking groups' Boards, management, staff and records in order to review compliance with internal rules and limits as well as external laws and regulations; (b) review the overall activities of a banking group, both domestic and cross-border; and (c) supervise the foreign activities of banks incorporated in its jurisdiction. |

| | |
|---|---|
| <p>Description and Conclusions, EC5</p> | <p>(a) the regulations allow the Banking Commission to freely contact senior management and the decision-making body of the supervised institutions and to access all documents required for their supervision. Accordingly:</p> <ul style="list-style-type: none"> • Article 24 of the Annex to the Convention provides that the CBU may conduct a simple hearing of members of senior management of the supervised institutions or any persons who may provide useful assistance. • According to Article 25, supervised institutions are required to provide the CBU, on request, within the specified time frame and forms, any documents, information, clarifications, and justifications required for the exercise of its duties. • Article 15 of Circular 01-2017/CB/C on governance of credit institutions specifies that the minutes of the meetings of the decision-making bodies must be submitted to the CBU. In addition, the supervisory authority may also participate as an observer in meetings of the decision-making body when it deems it necessary. The Banking Commission has already exercised this power. <p>The CBU also has extensive supervision powers. Article 21 of the Annex to the Convention provides that the CBU may carry out or assign off-site and on-site supervision activities, on an individual or consolidated basis, in the supervised institutions, to ensure that the relevant provisions are being observed. In connection with inspection missions, inspectors from the DCPEME have extensive investigative powers and access to any documents and records they may wish to examine.</p> <p>Last, responsible members of senior management are subject to an approval process. In fact, the CBU ensures that persons considered for director or senior management positions meet the mandatory criteria of expertise (academic training and professional experience), moral standing, and nationality. "The Banking Commission has the power to require the institution concerned to change the composition of the decision-making body of a supervised institution if it finds that some of its members are not fulfilling their responsibilities. However, it will not take direct action to make such a change, which is instead incumbent on internal management of each supervised institution."</p> <p>(b) The CBU is clearly empowered to conduct on-site and off-site supervision activities, on a consolidated basis, in the supervised institutions, in order to ensure that the relevant provisions are being observed. In this connection, the Chapter II of the Annex to the Convention defines the specific framework for consolidated supervision. The concept of consolidated supervision is explained in further detail in Decision 014/24/06/2016/CM/UMOA of June 24, 2016, on consolidated supervision.</p> <p>(c) The CBU may, pursuant to Decision 014/24/06/2016/CM/UMOA of June 24, 2016, in reference above (Article 9), monitor the activities abroad of banks registered in its jurisdiction and limit the scope of the activities that a supervised institution may undertake and the jurisdictions in which it conducts them.</p> <p>Further, as part of its role as the home supervision authority, the CBU has signed cooperation conventions with peer supervisors and organizes supervision boards for regional banking groups having significant facilities abroad. <u>However, the conventions currently signed by the WAMU do not cover all jurisdictions in which the groups operating in the Union are also established.</u></p> |
|---|---|

| | |
|---|--|
| <p>EC6</p> | <p>When, in a supervisor’s judgment, a bank is not complying with laws or regulations, or it is or is likely to be engaging in unsafe or unsound practices or actions that have the potential to jeopardise the bank or the banking system, the supervisor has the power to:</p> <p>(a) take (and/or require a bank to take) timely corrective action;</p> <p>(b) impose a range of sanctions;</p> <p>(c) revoke the bank’s licence; and</p> <p>(d) cooperate and collaborate with relevant authorities to achieve an orderly resolution of the bank, including triggering resolution where appropriate.</p> |
| <p>Description and conclusions, EC6</p> | <p>The Banking Commission’s powers to apply penalties are explicitly provided in Section 3 of the Annex to the Convention (Articles 29, 30, 31, 32, and 33). The Banking Commission is authorized to issue administrative measures (warnings or orders) and disciplinary penalties and/or fines, depending on the severity of the violations committed.</p> <p>(a) The Banking Commission will intervene through <u>administrative measures</u> as defined in Article 29 of the Annex to the Convention. Accordingly, when the CB finds that a supervised institution has failed to comply with the rules of ethics of the industry, has compromised its financial equilibrium, has engaged in irregular management practices, or no longer meets the conditions required for the license or authorization to operate, as applicable, it may issue the following to the supervised institution after duly informing the minister responsible for finance of the country involved:</p> <ul style="list-style-type: none"> • A warning. • An order to take or implement the required remedial measures or any appropriate precautionary measures within a specified time frame. <p>There are various forms of remedial measures: capital requirements exceeding the regulatory targets, liquidity requirements appropriate for the institution’s situation, strengthening of governance arrangements, management of risks, the internal control system, establishment of additional provisions, etc.</p> <p>Precautionary measures include the transfer of any activity that would compromise the financial soundness of a supervised institution, of all or part of the shareholders’ rights, the limiting or prohibition of discretionary distributions, including dividends to shareholders, the partial or total allocation of profits for the fiscal year period to capital, or implementation of a preventive recovery plan.</p> <p>(b) and (c) In the event of a violation of the banking regulations, under Article 31 of the Annex to the Convention, the Banking Commission may impose penalties on financial companies and institutions.</p> <p>The range of penalties is quite broad and includes <u>disciplinary penalties</u> and <u>fines</u>.</p> <p>The CBU of the WAMU may impose the following disciplinary penalties under Article 31.1 of the Annex to the Convention:</p> <ul style="list-style-type: none"> • Warnings. • Reprimands. |

| | |
|------------|---|
| | <ul style="list-style-type: none"> • Suspension or prohibition of all or some of the institution's operations. • Any other limits in the practice of the profession. • Suspension or <i>ex officio</i> resignation of the responsible members of senior management. • Prohibition of persons responsible from senior management, administration, or management of an institution under its supervision or one of its agencies. Depending on the seriousness of the offense committed, this prohibition may be permanent or limited in time, and may be imposed even after the above persons have left office. • Withdrawal of the license. This act is subject to notification of the Council of the Ministers. <p>Comments on Fines</p> <p>In addition to disciplinary penalties, the CBU may issue fines, the amount of which is established in an instruction issued in 2018 by the BCEAO. <u>The BECAO has established the following maximum amounts:</u></p> <ul style="list-style-type: none"> • CFAF 500 million for parent credit institutions and financial companies. • CFAF 300 million for banks. • CFAF 90 million for bank-like financial institutions. • 25 percent of the minimum amount of the required capital stock, i.e., CFAF 75 million, for electronic money institutions. <p>Several comments can be made in this connection:</p> <ul style="list-style-type: none"> • <u>The establishment of monetary ceilings actually limits the supervisory authority's power to issue penalties.</u> • <u>The established amounts would not appear to have substantial deterrent effects, particularly in light of the size of certain groups operating in the Union.</u> • <u>"Fines imposed by the CBU were applied within the limits of the amounts and ceilings provided in the current texts. The CBU has issued the maximum fines to some institutions.</u> <p>(d) The CBU is also the resolution authority of the WAMU. Through its Resolution Board, it has the power to subject systemically important institutions, as well as any of their subsidiaries that may be involved, to the WAMU resolution system (paragraph 17). Under the WAMU resolution system, the Resolution Board "may decide to place any supervised institution deemed to be unsustainable and not to have any outlook for rehabilitation in resolution."</p> <p>Subsidiaries or supervised institutions established outside of the WAMU may also be subject to resolution measures, if applicable, in the framework of the implementation of cooperation agreements executed by the CBU with the competent authorities.</p> |
| EC7 | The supervisor has the power to review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank and the banking group. |

| | |
|----------------------------------|--|
| Description and Conclusions, EC7 | <p>The CBU is explicitly authorized to engage in consolidated supervision of banking groups. This power is exercised pursuant to Article 37 of the Annex to the Convention Governing the CBU and Article 9 of Decision 014/24/06/2016/CM/UMOA on the consolidated supervision of parent company credit institutions and financial companies in the WAMU.</p> <p>The examination of the implementation of consolidated supervision is addressed in BCP 12.</p> |
| Assessment of Principle 1 | Largely Compliant |
| Comments | <p>The responsibilities and objectives are generally stated clearly in the legislative and regulatory texts, although there is scope for clarification in some areas. In addition to the BECAO's contribution to the SGCB's resources, the supervision and control powers granted to the BCEAO (that are insufficiently used and substantially involve capital control issues) are likely to be a source of confusion and an obstacle to the understanding of the supervision system.</p> <p>Furthermore, the mechanisms provided in the Annex to the Convention to appeal decisions of the CBU, whether this involves disciplinary penalties or opinions, confirm the Council of Ministers as the ultimate decision-making body in the area of supervision. In practice, it would seem that appeals are now also being filed with the Court of Justice of the Union, and accordingly, a review of the regulatory system might be required (see BCP 2).</p> <p>The decision-making mechanisms of the Council of Ministers defined in Article 15 of the WAMU Treaty are based on the rule of unanimity. This gives member countries veto rights and may result in decisions being affected by political and national considerations.</p> <p>Otherwise, the reform efforts of the regulatory authority during the past five years have led to a substantial consolidation of the regulatory base and the establishment of conditions for enhanced supervision. The draft banking law, which is in the process of finalization, should result in beneficial improvements to the regulatory system. The process of preparing and publishing regulatory texts, characterized by iterations in connection with the multilateral decision-making process, can occur late in the adoption of international standards. The BCEAO justifies this situation with its participatory approach and its willingness to involve the banking sector fully in impact studies and activities. In addition, the transposition of the prudential standards and regulations issued by the BCEAO into local laws can lack diligence and delay the enactment of new texts. In addition, some of the new texts are quite stringent. While this method might be expected to prevent the Union from updating its texts too quickly, it can also lead to potentially destabilizing regulatory shocks for institutions, with drastic qualitative changes that might be difficult for some institutions that do not always have the expertise or information technology resources they need. To address these issues, the BCEAO invokes the principle of proportionality that it intends to apply.</p> <p>In terms of supervision, the CBU is clearly authorized to issue standards that are differentiated by institution, although this approach has not been used to date. The establishment of prudential rules that target and more effectively correlate with the risk profiles of the institutions might strengthen the efficacy and efficiency of the supervision system.</p> <p>Where corrective measures and penalties are concerned, the CBU has an arsenal that is very rich but not fully utilized (see BCP 11) that might be restricted by the ceiling on fines issued</p> |

| | |
|----------------------------------|---|
| | <p>by the BCEAO. In addition, the amounts authorized for fines are insufficiently deterrent, particularly for the large banking groups in the Union.</p> <p>Last, at the international level, <u>the conventions currently signed by the WAMU do not cover all jurisdictions in which the groups operating in the Union are also established.</u></p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Intervention mechanisms for the BCEAO in the area of supervision should be clarified in the context of the new banking law. More specifically, the regulatory provisions giving the BCEAO the power to initiate on-site supervision activities in the discharge of its duties should be specified. • Respectively for penalties and opinions, supervised parties and member countries should appeal only to Court of Justice of the Union, which jurisdiction on the matter was established. • Differentiated prudential standards should be applied, particularly under Pillar 2, to consolidate the supervision approach for credit institutions. • The regulations of the Union should be aligned more quickly with international standards. • The ceiling on the amounts established for fines should be reviewed to make them more deterrent. |
| Principle 2 | <p>Independence, accountability, resourcing and legal protection for supervisors</p> <p>The supervisor possesses operational independence, transparent processes, sound governance, budgetary processes that do not undermine autonomy and adequate resources, and is accountable for the discharge of its duties and use of its resources. The legal framework for banking supervision includes legal protection for the supervisor.</p> |
| Essential Criteria | |
| EC1 | <p>The operational independence, accountability and governance of the supervisor are prescribed in legislation and publicly disclosed. There is no government or industry interference that compromises the operational independence of the supervisor. The supervisor has full discretion to take any supervisory actions or decisions on banks and banking groups under its supervision.</p> |
| Description and Conclusions, EC1 | <p>The Treaty of the West African Monetary Union, ratified in 2007 by the eight WAMU member countries, defines:</p> <ul style="list-style-type: none"> • The Central Bank of West African States (BCEAO) as an institution of the WAMU having the exclusive authority to issue currency (Articles 25 and 26). The BCEAO is governed by the Charter appended to the Treaty, of which it is an integral part. This Charter provides that the central bank has legal status and financial autonomy (Article 2). It may not request or receive directives or instructions from Community |

institutions or bodies, governments of the WAMU member countries, or any other organization or person (Article 4).

- The Banking Commission (CBU) as a body of the WAMU is responsible for, inter alia, overseeing the organization and supervision of credit institutions. The CBU is governed by a specific convention signed by the WAMU member countries (Article 23). This Convention, including its Annex, is a treaty ratified by the eight signatory member countries of the WAMU. Accordingly, under the internal legal systems of these countries, when they have been duly ratified or approved, the authority of the treaties or agreements is above the law, upon their publication.

Since January 1, 2018, the CBU has had two decision-making bodies: the Supervision Board and the Resolution Board. It has a secretariat.

Resolution and Supervision Boards

The Annex to the Convention defines the composition of the Supervision and Resolution Boards (Articles 4.2 and 5.2).

The Supervision Board comprises:

- Its Chair, the Governor of the Central Bank of West African States (BCEAO).
- Eight members, each of whom represents a member country of the WAMU, i.e., the Public Treasury Director or the head of the directorate responsible for the supervision of credit institutions.
- Eight members appointed by the WAMU Council of Ministers for their expertise, on the proposal of the Governor of the BCEAO. The process of the selection of profiles by the BCEAO may reflect suggestions from the Office of the Secretary General of the Banking Commission (SGCB) or the National Directorates of the BCEAO. There is no procedure defining the selection criteria and ensuring that potential candidates participate in competitive processes. The Board now includes the following profiles: three economists, two legal experts, one financial auditor, one financial inspector, and one corporate director. However, the supervisory authority was unable to provide the CVs of the members of the Banking Commission requested by the mission.

As a result of the review of the cooperation agreements with France (Agreements of December 21, 2019), since June 2019, the Supervision Board has no longer included the representative from the country providing the currency convertibility guarantee. Similarly, the French member appointed by the Council of Ministers is no longer present on the Supervision Board. As these two members have not been replaced, the Supervision Board has been reduced from 18 to 16 members.

| | |
|--|--|
| | <p>The Resolution Board includes:</p> <ul style="list-style-type: none"> • Its Chair, the Governor of the BCEAO. • The representative on the Supervision Board from the government that chairs the Council of Ministers. • The Director of the Deposit Guarantee and Resolution Fund in the WAMU. • One member appointed by the Council of Ministers of the WAMU for his or her expertise, on the proposal of the Governor of BCEAO. <p>Decisions must be adopted by the majority of the votes cast. The Chair will have the casting vote in the event of a tie (Article 13).</p> <p>Members of the CBU may not occupy any position or accept any appointment, remunerated or unremunerated, in a supervised institution or professional association representing supervised institutions, or provide services to such organizations (Article 9 and Code of Ethics for CBU Members adopted on September 17, 2018). Persons who are disqualified from senior management, administration, or management of a supervised institution, commercial or industrial enterprise, cooperative, or artisanal enterprise cannot be members of the CBU (Article 9).</p> <p>Article 2 of the Code of Ethics for CBU Members provides that they must act with full independence. However, the WAMU Treaty and Annex to the Convention do not mention that the Banking Commission cannot receive directives or instructions from governments of WAMU member countries or from any other body, as mentioned for the case of the BCEAO.</p> <p>There is a substantial presence of country representatives on the Supervision Board. In fact, eight out of 17 voting members on the Board are senior public officials from member countries. They come from ministries in each country: the Public Treasury Director, or the head of the directorate responsible for the supervision of credit institutions, which also limits the diversity of the profiles on the Board. Accordingly, there is a substantial risk of political interference in decision making.</p> <p>For the appointment of the remaining eight members by the Council of Ministers on the proposal of the Governor, the latter is responsible for identifying the appropriate profiles and for making appointment proposals to be submitted to the Council of Ministers. In practice, a list of potential candidates in the areas of banking, law, or finance, or in any other areas considered to be compatible with the positions is drawn up. This list includes information on the candidates: last name, first name, current job title, degrees, professional experience, and incompatibilities. We note that this procedure does not include clearly</p> |
|--|--|

| | |
|--|---|
| | <p>established selection criteria or any competitive process, potentially detracting from the independence of the Supervision Board.</p> <p>In this connection, we note that the CBU does not use the full range of penalties at its disposal, even though certain public banks are in vulnerable positions and have committed persistent violations of the prudential regulations (See Principle 11).</p> <p>The review of the composition of the Supervision Board is not included in the reforms provided in the framework of the Banking Law and the Annex to the Convention. There is a draft revision of the composition of the Resolution Board designed to increase the number of members representing the countries. Further, there are no plans to establish a separate Penalties Board from the Supervision Board, as the CBU has yet to receive challenges against its decisions from the supervised institutions.</p> <p>SGCB</p> <p>The SGCB is covered by the central bank. Accordingly, the Secretary General and all staff of the SGCB are officers of the BCEAO. In this connection, Article 4 of the BCEAO Charter provides that such persons cannot receive directives or instructions from Community institutions or bodies, governments of WAMU member countries, or any other organization or person.</p> <p>The SGCB is organized with the following units that report to the Secretary General and his or her deputy:</p> <ul style="list-style-type: none"> • Operations Supervision: Under the authority of the Secretary General, this unit is responsible for daily checks to ensure that the operations of the SGCB are regular. • Crisis Resolution and Legal Affairs Directorate: This Directorate is primarily responsible for monitoring the banking crisis resolution process, preparing decisions of the CBU, and providing legal assistance to all SGCB services. It is divided into two units: the Crisis Resolution and Trade Practice Supervision Unit, and the Legal Affairs Unit. • The Studies and International Relations Directorate: This Directorate primarily addresses issues relating to regulations and prudential standards applicable to the supervised parties, management of relations with external partners, the conduct of studies relating to the stability of the banking system of the Union, and the assessment of applications for licenses, declarations of intent, and prior authorizations. It also coordinates the preparation of the sessions of the CBU with the other directorates involved. It is comprised of two units: the Regulatory Monitoring, Methods, and International Relations Unit; and the Studies, Statistics, and Licensing Unit. |
|--|---|

| | |
|----------------------------------|---|
| | <ul style="list-style-type: none"> • The Off-site Supervision Directorate (DSP): This unit is responsible for individual off-site supervision of supervised institutions. It also monitors implementation of administrative measures and penalties applied by the supervisory authority in connection with the directorates involved. The DSP comprises three units: the Subregional Banks and Financial Institutions Surveillance Unit, the Cross-Border Surveillance Unit, and the Specialized Institutions Surveillance Unit. • The On-Site Supervision of Credit and Electronic Money Institutions Directorate (DCPEME): This Directorate implements the on-site supervision program for credit institutions, financial companies, and electronic money institutions. The on-site monitoring teams are each under the authority of a mission head. • The On-Site Supervision of Decentralized Financial Systems Directorate (SFD): This Directorate is responsible for implementation of the SFD inspection program. Its on-site supervision teams are also each under the authority of a mission head. • The General Resources Directorate: This Directorate is responsible for management of support activities. It includes the Administrative Affairs Unit, the Human Resources Unit, the Accounting and Budget Unit, and the Information Technology Unit. <p>The Banking Commission has an autonomous operating budget, provided entirely by the central bank, without any contributions from the governments or from the institutions subject to its supervision.</p> <p>A process for the BCEAO to divest from the capital of certain banks is being finalized. The BCEAO still holds stakes of less than 10 percent in a bank that is on the list of institutions subject to special supervision.</p> <p>Under Article 69 of the Annex to the Convention, the CBU must prepare a report at least once a year on its performance, to be submitted to the central bank and to the bodies of the WAMU. The bodies of the WAMU are the Conference of Heads of State and Government, the Council of Ministers, and the Regional Public Savings and Financial Markets Board (See Principle 2, Criterion 3).</p> |
| EC2 | The process for the appointment and removal of the head(s) of the supervisory authority and members of its governing body is transparent. The head(s) of the supervisory authority is (are) appointed for a minimum term and is removed from office during his/her term only for reasons specified in law or if (s)he is not physically or mentally capable of carrying out the role or has been found guilty of misconduct. The reason(s) for removal is publicly disclosed. |
| Description and Conclusions, EC2 | The Governor of BCEAO, the Statutory Chair of the CBU, is appointed by the Conference of Heads of State and Government for a term of six years, subject to renewal. First appointed in 2011, the current Governor's term has been renewed twice. He spent most of his career |

| | |
|----------------------------------|--|
| | <p>with the BCEAO and in public administration in Côte d'Ivoire. The Deputy Governors are appointed by the WAMU Council of Ministers for a term of 5 years, subject to renewal. Their terms are irrevocable, except in the case of serious misconduct or disability (Article 56 of Charter of the BCEAO). The texts do not require the reasons for their removal from office to be publicly disclosed.</p> <p>Representatives from the member countries on the CBU are appointed by notification to the Chair of the CBU from the competent national authority, and in this case, the minister responsible for finance. This representative must, on a mandatory basis, be the Public Treasury Director or manager of the directorate responsible for oversight of credit institutions. Any changes in leadership in the foregoing Directorates are subject to the announcement of the termination of the former representative and the appointment of the new representative from the government involved within the CBU.</p> <p>The members of the CBU appointed by the WAMU Council of Ministers serve terms of three years, subject to two renewals (Article 8 of the Annex to the Convention). Except in cases of resignation or death, a member may be removed from office before the expiry of his or her term or by decision of the WAMU Council of Ministers (Article 8). The regulatory texts do not specify the cases in which the Council of Ministers may remove these members from office and do not impose any requirement to publicly disclose the reasons for their removal from office.</p> <p>The secretariat of the CBU is headed by a Secretary General, assisted by one or two Deputy Secretaries General, appointed by the Governor from the staff of the central bank.</p> |
| EC3 | The supervisor publishes its objectives and is accountable through a transparent framework for the discharge of its duties in relation to those objectives. ¹² |
| Description and Conclusions, EC3 | <p>The objectives pursued by the CBU are stated in the Annex to the Convention (Articles 2 and 4), that lists the tasks of the supervisory authority. In addition to these general objectives, the CBU does not set annual or multiannual priorities for prudential supervision activities. The SGCB indicated that the BCEAO's strategic plan does include some aspects of supervision. This multiannual strategic plan is not published in the annual report. Further, the plan published at the BCEAO's website is not current (covering the period 2016-2018).</p> <p>Under Article 69 of the Annex to the Convention, the CBU must prepare a report, at least once a year, on the performance of its mission, to be submitted to the central bank and to the bodies of the WAMU. In practice, the annual report of the CBU is submitted to the members of the Conference of Heads of State and Government, the Council of Ministers, the Monetary Policy Committee of the BCEAO, the Board of Directors of BCEAO, and the Regional Public Savings and Financial Markets Board. It is also published at the central</p> |

¹² Please refer to Principle 1, Essential Criterion 1.

| | |
|----------------------------------|---|
| | <p>bank's website and is accessible to the public, as the CBU does not yet have its own website.</p> <p>After each session, the CBU must inform the ministers responsible for finance of the decisions made involving the supervised institutions located in their jurisdiction. It also must prepare a report on its activities after each of its four annual meetings for the Council of Ministers of the Union.</p> |
| EC4 | The supervisor has effective internal governance and communication processes that enable supervisory decisions to be taken at a level appropriate to the significance of the issue and timely decisions to be taken in the case of an emergency. The governing body is structured to avoid any real or perceived conflicts of interest. |
| Description and Conclusions, EC4 | <p>The Annex to the Convention and the Internal Rules of Procedure of the CBU contain provisions for decision making in emergency situations or those requiring a prompt reaction from the supervision and resolution authority.</p> <p>The CBU is authorized to delegate some of these powers to its Chair (Article 64 of the Annex to the Convention): those relating to authorizations to become established, creation of differentiated prudential standards, administrative measures, placement in provisional administration, liquidation, and approval of the auditors. The powers required, in particular, to adopt early intervention measures were also effectively delegated to the Chair of the CBU (under a 2011 decision of the Banking Commission): creation of a branch or subsidiary, warnings, orders, placement under special surveillance, simple hearings, or in the framework of a disciplinary procedure, placement in provisional administration or liquidation, approval of the auditors, opinions, and notifications of decisions and opinions (in the absence of an act of the minister within the established time limit). In practice, these powers are delegated in cases of emergency, with a view to maintaining the collegial operation of the Banking Commission's decisions. The decision states that these powers were delegated to ensure that operations continue, particularly in the event of an emergency. This delegation of powers was only used once during the last two sessions of the CBU. These are most often cases of waivers of the nationality requirement, as the banking law requires member country nationality to serve in senior management, administration, or management of a credit institution; and cases in which the CBU asks the Chair to finalize a decision between two sessions, when information is pending.</p> <p>The Chair of the CBU is also authorized to subdelegate certain powers to the Secretary General of the CBU (Article 64). In practice, the Secretary General of the CBU has received, by sub delegation (decision of 2011), the powers to summon the heads of supervised institutions to a simple hearing, or to a meeting of the CBU in the context of a disciplinary proceeding, and to approve the appointments and renewals of the assignments of the auditors.</p> <p>In addition, the Internal Rules of Procedure of the CBU adopted on September 17, 2018, allow the CBU to:</p> |

- Hold meetings by video conference or through other telecommunication media in which the participants can be identified and the confidentiality of the deliberations can be ensured (Article 4). This particular mechanism enabled the CBU to continue to hold its quarterly sessions during the health crisis in connection with the COVID-19 pandemic. In fact, the CBU has held its meetings via video conferencing since March 2020.
- In the event of an emergency as confirmed by the Chair, except in the case of penalties, to decide via home consultation (Article 5).

The CBU will meet at the initiative of its Chair or at the request of one third of its members, at least twice a year for the Supervision Board and at least once a year for the Resolution Board. In practice, the Supervision Board meets an average of four times per year and the Resolution Board meets once per year. It is incumbent on all directorates of the Office of the Secretary General of the Banking Commission to prepare for the meetings of the CBU, each in its respective area of competence.

In the management of conflicts of interest, in addition to restrictions against holding positions, whether remunerated or unremunerated, in a supervised institution or professional association representing the supervised institutions (Article 9 of the Annex to the Convention), Members of the CBU are subject to specific provisions deriving from Articles 11 and 12 of the Code of Ethics for CBU Members adopted on September 17, 2018. Under these provisions, they must:

- Act with full independence in the discharge of their duties, within the limit of the powers vested with them under the current texts. They must not receive or request instructions from third parties (Article 2 of the Code of Ethics for CBU Members).
- Avoid being placed in a situation potentially leading to conflicts of interest. A conflict of interest is defined as a situation in which their personal interests or those of their relatives are incompatible with those of the CBU and could accordingly influence the impartiality expected of them in the performance of their duties.
- If they are placed in a conflict-of-interest situation during a deliberation, they must file a formal declaration to that effect and recuse themselves from the deliberation.
- Submit a list to the Chair of the CBU upon taking office of external, public or private interests, functions, and appointments that they hold or are expected to hold during their term.
- Update the foregoing information when required.

| | |
|----------------------------------|---|
| EC5 | The supervisor and its staff have credibility based on their professionalism and integrity. There are rules on how to avoid conflicts of interest and on the appropriate use of information obtained through work, with sanctions in place if these are not followed. |
| Description and Conclusions, EC5 | <p>Members of the CBU are subject to rules designed to prevent conflicts of interest (see Criterion 4). They are also subject to professional secrecy under Article 10 of the Annex to the Convention and Article 7 of the Code of Ethics applicable to them. The confidentiality requirement will continue to apply to CBU Members, even after they have left office.</p> <p>Staff of the SGCB made available by the BCEAO are subject to the Staff Regulations of the BCEAO, to which a Code of Ethics and Conduct (CED) is appended.</p> <p>Article 12 of the BCEAO Code of Ethics and Conduct includes provisions on the prevention of the risk of conflicts of interest and insider trading. Accordingly:</p> <ul style="list-style-type: none"> • BCEAO staff members must avoid any situation that might give rise to a conflict of interest or insider trading. • Any staff member who is in a situation of actual or potential conflict of interest in relation to his or her position or the tasks that he or she is required to perform must inform his or her superior, if applicable, who will take the appropriate measures to protect the interests of the BCEAO. • All BCEAO staff members must observe a two-year waiting period from their termination from the BCEAO before engaging in any capacity in labor contracts, corporate appointments, service contracts, or any other arrangement, or any activity in or on behalf of credit institutions, decentralized financial systems, electronic money institutions, any other organization supervised by the central bank, or any company in a business relationship with the BCEAO, <p>BCEAO staff members are also subject, under Article 13 of the Staff Regulations and Article 10 of the Annex to the Convention, to professional secrecy and to the obligations of discretion and confidentiality.</p> <p>In addition, the staff of the SGCB are subject to specialized and complementary rules of ethics issued by Decision 008-01-2020 of January 22, 2020, of the Governor of the BCEAO. These rules explicitly prohibit these persons from acquiring securities issued by institutions subject to the supervision of the CBU and from accepting gifts from those establishments. The foregoing persons are therefore subject to the following reporting requirements:</p> <ul style="list-style-type: none"> • Interests in the above-mentioned institutions potentially leading to conflicts of interest. |

| | |
|----------------------------------|---|
| | <ul style="list-style-type: none"> • Securities held before the above-mentioned decision of the Governor entered into force. <p>Before participating in any inspection mission, each team member must sign a statement indicating that there are no conflicts of interest. Should any conflicts of interest exist, the person involved will be replaced.</p> <p>Any staff members of the BCEAO who fail to comply with the Staff Regulations, the Code of Ethics and Conduct, and any specific and complementary rules of ethics will be subject to first- and second-degree disciplinary penalties as provided in Articles 114 to 118 of the Staff Regulations of the BCEAO. The degree of the penalties depends on the severity or repetition of the violation. Accordingly, first degree penalties include written warnings, written reprimands placed on file, and a maximum unpaid suspension without any remuneration of five business days. Second degree penalties involve a suspension of six to 10 business days without remuneration, suspension without all or part of the remuneration for six months to one year, demotion, and dismissal, with or without prior notice, and with or without indemnities.</p> <p>The SGCB indicated that no staff members have received penalties under the code of ethics during recent years. During the past five years, the BCEAO conducted one mission on ethics (a cross audit of all sites) in 2019. No penalties have been issued to staff of the SGCB for noncompliance with the rules of ethics in recent years.</p> |
| EC6 | <p>The supervisor has adequate resources for the conduct of effective supervision and oversight. It is financed in a manner that does not undermine its autonomy or operational independence. This includes:</p> <ul style="list-style-type: none"> (a) a budget that provides for staff in sufficient numbers and with skills commensurate with the risk profile and systemic importance of the banks and banking groups supervised; (b) salary scales that allow it to attract and retain qualified staff; (c) the ability to commission external experts with the necessary professional skills and independence, and subject to necessary confidentiality restrictions to conduct supervisory tasks; (d) a budget and programme for the regular training of staff; (e) a technology budget sufficient to equip its staff with the tools needed to supervise the banking industry and assess individual banks and banking groups; and (f) a travel budget that allows appropriate on-site work, effective cross-border cooperation and participation in domestic and international meetings of significant relevance (eg supervisory colleges). |
| Description and Conclusions, EC6 | <p>(a) Under Article 12 of the Annex to the Convention, the BCEAO provides the secretariat and covers the operating costs of the CBU. Accordingly, the SGCB has a budget funded from the accounts of the BCEAO. This budget reflects all expenditure related to its operations and investments. It is prepared on the basis of the requirements expressed by the Office of the Secretary General and takes into account the requirements to conduct the missions of the CBU.</p> |

The operating budget includes the following sections:

- Staff expenditure, including a "Training activities" heading covering the costs of enrolling in various courses, examinations, and seminars provided by specialized institutions. In addition, as officers of the BCEAO, staff members of the WAMU SGCB are included in the central bank's continuing education program.
- Transportation and travel. This item reflects, in particular, transportation costs sustained in connection with missions, travel, and training activities.
- Other travel expenses, including hotel and mission expenses, as well as those in connection with travel for training.
- Miscellaneous management outlays, including business expenses and hospitality costs.

Under the capital budget, a chapter on "Service equipment and office furniture" includes service equipment and information technology equipment.

Staff requirements are expressed in terms of number and profile when the budget is prepared, and recruitment is carried out by the competent directorates of BCEAO headquarters. Vacancies within the SGCB are filled internally (with existing BCEAO staff members having the required profile) or with external applications, through the selection of candidates from available databases, after selection interviews with the participation of SGCB staff.

In 2020, the SGCB had 131 staff members. In addition to the Secretary General and the Deputy Secretary General, it has six directors, 10 mission heads with the rank of director, 78 professional staff, and 35 administrative and technical staff members.

Changes in SGCB Staffing and the Number of Supervised Institutions

| | 2015 | 2020 | Increase |
|---|------|------|----------|
| Staff | 120 | 131 | 9.2% |
| Number of institutions supervised | 285 | 384 | 34.7% |
| Of which, number of credit institutions | 137 | 152 | 10.9% |
| Of which, number of groups | 28 | 32 | 14.3% |
| Of which, financial companies | 11 | 17 | 54% |
| Of which, decentralized financial systems | 119 | 188 | 58% |
| Of which, electronic money institutions | 3 | 12 | 300% |

Source: SGCB and CBU Report.

Regarding the human resources available to the SGCB, it was found that, during the past five years, the work force has grown, although this increase was outstripped by growth in the number of institutions supervised by the SGCB, particularly as a result of the increase in the number of decentralized financial systems. In addition, there are more complex institutions, involving more transnational groups and financial companies supervised on a consolidated basis, as well as systemic institutions.

There would seem to be a shortage of staff assigned to supervision tasks, particularly in the DSP.

During the last Basel Committee Core Principles Assessment, the previous mission had identified a ratio of 2.9 between the number of institutions (112) under the supervision of the CBU and the number of staff assigned to supervision directorates (39) at end-June 2007.¹³ At the end of 2020, the ratio was 5, corresponding to 384 institutions and 74 persons assigned to the On-Site Supervision Directorate, the Surveillance Directorate, the Studies and International Relations Directorate, and the Resolution and Legal Affairs Directorate.

Distribution of Staff by Directorate in 2020

| SG | Resolution/ Legal | International relations | off-site supervision | On-site supervision SFD | On-site supervision, other | General Resources Directorate | Total |
|----|----------------------|----------------------------|-------------------------|-------------------------------|----------------------------------|-------------------------------------|-------|
| | DRCAJ ¹ | DERI ² | DSP ³ | DPSFD ⁴ | DCPEME ⁵ | DMG ⁶ | |
| 7 | 9 | 14 | 17 | 13 | 21 | 50 | 131 |

¹ Crisis Resolution and Legal Affairs Directorate.
² Studies and International Relations Directorate.
³ Ongoing Surveillance Directorate.
⁴ On-Site Supervision of Decentralized Financial Systems Directorate.
⁵ On-Site Supervision of Credit and Electronic Money Institutions Directorate.
⁶ General Resources Directorate.

Source: SGCB.

There was no change in off-site supervision staff as against 2007. This staff of 17 now includes four persons responsible for supervision of decentralized financial systems, that the CBU did not supervise in 2007. For this directorate, the ratio of supervised institutions (384) to staff (17) is 22 institutions per staff member. The two subregional bank supervisors with whom we met during the mission monitor 21 and 22 institutions, including groups,

¹³ The number of institutions includes a total of 93 banks and 19 financial institutions; the number of staff members assigned to supervision directorates includes 19 assigned to on-site supervision, 17 to ongoing supervision, and 3 to legal affairs.

respectively. In monitoring this portfolio, the surveillance officers also have significant manual data collection tasks, in the absence of a suitable information technology tool (see Principle 9) and are not assisted by any support staff in processing and verifying the data in connection with the institutions.

The total work force of 131 SGCB staff members includes a substantial share of support staff (43.4 percent of the total workforce) who do not perform supervision duties. This proportion of staff assigned to support positions, that are covered by the BCEAO, would also seem to be high. This is explained by the physical remoteness of the SGCB and the BCEAO, meaning that general resources functions must be replicated. In addition, the General Resources Directorate has few management officers, unlike other SGCB directorates.

There are no vacancies for SGCB directors. By contrast, one unit head position in the Subregional Banking Services Unit is covered by an officer, as the previous head became the deputy director. We also found that the Annex to the Convention provides two Deputy Secretaries General, although only one position is currently filled. The organizational chart in the general report shows a vacant position of Advisor to the Secretary General.

(b) When the Staff Regulations entered into force on January 1, 2016, the BCEAO adopted an integrated human resources management system, including, *inter alia*, a career path classification system and a new remuneration scale linked to that classification. The SGCB did not provide precise information on wage differentials between the BCEAO and the private sector but indicated that it was not experiencing recruitment difficulties or departures for the private sector. During the past five years, there were eight resignations in the SGCB, one of which was to take a job in the banking sector. The Rules of Ethics impose a strict requirement for staff to wait two years before they can work in a supervised institution (see Criterion 5).

(c) Article 21 of the Annex to the Convention indicates that the CBU will execute or arrange the execution by the BCEAO of on-site and off-site supervision activities. This provision allows the CBU to use persons other than the staff of its Office of the Secretary General to conduct these inspections. In practice, the SGCB does not use external auditors or consultants to conduct its supervision activities. There is no budget for that purpose. By contrast, it may use BCEAO officers, particularly those specialized in information systems.

(d) An annual training program was developed across the BCEAO that includes specialized activities devoted to staff of the SGCB. Special programs are also designed, at the level of the SGCB, for newly recruited officers, as well as for specific supervision requirements, particularly in connection with AFRITAC West¹⁴ and other foreign supervisors. Training expenditure is included in the budget provided in paragraph (a). In 2020, 18 training

¹⁴ IMF Regional Technical Assistance Center for West Africa.

activities benefiting 182 staff members were organized. These activities would seem to be adequate for the areas covered by the SGCB (AML-CFT, Islamic finance, governance and compliance, etc.), and they address emerging risks (banking supervision in the framework of climate change, digital transformation, financial technology, etc.). Expertise hubs were created in April 2021 in the On-Site Supervision Directorate, for governance, accounting, and credit, and are being established for market and digital finance risks.

(e) There is an investment component of the budget available to the SGCB that includes technological equipment. In this connection, information technology equipment requirements are processed centrally by the Information Systems Directorate of the BCEAO, that is responsible for ensuring that the SGCB has the information technology equipment required for its operation, as well as its periodic renewal:

- All staff members involved in supervision are equipped with a portable computer.
- The SGCB's supervision tools were improved after Basel II/III entered into force, primarily through efforts including the revision of the rating system for credit institutions (SNEC), the development of risk mapping for the banking system, and the revision of off-site and on-site supervision guides. Against this backdrop, the supervisory authority started production in 2019 on a new Credit Institution Monitoring Application (ASEC WAMU) dedicated to the management of administrative affairs for supervised institutions (information on shareholders, members of senior management, auditors, administrative measures and penalties, and directors). Two further dedicated computer solutions for the management of inspection missions and off-site supervision were also acquired. However, only the first, known as the "solution for oversight of supervised parties, rating, and follow-up of recommendations (SCAN-R), on-site supervision," is operational. The second, relating to off-site supervision, has yet to be implemented. The information technology tools available for on-site supervision would currently seem to be insufficient: no tools for the analysis of financial statements, management indicators summarizing the key prudential data, or automated collection of information for rating requirements (see Principle 9). The SGCB indicated that the new tool should be implemented by the end of the year. An information technology manager was appointed to head the General Resources Directorate to support this development of information technology tools.

(f) Travel and miscellaneous subsistence costs for inspection missions are provided in the operating budget of the SGCB. This budget also includes business expenditure, cooperation expenditure, and outlays for cross-border surveillance. In this connection, there are also expenditure items relating to the organization of meetings, including:

- Supervision Boards (Ecobank Group and ORAGROUP) organized by the CBU and participation in supervision boards established by foreign authorities.

| | |
|----------------------------------|---|
| | <ul style="list-style-type: none"> • The annual meeting with the SGCB of the WAMU and AFRITAC Central. • The annual meeting with the Directors General of credit institutions and financial companies and their auditors. <p>The SGCB indicated that there are no budget constraints in connection with the participation in these meetings at the regional and international levels. The SGCB has participated in almost all of the supervision boards of groups having subsidiaries in the WAMU, when invited.</p> |
| EC7 | As part of their annual resource planning exercise, supervisors regularly take stock of existing skills and projected requirements over the short- and medium-term, taking into account relevant emerging supervisory practices. Supervisors review and implement measures to bridge any gaps in numbers and/or skill-sets identified. |
| Description and Conclusions, EC7 | <p>The SGCB identifies its staffing requirements, including on-site supervision, at least when preparing its annual budget. In this framework, it takes account of changes in the banking landscape and supervision practices in order to determine the appropriate staffing and profiles. The following, <i>inter alia</i>, should be considered in this connection:</p> <ul style="list-style-type: none"> • The configuration of the banking sector and the number of institutions it comprises. • Risk-based supervision techniques are now being used. • The available supervision tools. <p>To date, the SGCB has identified the following requirements: two legal experts; two information technology auditors; two auditors specializing in Base II/III implementation; three auditors specialized in accounting and financial analysis; one inspector specializing in Basel II/III implementation; three inspectors specializing in the International Financial Reporting Standards (IFRS), operational risk management, and liquidity and market; one inspector specializing in accounting and financial analysis; and four surveillance officers.</p> |
| EC8 | In determining supervisory programmes and allocating resources, supervisors take into account the risk profile and systemic importance of individual banks and banking groups, and the different mitigation approaches available. |
| Description and Conclusions, EC8 | <p>The supervision program is prepared with a procedure that is based primarily on the identification of high-risk establishments and the assessment of the requirements and resources needed to carry out the annual inspection program.</p> <p>The following key tasks are carried out in the identification of high-risk credit institutions:</p> |

| | |
|----------------------------------|---|
| | <ul style="list-style-type: none"> • A survey is conducted of the risks to which each credit institution is exposed through the use of periodic reports submitted by credit institutions, auditors' reports, and the latest inspection reports from the Banking Commission. • These risks are rated based on the risk mapping generated by the Credit Institution Rating System (SNEC). A rating scale comprising four levels (from 1 to 4) is used to reflect whether the risk identified is acceptable (1), medium (2), high (3), or very high (4). Of the 123 credit institutions rated in June 2020, 31 were rated 1, 42 were rated 2, 31 were rated 3, and 19 were rated 4. Based on the list of credit institutions determined at the end of the foregoing process, an assessment is conducted of the human resources and material requirements needed for the implementation of the annual inspection program. The human resources assessment is a function of the identified working time and is measured in person days. It takes into account the size of the credit institution, its risk profile, and the type of inspection involved. <p>Within the DSP, the SGCB indicates that the institutions are divided among the different supervisors. The largest or most vulnerable institutions are assigned to the most experienced supervisors. A supervisor maintains a case for an average of four years.</p> |
| EC9 | Laws provide protection to the supervisor and its staff against lawsuits for actions taken and/or omissions made while discharging their duties in good faith. The supervisor and its staff are adequately protected against the costs of defending their actions and/or omissions made while discharging their duties in good faith. |
| Description and Conclusions, EC9 | <p>Members of the CBU</p> <p>Article 11 of the Annex to the Convention Governing the CBU provides, <i>inter alia</i>, that members of the CBU cannot be subject to civil or criminal prosecution for acts carried out in the discharge of their duties. The foregoing text takes precedence over the law. The Convention, including its Annex, is a treaty ratified by the eight signatory member countries of the WAMU. Accordingly, by virtue of the internal legal systems of these countries, when they have been duly ratified or approved, upon their publication, the authority of the treaties or agreements is above the authority of the law.</p> <p>The above-mentioned text confers on the members of the CBU the privileges and immunities provided in the Protocol on the Privileges and Immunities of the Central Bank annexed to the WAMU Treaty, of which it is an integral part. These privileges and immunities are granted to diplomatic officers, including immunity from criminal, civil, and administrative proceedings. Such immunities may be removed, for country representatives, by the government of that country; for members appointed by the WAMU Council of Ministers, by the WAMU Council of Ministers; and, for the Chair, by the Conference of Heads of State and Government.</p> |

| | |
|----------------------------------|--|
| | <p>Staff of the SGCB</p> <p>With regard to the Secretary General and senior non-Ivoirian officials ranking at least equivalent to category D of the United Nations classification, legal protection derives from the Agreement of October 10, 1990, between the Government of the Republic of Côte d'Ivoire and the BCEAO on the establishment of the CBU in Abidjan and its privileges and immunities. These staff members receive the same privileges and immunities as staff of the CBU. However, the list of these persons could not be submitted to the Mission.</p> <p>Staff members of the SGCB receive immunity from any legal action and arrest for acts carried out in the discharge of their duties or in the execution of their mission with the central bank (Article 16 of the Protocol). This immunity may be canceled by the Governor.</p> <p>Staff of the SGCB receive less legal protection for acts committed in the discharge of their duties than staff of the CBU. This protection is being reinforced in connection with the reform of the Banking Law and the Annex to the Convention.</p> <p>The regulatory texts do not specify the coverage of legal fees incurred by staff for their defense for acts or omissions committed in good faith in the discharge of their duties.</p> <p>The SGCB indicated that no CBU members or persons from the SGCB have been prosecuted for acts carried out in the discharge of their duties since the CBU was established.</p> <p>CBU</p> <p>Under Article 8 of the Memorandum, the BCEAO has immunity from legal proceedings and enforcement in all areas. There are no specific provisions in the regulatory texts to ensure that the CBU has legal protection with relation to decisions and acts made and carried out in the discharge of its duties.</p> |
| Assessment of Principle 2 | Materially Non-compliant |
| Comments | <p>The presence of representatives from the countries on the supervision board is substantial, with 8 out of 17 members (including the Chair, the Governor of the BCEAO). These eight members are public treasury directors or managers from the directorate responsible for oversight of credit institutions, representing each country. This composition brings to light the problem of the risk of political influence in the decision making of the CBU. In addition, deficiencies observed in the process of appointment and removal from office of CBU members (see below) do not create favorable conditions for the institution's independence. Moreover, the WAMU Treaty or the Annex and the Convention do not specify, as is done for BCEAO, that the Banking Commission cannot receive instructions from the countries. In practice, we find that the CBU has the use of a fairly limited range of penalties (primarily</p> |

| |
|---|
| <p>reprimands and warnings), while a number of institutions, particularly public banks, are in situations of persistent vulnerability (see Principle 11).</p> <p>To strengthen the CBU's independence from the banking sector, a process of selling off the BCEAO's holdings in banks was conducted, although the BCEAO is still a shareholder in one bank that is also subject to special surveillance.</p> <p>While the conditions for the appointment and removal from office of members of the CBU are defined in the regulatory texts, there is no obligation to publicly disclose the reasons for their revocation, as had been found during the previous mission in 2008. For members of the CBU appointed by the Council of Ministers, the situations in which they can be removed from office are insufficiently specified. Furthermore, the selection of members appointed by the Council of Ministers on the proposal of the Governor does not rely on a procedure that defines the selection criteria or ensures that potential candidates are subject to competitive procedures. The CBU reports on its performance with its annual report, which is published. This approach would seem to be insufficient. In fact, the CBU does not publish the assigned objectives of supervision and performance indicators to measure the achievement of past objectives.</p> <p>The Annex to the Convention and the Internal Rules of Procedure of the CBU contain provisions for decision making in situations of emergency or requiring a prompt reaction from the supervision and resolution authorities. While the Chair of the CBU has been delegated broad powers, their use is limited in practice. They were granted by the CBU to be used primarily in cases of emergency. In addition, the quarterly frequency of supervision board meetings would seem to be insufficient in light of the number, the increasing complexity, and the vulnerability of the institutions in the area.</p> <p>Members of the CBU are subject to a Code of Ethics adopted in 2018 that contains obligations regarding professional secrecy and rules designed to reduce the risk of conflicts of interest. The same is true for staff of SGCB, who are subject to the rules of ethics applicable to the BCEAO and to the specialized rules on holding securities of credit institutions. The rule requiring staff to observe a two-year waiting period to work in any financial institution would appear to be too broad. It should be limited to the institutions supervised by the person in question. A more effectively adjusted rule would be more favorable for the development of a critical approach within the organization.</p> <p>The BCEAO provides the CBU's secretariat and covers its operating expenditure. The SGCB has a sufficient budget for travel (covering on-site missions and participation in cross-border cooperation activities), as well as for staff training, which is also provided by the BCEAO.</p> <p>With regard to information technology requirements, improvements have been made to the on-site supervision tools, although the information technology supervision tools are</p> |
|---|

| | |
|--|---|
| | <p>insufficient for off-site supervision (see Principle 9). Improvements in this connection have been included in the SGCB's future information technology activities.</p> <p>In terms of human resources available to the SGCB, we find that the staffing has increased, although not commensurately with the number of institutions supervised by the SGCB, that now include decentralized financial systems and groups involving more complex supervision (transnational, foreign, and systemic groups). Off-site supervision staffing is identical to its 2007 levels. As observed during the previous mission, it would seem that insufficient staff are assigned to supervision activities. The SGCB reports significant requirements, including specialized profiles, which have not been covered to date. In addition, the possibility of using external experts to conduct CBU missions is provided in the Convention, but this is not applied in practice, and there are no budget allocations for that purpose.</p> <p>The Annex to the Convention, which takes precedence over the law, provides that members of the CBU cannot be prosecuted for acts carried out in the discharge of their duties. This type of provision does not exist for staff of the SGCB and the CBU, who receive lower levels of legal protection.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • The level of independence of the Supervision Board vis-à-vis the countries should be strengthened (i) by including in the Supervision Board only members appointed by the Council of Ministers on the proposal of the Governor or by introducing participation without voting rights for members appointed by the countries; and (ii) by introducing into the Annex to the Convention Governing the Banking Commission the principle that the Supervision Board should be independent from the countries. • The process of divestiture from the last bank in which the BCEAO is a shareholder should be completed and the BCEAO should be prohibited from acquiring stakes in credit institutions and decentralized financial systems. • The requirement should be introduced into the legal texts to publicly disclose the reasons for the removal from office of the members of the decision-making bodies of the CBU and BCEAO, and the cases in which the members of the CBU appointed by the Council of Ministers can be removed from office should be specified in the law. • A transparent, competitive procedure should be established for the appointment and selection of the members of the CBU appointed by the Council of Ministers with specific requirements in terms of training, experience, and specialization in connection with an organized selection process (interview with a panel of experts). |
|--|---|

| | |
|----------------------------------|---|
| | <ul style="list-style-type: none"> • The frequency of the sessions of the Supervision Board should be increased by introducing sessions focusing on a specific risk between general sessions. • The mechanism for the supervisory authority to report on its performance should be improved: <ul style="list-style-type: none"> ○ The annual report should include the priorities for supervision activities in the coming year; performance indicators should be developed, and information on performance against these indicators should be regularly measured and publicly disclosed. • Staffing of the SGCB assigned to supervision functions should be increased, particularly in the area of off-site supervision, and a budget should be provided for the use of external consultants for short-term assignments. This budget might be financed with endowments from the supervised institutions. • The rule requiring staff to observe a waiting period of two years in order to work in a financial institution should be limited to institutions recently supervised by the staff member in question. • The legal protection of the CBU and staff members of the SGCB responsible for supervision functions should be enhanced, and the draft banking law should provide that they cannot be prosecuted for acts carried out in the discharge of their duties, along with coverage of the relevant court costs. |
| Principle 3 | <p>Cooperation and Collaboration</p> <p>Laws, regulations or other arrangements provide a framework for cooperation and collaboration with relevant domestic authorities and foreign supervisors. These arrangements reflect the need to protect confidential information.¹⁵</p> |
| Essential criteria | |
| EC1 | <p>Arrangements, formal or informal, are in place for cooperation, including analysis and sharing of information, and undertaking collaborative work, with all domestic authorities with responsibility for the safety and soundness of banks, other financial institutions and/or the stability of the financial system. There is evidence that these arrangements work in practice, where necessary.</p> |
| Description and Conclusions, EC1 | <p>Cooperation with the minister responsible for finance, the judiciary authorities, the central bank, and the Deposit Guarantee and Resolution Fund.</p> |

¹⁵ Principle 3 is developed further in the Principles dealing with “Consolidated supervision” (12), “Home-host relationships” (13) and “Abuse of financial services” (29).

| | |
|--|--|
| | <p>The Annex to the Convention¹⁶ Governing the CBU contains provisions relating to collaboration between the CBU and other national or community authorities in support of the security and soundness of banks: the minister responsible for finance, the judiciary authorities, the central bank, and the WAMU Deposit Guarantee and Resolution Fund (FGDR-WAMU).</p> <ul style="list-style-type: none"> • The CBU may use the central bank for on-site and off-site supervision activities (Article 21). The central bank may also initiate the supervision incumbent on the CBU after having duly informed the latter. It will report the results of supervision activities and violations of the banking regulations and other legislation applicable to the supervised institutions, violations of the rules of ethics for the industry, and any other anomalies in the management of the supervised institutions that may come to its attention (Article 23). During October/November 2017, the central bank conducted investigations of 14 banks in the WAMU to monitor compliance with the provisions on external financial relations. The results of these supervision activities were brought to the attention of the CBU, which, in light of the significant shortcomings, initiated disciplinary proceedings against the banks involved. The SGCB is also required to supervise the regulation of external financing and to conduct missions on nonprudential monetary policy implementation. • The CBU reports the findings of on-site supervision activities, <i>inter alia</i>, to the minister responsible for finance of the member country and to the BCEAO (Article 27). • When the CBU observes a criminal offense in connection with its supervision activities, it must inform the competent judiciary authorities, the minister responsible for finance of the country involved, and the BCEAO (Article 28). • The CBU (Resolution Board) may request the intervention of the WAMU Deposit Guarantee and Resolution Fund to finance resolution activities after all private financing solutions have been exhausted (Article 58). On May 20, 2020, the CBU executed a Memorandum of Understanding with WAMU Deposit Guarantee and Resolution Fund making it possible, <i>inter alia</i>, to organize the sharing of data and information useful in discharging their duties, as well as assistance in supervising the regulatory obligations of members of the Fund. Pursuant to this agreement, the FGDR-WAMU asked the SGCB on March 1, 2021, for an opinion on the effects of a member's failure to pay its deposit guarantee contributions. The text also provides that the Banking Commission may also ask for opinion of the FGDR- |
|--|--|

¹⁶ The Convention, including its Annex, is a treaty ratified by the eight signatory member countries of the WAMU.

| | |
|--|--|
| | <p>WAMU when a recovery plan provides for its contribution in connection with a resolution procedure.</p> <ul style="list-style-type: none"> • The administrative and judiciary authorities will provide assistance in the execution of the CBU's tasks (Article 66). Since 2016, training has been organized for judiciary staff on banking regulations. <p>The possibility offered by the Annex to the Convention leads to an overlapping of authority between the central bank and the CBU. In practice, the missions carried out by BCEAO with banks involve the missions of the central bank. However, the respective operating areas of the two authorities in the area of banking supervision have not been formally defined (see Principle 1).</p> <p>Cooperation with Other Financial Sector Regulators</p> <p>Mechanisms for consultation and cooperation are established between the CBU and the other financial sector regulators of the WAMU (the Inter-African Insurance Market Conference—CIMA, the Inter-African Social Welfare Conference—CIPRES, and the Regional Public Savings and Financial Markets Board —CREPMF), within the framework of the WAMU Financial Stability Committee (CSF-WAMU) established by the Protocol of March 20, 2010.¹⁷ The CSF holds semiannual meetings. The experts meet before the members (the presidents of the institutions).</p> <p>The mechanisms for cooperation with the CREPMF, CIMA, and CIPRES are governed by the Charter of December 4, 2014, signed by the above-mentioned authorities. This Charter defines the practical mechanisms for consultation, cooperation, and coordination between the various supervision authorities that are members of the CSF-WAMU.</p> <p>Specifically with regard to the CREPMF, the presence of listed banking groups (Ecobank and BOA) makes cooperation between these two authorities a necessity. In addition, the scope of the banking groups includes subsidiaries specializing in investment services (management and intermediation companies) that are supervised by the CREPMF. On June 27, 2002, the CBU signed a bilateral cooperation agreement with that authority, well before the Charter was established. Under this text, information concerning, <i>inter alia</i>, disciplinary penalties applied to persons in senior management or administrative positions in institutions in the banking and financial sector is exchanged between the SGCB and the Office of the Secretary General of the CREPMF. These two organizations hold meetings to exchange information on their experiences, although there are no periodic bilateral meetings to discuss the situation of groups whose areas include management and</p> |
|--|--|

¹⁷ The CIPRES also covers the CEMAC countries.

| | |
|----------------------------------|---|
| | <p>intermediation companies outside of the scope of the CSF-WAMU, that includes all of the authorities, and is intended to address macroprudential issues.</p> <p>In the area of insurance, there are groups including banking and insurance subsidiaries. While the CBU and CIMA exchange information as required, there are no periodic bilateral meetings outside of the CSF-WAMU.</p> <p>In the area of pension, there are pension funds that are shareholders in banks. While information is exchanged between the CBU and the CIPRES, there are no periodic meetings to discuss the individual cases of linkages between pension funds and the banking sector.</p> |
| EC2 | <p>Arrangements, formal or informal, are in place for cooperation, including analysis and sharing of information, and undertaking collaborative work, with relevant foreign supervisors of banks and banking groups. There is evidence that these arrangements work in practice, where necessary</p> |
| Description and Conclusions, EC2 | <p>The Annex to the Convention governing the CBU contains provisions for the CBU to cooperate with foreign authorities responsible for the supervision of banking groups and institutions. For example, sections 59, 60, 61, and 62 of the Annex allow the CBU to:</p> <ul style="list-style-type: none"> • Enter, with full authority, cooperation agreements in the areas of supervision and resolution, with any competent authority. • Provide information about a supervised institution under another supervision or resolution authority, subject to reciprocity and confidentiality. • Establish, along with other supervision authorities, a supervision board for each financial holding company and parent credit institution engaging in significant international activity. • Participate, as the host supervisory authority, in the supervision board of foreign groups, when asked by the home supervisory authority. • Establish, as required, a crisis management committee for institutions subject to the resolution system. • Participate, as the host resolution authority, in the crisis management committee for foreign groups, when asked by the home resolution authority. <p>Cooperation Agreements</p> <p>To date, the CBU has executed 10 cooperation agreements or memorandums of understanding with foreign supervision and resolution authorities (Morocco, France, Nigeria, CEMAC, Guinea, Liberia, Ghana, Sierra Leone, Gambia, and Congo). Cooperation agreements have not been signed:</p> |

- With all countries in which cross-border groups such as Ecobank or Oragroup have subsidiaries (Kenya, Tanzania, and Mauritania). However, supervision boards comprising all supervisors, reflecting the choice of the expanded format, provide a framework for cooperation and information sharing.
- Or with all of the home authorities of subsidiaries of foreign groups established in the WAMU (Europe, United Kingdom, South Africa, Comoros, Switzerland, Lebanon, and Tunisia). The BCEAO has taken steps with regard to the European Central Bank, although they are still in progress.

The above conventions, that the mission was able to consult, provide for relevant information to be submitted in connection with off-site supervision, in the event of any significant developments, or if the supervisor has any particular concerns. They also organize mechanisms for the planning of joint inspection missions and periodic meetings:

- Information sharing between the CBU, and its counterparts takes place, *inter alia*, during the decision-making process on the granting of licenses to engage in banking activities, the appointment of directors or senior managers, and the acquisition of holdings in institutions subject to their respective supervision. In this connection, the CBU requires a notice of non-objection from its counterparts, when examining applications for licenses, waivers of the nationality requirement, or prior authorization to amend the shareholding structure of a credit institution.
- Joint inspection missions are carried out on cross-border institutions based on specialized mechanisms agreed on the merit of each individual case. These missions are scheduled during the preparation of the annual inspection program of each of the authorities involved. Joint missions with other supervisors are scheduled each year: four in 2017, two in 2018, and 8 in 2019 with Bank Al-Maghrib, the Central African Banking Commission, the French Prudential Supervision and Resolution Authority, and the Central Bank of Nigeria (see Criterion 4, Principle 12).
- Periodic meetings provided in cooperation agreements establish a framework for discussions on general developments in the banking sector environment and the situation of banking institutions operating in reciprocal jurisdictions. In this connection, since 2013, the SGCB of the WAMU and Central Africa have held an annual consultation meeting, *inter alia*, to exchange information on regulatory progress in their respective areas and on the problems encountered in the supervision of banking groups. The eighth meeting was held on November 3, 2020, by video conference.

| | |
|--|--|
| | <p>Supervision Board</p> <p>Specifically, where the supervision boards are concerned, the CBU, as the home supervisory authority for Ecobank and Oragroup, has established a supervision board for each of these two financial companies. The supervision boards of Ecobank and Oragroup have each held one annual meeting since 2015. These boards are universal. All foreign supervisors are invited. This may involve approximately 20 authorities for a group such as Ecobank, although not all of them will participate. Relations between the supervisors who are members of each of these boards are governed by a declaration of mutual cooperation, which contains provisions involving:</p> <ul style="list-style-type: none"> • Sharing of information on the situation of the institutions in the group. • Mechanisms for conducting joint supervision of group institutions. • Confidentiality of the information shared. • Cooperation in the area of crisis prevention and management within the institutions in the group. <p>The CBU also participates, as a host supervisory authority, in the supervision boards established by the following peer supervision authorities:</p> <ul style="list-style-type: none"> • Bank Al-Maghrib, for the Attijariwafa bank, Banque Centrale Populaire du Maroc, Atlantic Business International, and BMCE/Bank of Africa groups. • The Central African Banking Commission (COBAC) for the BGFIBank and Afriland First Bank groups. • The Central Bank of Nigeria, for the United Bank of Africa (UBA) and FNBANK groups. • South African Reserve Bank, for Standard Bank Group. • The Prudential Regulation Authority, for Standard Chartered Bank. <p>In some cases, the CBU is not asked to attend supervision boards of foreign groups when the size of the subsidiaries within the WAMU is insignificant within the group. While this does not apply to systemic institutions at the level of the WAMU, it may be the case for systemic institutions at the national level, such as Société Générale Côte d'Ivoire or Société Générale Sénégal (see Principle 12, Criterion 1 on monitoring this type of group).</p> |
|--|--|

| | |
|----------------------------------|--|
| | <p>Supervision Groups</p> <p>Last, the CBU is a member of several bank supervision groups, i.e., the Banking Supervision Committee of West and Central Africa, although this organization has not been active for several years; the African Banking Supervision Community; and the Francophone Banking Supervision Group. It also participates as an observer on the Supervision Board of the West African Monetary Area.</p> |
| EC3 | The supervisor may provide confidential information to another domestic authority or foreign supervisor but must take reasonable steps to determine that any confidential information so released will be used only for bank-specific or system-wide supervisory purposes and will be treated as confidential by the receiving party. |
| Description and Conclusions, EC3 | <p>Article 60 of the Annex to the Convention governing the CBU provides that the CBU may disclose information on the situation of an institution subject to a supervision or resolution authority, subject to reciprocity and confidentiality.</p> <p>The cooperation agreements or arrangements signed by the CBU contain precise stipulations relating to the confidentiality of the information that is shared. Accordingly, it was found from a sample agreement with the foreign authorities examined by the mission that, unless otherwise indicated, all documents and information shared are confidential and may only be used for the purposes provided in the request. It must not be disclosed to third parties without the prior approval of the authority that provided the information. In the case of requests for information, the obligation to preserve the confidentiality of the information or documents to be shared must also be borne in mind.</p> |
| EC4 | The supervisor receiving confidential information from other supervisors uses the confidential information for bank-specific or system-wide supervisory purposes only. The supervisor does not disclose confidential information received to third parties without the permission of the supervisor providing the information and is able to deny any demand (other than a court order or mandate from a legislative body) for confidential information in its possession. In the event that the supervisor is legally compelled to disclose confidential information it has received from another supervisor, the supervisor promptly notifies the originating supervisor, indicating what information it is compelled to release and the circumstances surrounding the release. Where consent to passing on confidential information is not given, the supervisor uses all reasonable means to resist such a demand or protect the confidentiality of the information. |
| Description and Conclusions, EC4 | Article 10 of the Annex to the Convention, which is a treaty signed by the eight member countries of the WAMU, provides that members of the CBU and persons involved in its operation are subject to professional secrecy that will not be binding on judiciary authorities acting in the context of criminal proceedings. The regulatory framework does not contain more precise rules to protect the confidentiality of nonpublic information received from other authorities, whether domestic or foreign. However, the authorities undertook the following in the Charter of December 4, 2014, on cooperation between the supervision authorities of WAMU members: |

| | |
|----------------------------------|--|
| | <ul style="list-style-type: none"> • To preserve the confidentiality of the information received; to take all necessary measures to prevent and to avoid disclosure to third parties. • In the event of a request submitted by a judiciary authority, the authority that received the request must request the consent of the authority that provided the information. <p>In addition, cooperation agreements or memorandums of understanding contain specific provisions on the confidentiality of information exchanged between the CBU and other supervision or resolution authorities. Accordingly, it was found from a sample of agreements with foreign authorities that, unless otherwise specified, any documents or information exchanged are confidential and may only be used for the purposes provided in the request. It must not be disclosed to third parties without the prior approval of the authority that provided the information. Where such information is to be used in an administrative, disciplinary, civil, or criminal proceeding, the authority involved must be informed, in the request or at the latest before the proceeding is initiated.</p> |
| EC5 | Processes are in place for the supervisor to support resolution authorities (eg central banks and finance ministries as appropriate) to undertake recovery and resolution planning and actions. |
| Description and Conclusions, EC5 | The CBU is both the supervisory authority and the resolution authority of the WAMU. Through its Resolution Board, it must ensure that crisis prevention and resolution measures are prepared and implemented. |
| Assessment of Principle 3 | Largely Compliant |
| Comments | <p>The Annex to the Convention governing the CBU contains provisions for the sharing of information and cooperation with any competent authorities in the areas of supervision and resolution. It addresses the confidentiality of information submitted to the supervision authorities. In the charter on cooperation between the supervision authorities of members of the WAMU (insurance, market, and pension funds), established in 2014, these authorities undertake to preserve the confidentiality of the information received.</p> <p>The Annex defines certain forms of cooperation with the Ministry of Finance, the judiciary authority, the central bank (see Principle 1), and the guarantee fund. In the latter case, a memorandum of understanding has also been established.</p> <p>Sharing between the regulatory authorities of the financial system (CBU, CIMA, CREPMF, and CIPRES) occurs, in particular, in the framework of the CSF-WAMU, encompassing all of the authorities. There are, however, no periodic bilateral meetings to address individual cases of banks or banking groups having linkages with insurance companies, management and intermediation companies, or pension funds.</p> |

| | |
|----------------------------------|---|
| | <p>Agreements or protocols have been executed with more than 10 foreign authorities. However, they have yet to be established with all home authorities of foreign groups established in the WAMU area and with all host authorities of subsidiaries of cross-border groups from the WAMU. Of course, these documents contain provisions to protect the confidentiality of the information submitted and received. Cross-border cooperation is reflected in practice with frequent requests for opinions, joint missions, and periodic meetings with foreign authorities of major foreign groups in the WAMU area. Regular exchanges also occur in the framework of supervision boards.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • The establishment of cooperation agreements with supervision authorities of the home countries of foreign groups located in the WAMU and the host countries of cross-border groups from the WAMU should be continued; and • Periodic bilateral meetings should be planned with each of the three supervision authorities (CREPMF, CIMA, and CIPRES) to address individual cases of banks having linkages with insurance companies, management and intermediation companies, or pension funds. |
| Principle 4 | Permissible Activities |
| | The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined and the use of the word "bank" in names is controlled. |
| Essential Criteria | |
| EC1 | The term "bank" is clearly defined in laws or regulations. |
| Description and Conclusions, EC1 | <p>The term "bank" is clearly defined in the regulations. Article 2 of the Framework Law on Banking Regulation defines credit institutions as "legal entities that engage in banking operations during the course of their routine professional operations." Credit institutions are licensed as banks or bank-like financial institutions.</p> <p>Banking operations include receiving funds from the public, credit operations, and making means of payment available to customers.</p> |
| EC2 | The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined either by supervisors, or in laws or regulations. |
| Description and Conclusions, EC2 | <p>Permissible operations for banks are defined in Articles 3, 4, 5, 6, 7, 8, and 9 of the Banking Law. Prohibited activities are established in Articles 43 to 45 for banks and Articles 48 and 49 for financial institutions.</p> <p>In addition, BCEAO Instruction 011-12/2010/RB of December 13, 2010 on the classification, operations, and legal form of bank-like financial institutions defines the categories of financial institutions, the operations they are authorized to carry out, the conditions for their operation, and those they are prohibited from carrying out.</p> <p>Payment Institutions</p> |

| | |
|----------------------------------|---|
| | <p>Instruction 011-12/2010 classifies financial payment institutions governed by the Banking Law as category 5 bank-like financial institutions.</p> <p>However, payment financial institutions are distinguished from the category of payment institutions licensed only to provide payment services. The new draft Banking Law will address this new category of players.</p> <p>Electronic Money Institutions (EME)</p> <p>The supervision of electronic money institutions by the CBU was endorsed in the context of the review of the Annex to the Convention. However, these institutions are currently governed by a specialized instruction (Instruction 08-015-2015) rather than by the Banking Law. They should be integrated into the scope of the future Banking Law.</p> <p>Insurance Activities</p> <p>Financial companies may have subsidiaries in the insurance sector. While these subsidiaries may be included in the accounting area, depending on how the group is structured in terms of the capital, they will be excluded from the prudential area.</p> |
| EC3 | <p>The use of the word "bank" and any derivations such as "banking" in a name, including domain names, is limited to licensed and supervised institutions in all circumstances where the general public might otherwise be misled.</p> |
| Description and Conclusions, EC3 | <p>The Banking Regulation Law governs the use of the term "bank" and its derivatives in a company name, trade name, advertising, or in any way in business activity.</p> <p>Article 13 prohibits any persons not previously licensed and included on the list of banks or bank-like financial institutions from engaging in banking operations and from "claiming the status of a bank, banker, or banking institution of a financial nature, or creating the appearance of this status, in particular through the use of terms such as bank, banker, banking, or financial institution in its company name, commercial name, advertising or, in any way, in its activity."</p> <p><u>"The Banking Commission shall ensure, in the discharge of its duties, the strict observance of the use of the word "bank" by unlicensed entities. For example, when the capital structure of the subsidiaries of the Banque Atlantique Group was changed as a result of the sale of AFG holdings to ABI, the CBU's favorable opinion required it to change the name of ABI (Atlantic Bank International), under the provisions of the Banking Law on the use of the term "bank (banque)." This is how the name Atlantic Business International (ABI) was adopted by senior management of this financial company."</u> In practice, it is incumbent on the minister responsible for finance to ensure in his or her country that there are no entities engaging illegally in banking activities without a license. Of course, should any legal distortions be detected, the CBU will duly inform the national authorities. The future banking law should explicitly entrust this role, in the title devoted to the various institutional responsibilities, to the national authorities and ministers of finance.</p> |

| | |
|----------------------------------|---|
| EC4 | The taking of deposits from the public is reserved for institutions that are licensed and subject to supervision as banks. ¹⁸ |
| Description and conclusions, EC4 | <p>Article 5 of the Banking Regulation Law defines the concept of funds received from the public. Articles 2, 3, and 13 of the Banking Regulation Law reserve this activity for licensed banks.</p> <p>Article 49 stipulates that bank-like financial institutions may only receive deposits of funds from the public in connection with their activities. They may, however, be authorized by decree subject to the opinion of the BCEAO. The BCEAO has investigated a few cases, and two financial institutions were able to obtain this waiver.</p> |
| EC5 | The supervisor or licensing authority publishes or otherwise makes available a current list of licensed banks, including branches of foreign banks, operating within its jurisdiction in a way that is easily accessible to the public |
| Description and Conclusions, EC5 | <p>The conditions for access to the updated list of approved banks and subsidiaries of foreign banks are specified in Article 16 of the Banking Regulation Law.</p> <p>This text indicates that licenses are confirmed with their inclusion on the list of banks or on the list of financial institutions.</p> <p>When the license is issued, the institution will be included on the list of licensed credit institutions and will be registered. The lists are updated on an annual basis. The BCEAO expects that subsequently adopted legal instruments have been designed to verify and order the publication of the lists. These lists are prepared by the government and submitted for comments to the National Directorates of the BCEAO. When they have been reviewed and approved, they will be forwarded to the National Directorates for publication in the official journal of the countries in which the National Directorates are located. The National Directorates must publish the list of all WAMU institutions, and not only the lists in their country of establishment.</p> <p>The list of banks and bank-like financial institutions is posted at the BCEAO's website. The latest update is from December 31, 2020.</p> |
| Assessment of Principle 4 | Compliant |
| Comments | <p>The legal and regulatory framework adequately cover banking activities, except for the responsibilities for detecting and monitoring abuse of the word "bank." Accordingly, it was not found that this surveillance is carried out on an organized basis.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Structured surveillance should be established for the "abuse" of the word "bank." |

¹⁸ The Committee recognises the presence in some countries of non-banking financial institutions that take deposits but may be regulated differently from banks. These institutions should be subject to a form of regulation commensurate to the type and size of their business and, collectively, should not hold a significant proportion of deposits in the financial system.

| | |
|----------------------------------|---|
| Principle 5 | <p>Licensing Criteria</p> <p>The licensing authority has the power to set criteria and reject applications for establishments that do not meet the criteria. At a minimum, the licensing process consists of an assessment of the ownership structure and governance (including the fitness and propriety of Board members and senior management)¹⁹ of the bank and its wider group, and its strategic and operating plan, internal controls, risk management and projected financial condition (including capital base). Where the proposed owner or parent organisation is a foreign bank, the prior consent of its home supervisor is obtained.</p> |
| Essential Criteria | |
| EC1 | <p>The law identifies the authority responsible for granting and withdrawing a banking licence. The licensing authority could be the banking supervisor or another competent authority. If the licensing authority and the supervisor are not the same, the supervisor has the right to have its views on each application considered, and its concerns addressed. In addition, the licensing authority provides the supervisor with any information that may be material to the supervision of the licensed bank. The supervisor imposes prudential conditions or limitations on the newly licensed bank, where appropriate.</p> |
| Description and conclusions, EC1 | <p>Title II, Articles 13-24 of the Framework Law on Banking Regulations establishes the responsibilities in the area of granting and revoking licenses.</p> <p>Granting of Licenses</p> <p>Licensing decisions involve the minister responsible for finance, the BCEAO, and the CBU. Under Article 15, license applications must be addressed to the minister responsible for finance and filed with the BCEAO, and the review procedure is incumbent on the BCEAO. Article 16 provides that licenses will be issued by decree of the minister, subject to the opinion of the CBU.</p> <p>The minister responsible for finance is not involved in the process of reviewing license applications addressed to him or her. As indicated in BCP1, the opinion is binding on the minister. If the latter disagrees with this opinion, he or she will refer the matter to the WAMU Council of Ministers for arbitration (Article 44 of the Annex to the Convention). No appeals have been filed to date.</p> <p>The minister's action is therefore limited to formally establishing the decision of the supervisory authority in an administrative instrument. When the regulatory instrument required by the opinion of the CBU is has not been adopted within the established deadline,</p> |

¹⁹ This document refers to a governance structure composed of a board and senior management. The Committee recognises that there are significant differences in the legislative and regulatory frameworks across countries regarding these functions. Some countries use a two-tier board structure, where the supervisory function of the board is performed by a separate entity known as a supervisory board, which has no executive functions. Other countries, in contrast, use a one-tier board structure in which the board has a broader role. Owing to these differences, this document does not advocate a specific board structure. Consequently, in this document, the terms "board" and "senior management" are only used as a way to refer to the oversight function and the management function in general and should be interpreted throughout the document in accordance with the applicable law within each jurisdiction.

the CBU will inform the interested parties of the content of the opinion, and it will become binding (Article 42 of the Annex to the Convention).

Responsibilities in the Review of License Applications

Although Banking Law assigns responsibility for the review of applications to the BCEAO, in practice, the review procedure is carried out by staff of the CBU on behalf of the BCEAO. Decision 421-12-2015 on the review by the BCEAO of applications for prior authorization precisely defines the responsibilities of the various players in verifying the compliance of the documents and reviewing the applications.

Single Licensing and Applications to Become Established

The regulation provides for a single, simplified licensing scheme within the Union for applications to become established. Article 18 of the Banking Law provides that credit institutions that have obtained a license in a country of the Union and that intend to open branches and/or subsidiaries in one or more other countries must state their intentions on the declaration form. Article 18 would seem to be inconsistent, in light of the parallel structure of the forms, as it expressly attributes responsibility for reviews to the CBU. The mission was informed that this anomaly should be corrected in the future banking law. Decisions on becoming established are incumbent on the CBU only when the ministers have already decided on the issue of the licenses.

The Process of Reviewing Applications for Licenses and to Become Established

The SGCB Licensing Unit, placed within the Studies and International Relations Directorate (DERI), that is comprised of five full-time equivalents (FTE), reviews applications for licenses and to become established as part of a highly sequenced process. The BCEAO national directorates only examine applications for completeness. They inform the SGCB and the directorate responsible for banking activities when an application has been filed. They have five days from the filing date to check the contents. Should an application be incomplete, it will be rejected. By contrast, complete applications will be forwarded to the SGCB for processing, to the directorate responsible for banking activities, and, if applicable, to the national directorate of the BCEAO of the host country of the branch or subsidiary, for information.

The SGCB will have a maximum of 25 business days to examine the application for compliance (10 days), its review (15 days), and to submit the provisional conclusions of the Governor of the BCEAO. The Governor may ask applicants to submit any additional documents, and, if required, he or she may request comments from other units of the BCEAO. He or she must also ask for the opinion of the supervisors on operations involving cross-border credit institutions (non-objection opinion). The review takes into account any prudential issues, factors involving the business model, governance, supervision, and anti-money laundering and combating the financing of terrorism issues. Forecast prudential and financial statements also receive special attention.

Licensing Limits or Conditions

The CBU may impose limits or obligations on institutions that have received a license on the basis of the Framework Law or the Annex to the Convention. Accordingly, the CBU may establish a minimum amount of capital stock above the level established by the Council of Ministers, and different standards depending on the individual situation of each credit institution (Article 21 of the Annex to the Convention and Articles 34 and 56 of the Banking Law). However, the regulatory texts do not explicitly provide the possibility, before the license

is granted, of imposing qualitative conditions on the applicant (such as in the area of governance), even when it has been properly executed. To respond to this point, it was indicated that the future draft banking law should specifically define all of the conditions required to grant licenses (prudential factors, type of capital, legal form, organization of governance, etc.).

Revocation of Licenses

An institution's license can be revoked through two processes:

- By order of the minister responsible for finance, subject to the opinion of the CBU, at the request of the institution, or when it is found that the institution has not been active for at least one year (Article 20 of the Framework Law and Article 19 of the Annex to the Convention).
- By the CBU, in the framework of a disciplinary procedure, in accordance with Articles 66 of the Banking Law and Article 31 of the Annex to the Convention.

The conditions for the revocation of the license, introduced by the institutional reform of April 1, 2010, have constituted the main regulatory development in the area of licensing since the last Financial Sector Assessment Program. The decision of the CBU is in fact fully binding upon notification to the parties involved. The minister will have seven days to inform the interested party of the decision. The decision will be applied after this period has ended.

Licensing Decisions Made by the CBU

The review of licensing decisions made by the BCEAO shows that the BCEAO is rather conservative in the review of applications for licenses and the establishment of branches. The share of favorable opinions and authorizations to become established accounts for only 60 percent of the decisions. Negative opinions and refusals of permission to become established are based on prudential reasons (the applicant's financial unsoundness, violation of prudential standards by institutions in the applicant's group, governance issues in the institution, or insufficient moral standing of the applicant's senior management).

Decisions Made by the CBU on Prior Authorizations Between 2017 and 2021

| Decision | 2017 | 2018 | 2019 | 2020 | 2021 | Total |
|---|------|------|------|------|------|-------|
| Favorable opinion (licensing) | 6 | 6 | 3 | | 2 | 17 |
| Unfavorable opinion (licensing) | | | | | 2 | 2 |
| Deferral of decision | 1 | | | | | 1 |
| Authorization to become established (branch) | | 1 | 2 | 1 | 1 | 5 |
| Refusal of the authorization to become established (branch) | 5 | | 4 | 3 | | 12 |

Source: WAMU.

The license of only one institution has been revoked during the past three years. This would appear to be a low level, in light of the very unstable situation of some institutions (see BCP 11).

EC2

Laws or regulations give the licensing authority the power to set criteria for licensing banks. If the criteria are not fulfilled or if the information provided is inadequate, the licensing

| | |
|----------------------------------|--|
| | authority has the power to reject an application. If the licensing authority or supervisor determines that the licence was based on false information, the licence can be revoked. |
| Description and Conclusions, EC2 | <p>The licensing criteria are provided in detail in several articles of the Banking Law and in two instructions. Accordingly, BCEAO Instructions 017-04/2011/RB and 018-04/2011/RB of April 21, 2011, provide the list of the documents and information included in the license application for credit institutions, as well as the application to declare the intention to become established in connection with the procedure for the authorization to become established (single license). The required documentation would seem to be complete.</p> <p>Article 15 of the Banking Law provides that the "central bank, which is responsible for reviewing licensing applications, ensures that the legal form of the company is suitable for banking activities or those of a bank-like financial institution. It also reviews the company's program of activities, the technical and financial resources that it plans to implement, and its plan for the development of a network of branches, agencies, or windows at the national level. In addition, it assesses the applicant company's ability to achieve its development objectives in conditions compatible with the proper operation of the banking system and sufficient customer protection."</p> <p>Article 18 specifies the conditions for refusal to grant licenses. The CBU must inform the minister responsible for finance of the home country and host country of the credit institution in advance.</p> <p>Failure to meet the licensing criteria and the provision of inappropriate or inadequate information in connection with the procedure are punishable by the refusal to approve the license.</p> <p>Should any false declarations be discovered after the license has been issued, the withdrawal of the license may be ordered after a disciplinary procedure has been initiated, even if this case is not explicitly mentioned in the regulations.</p> |
| EC3 | The criteria for issuing licences are consistent with those applied in ongoing supervision. |
| Description and Conclusions, EC3 | The expected criteria for the issue of licenses are in accordance with the regulatory and off-site supervision requirements. These criteria include the minimum capital requirement, prudential projections in accordance with the regulatory standards, requirements in terms of moral standing and experience for members of senior management and directors, specification of strict rules of governance, and the implementation of a risk control and management system that reflects the requirements provided in Circulars 03 and 04/2017/CB/C. As indicated above (see EC1), all of these regulatory requirements before the license is granted will be mentioned in the future banking law. |
| EC4 | The licensing authority determines that the proposed legal, managerial, operational and ownership structures of the bank and its wider group will not hinder effective supervision on both a solo and a consolidated basis. ²⁰ The licensing authority also determines, where appropriate, that these structures will not hinder effective implementation of corrective measures in the future. |
| Description and | In the context of issuing its opinion on license applications based on the review of the application carried out by the BCEAO, the CBU will analyze the structure of the group to which it belongs and the location of the group's main decision-making centers. Based on this |

²⁰ Therefore, shell banks shall not be licensed. (Reference document: *BCBS paper on shell banks*, January 2003).

| | |
|-------------------------------------|--|
| Conclusions, EC4 | analysis, it may require the group's architecture to be simplified, an intermediary financial holding company to be established, and that entity's inclusion on the list of the financial companies that it supervises. In this connection, not all groups will be subject to consolidated supervision (see BCP 12). It may also be required to issue an unfavorable opinion on applications for which the corporate shareholders operating in the banking sector are located in areas that do not have a credible supervisory authority. |
| EC5 | The licensing authority identifies and determines the suitability of the bank's major shareholders, including the ultimate beneficial owners, and others that may exert significant influence. It also assesses the transparency of the ownership structure, the sources of initial capital and the ability of shareholders to provide additional financial support, where needed. |
| Description and Conclusions, EC5 | <p>The structure and quality of the shareholding will be examined during the review of the license application, including for shareholders owning at least 5 percent individually and/or jointly, as provided in Annex 1, item 2.1 of Instruction 018-04/2011/RB.</p> <p>The procedures include collection and verification of identification documents and supporting documentation on the institution's wealth position, the source of funding of the shareholders (individuals and/or legal entities) used to subscribe the capital of the future institution, and the legitimacy of these funds under the current AML-CFT legislation in the member countries of the Union. <u>By contrast, the procedures provided in the regulations do not explicitly include checks on the beneficial owners.</u></p> <p>In terms of the capacity of the shareholders to provide additional financial support, if required, this capacity is verified through the examination of the certified financial statements from the past three fiscal years (Annex 1 of Instruction 017-04/2011/RB of April 21, 2011). These checks relate to the capacity of the shareholders to finance their holdings and their ability to support the bank's development.</p> |
| EC6 | A minimum initial capital amount is stipulated for all banks. |
| Description and Conclusions, EC6 | <p>Regulatory Framework</p> <p>In an opinion of November 2, 2007, the BCEAO increased the minimum capital of banks to CFAF 10 billion, and of bank-like financial institutions to CFAF 3 billion and established the conditions for implementation.</p> <p>Accordingly, the minimum capital stock for banks was increased initially to CFAF 5 billion on January 1, 2008, while the new thresholds were applied in the review of new license applications filed from the date on which the measure entered into force. Active banks were required to meet these new requirements by December 31, 2010.</p> <p>The implementation date of the second phase, in which the minimum level under the capital regulations was increased to CFAF 10 billion, entered into force on July 1, 2017.</p> <p>Decision 03 of March 30, 2015, confirmed these regulatory thresholds. Article 3 of the Decision provided that credit institutions whose capital stock failed to meet the thresholds under Article 1 were required, by December 31, 2015, to submit an action plan designed to meet the new rules. Moreover, Article 4 provided that institutions would have an exceptional, interim period of 24 months to comply with the requirements.</p> |

| | |
|----------------------------------|--|
| | <p>The threshold of CFAF 10 billion would seem to be relatively high. This decision was made based on an impact paper and a comparison of different limits established in comparable or neighboring areas.</p> <p>In addition, Article 34, paragraph 3 of the Banking Law provides that the CBU may establish a minimum level of capital stock exceeding the level established by the Council of Ministers. This provision has been applied to several institutions.</p> <p>Status of Institutions in the Union in Terms of the Regulations on Representation of Minimum Capital</p> <p><u>At September 30, 2021, two institutions were found to be in violation of the minimum capital rule (including two public banks) since 2017 (see BCP 11). In addition, at end-December 2020, 17.5 percent of the institutions in the Union were non-compliant with the rule on representation of minimum capital with Tier 1 capital.</u></p> <p>Subscription of Capital</p> <p>Article 4 of Instruction 17604/2011/RB requires that, prior to the filing of license applications for credit institutions, at least 25 percent of the capital stock must be subscribed and paid into an account on the books of a bank located in the member country of the Union in which the company was established. The remaining capital stock must be paid in within three months after the CBU has made its decision on the license.</p> |
| EC7 | <p>The licensing authority, at authorisation, evaluates the bank's proposed Board members and senior management as to expertise and integrity (fit and proper test), and any potential for conflicts of interest. The fit and proper criteria include: (i) skills and experience in relevant financial operations commensurate with the intended activities of the bank; and (ii) no record of criminal activities or adverse regulatory judgments that make a person unfit to uphold important positions in a bank.¹⁴ The licensing authority determines whether the bank's Board has collective sound knowledge of the material activities the bank intends to pursue, and the associated risks.</p> |
| Description and Conclusions, EC7 | <p>The assessment of moral standing and expertise is based on the regulatory plan in Circular 01-2017/CB/C. This assessment applies to all executive management, members of the decision-making body, and shareholders.</p> <p>The BCEAO will review the CVs of the members of the executive and decision-making bodies.</p> <p>Article 12 provides that the members of the decision-making body must individually or collectively have the appropriate expertise, particularly in the areas of credit operations, financial analysis, information technology, strategic planning, governance, risk management, internal supervision, capital markets, and compensation policies.</p> <p>The members of the decision-making body in general must also have a good knowledge of the economy and the markets in which the institution operates and must be familiar with the current legal texts governing the institution's activities in the Union.</p> |

¹⁴ Please refer to Principle 14, Essential Criterion 8.

| | |
|----------------------------------|---|
| | <p>In terms of integrity, it must check to ensure that the members of senior management and the directors have no criminal record based on a criminal record excerpt, which is not be older than three months, to be appended to the license application.</p> <p>For non-WAEMU nationals who have practiced in the banking industry in other countries, the CBU will seek the advice of the supervisors of those areas in order to finalize its assessment.</p> <p>The CBU issued an unfavorable opinion based on various reasons, including lack of moral standing of members of senior management and the main shareholder.</p> |
| EC8 | <p>The licensing authority reviews the proposed strategic and operating plans of the bank. This includes determining that an appropriate system of corporate governance, risk management and internal controls, including those related to the detection and prevention of criminal activities, as well as the oversight of proposed outsourced functions, will be in place. The operational structure is required to reflect the scope and degree of sophistication of the proposed activities of the bank.¹⁵</p> |
| Description and Conclusions, EC8 | <p>The regulation specifies that applicants must provide information on their strategy and business model. In particular, a market study is required when a license application is filed, reflecting plans to become established at the national and regional levels, target customers, business lines, and instruments and services to be offered.</p> <p>Applicants are also required to remit the following, in accordance with Instruction 017/04/2011/RB and its annex:</p> <ul style="list-style-type: none"> • Manuals of administrative, accounting, and financial procedures covering, in particular, all of the bank's operations and the related operations under consideration. • Manuals on credit and deposit procedures. • Internal supervision manuals providing the definition of and rules for assessing the prudential system and mechanism for controlling all risks, including the internal AML-CFT system, for example. <p>The governance, risk management, and internal supervision components are considered in the review of the application. Accordingly, in 2019, one unfavorable opinion was issued as a result of reputational risks in connection with the applicant, and two authorizations to become established were refused as a result of governance problems in the parent company and deficiencies in the information system.</p> |
| EC9 | <p>The licensing authority reviews pro forma financial statements and projections of the proposed bank. This includes an assessment of the adequacy of the financial strength to support the proposed strategic plan as well as financial information on the principal shareholders of the bank.</p> |
| Description and conclusions, EC9 | <p>The licensing service will conduct a careful review of the institutions to detect any excessively optimistic forecast statements. In particular, it will examine the applicant's business model and strategy and will use its analysis of the least favorable scenarios.</p> |

¹⁵ Please refer to Principle 29.

| | |
|-----------------------------------|--|
| | <p>As part of the license application, BCEAO Instruction 17-04-2011/RB requires the balance sheets and five-year projected income statements with low, medium, and high assumptions. Vulnerability tests are also required to assess factors such as the impact of changes in certain business indicators.</p> <p>However, page 18 of the license examination guide recommends the use of the baseline assumption in the review of applications rather than the most conservative scenario. Moreover, the average assumption was used as a reference scenario in the application the mission consulted. However, three refusals of authorizations to become established were based instead on the principle of an excessively unstable financial situation.</p> |
| EC10 | In the case of foreign banks establishing a branch or subsidiary, before issuing a licence, the host supervisor establishes that no objection (or a statement of no objection) from the home supervisor has been received. For cross-border banking operations in its country, the host supervisor determines whether the home supervisor practices global consolidated supervision. |
| Description and conclusions, EC10 | <p>Article 17, paragraph 4 of the Annex to the Convention provides that, when the license application originates with a foreign entity subject to a supervisory authority in its home country, the CBU will be required to request a non-objection notice from that authority. This requirement will be taken into account in the review of applications.</p> <p>The CBU will also check whether the foreign bank's home country authority applies consolidated supervision at the world level. In some cases, it will assess the advisability of formally establishing cooperation with that supervisor.</p> <p><u>The process of consultation with supervisors from the home country undertaken by the CBU may possibly be limited by the absence of agreements signed on information sharing with the supervisors involved by the institutions or groups of the Union (see BCP 13).</u></p> |
| EC11 | The licensing authority or supervisor has policies and processes to monitor the progress of new entrants in meeting their business and strategic goals, and to determine that supervisory requirement outlined in the licence approval are being met |
| Description and conclusions, EC11 | <p>The progress made by recently established entities is monitored within the framework of off-site supervision, as well as through missions carried out by the DCPEME within the framework of missions "to verify the startup conditions."</p> <p>Accordingly, 20 of such missions were conducted during the past five years, 14 in 2019, and six since the beginning of 2021. The missions discovered departures from the announced business plan and deficiencies in information systems, particularly in the AML-CFT component.</p> |
| Assessment of Principle 5 | Largely Compliant |
| Comments | At the institutional level, the changes made since the last FSAP in the regulatory framework covering licensing procedures have confirmed the CBU's decision making power in this connection. Useful additions should be made in the framework of the future banking law. Accordingly, this text should give the BCEAO authority to review applications to become established, in keeping with the parallel structure of the forms. Similarly, there are plans to explicitly accompany the issue of licenses with qualitative conditions (such as in the area of |

| | |
|---------------------------|--|
| | <p>governance) and providing additional possibilities to raise the existing prudential standards. In terms of the rules relating to the knowledge of shareholders and the origin of funds mobilized to meet the capital requirements, the procedures must be extended to the beneficial owners.</p> <p>In addition, the increase in the minimum capital to CFAF 10 billion CFA has helped to double the capital requirements for licensing and has made the issue of licenses more secure. However, three institutions are still in a situation of long-term violation (see BCP 11) with no confirmed prospect of restoring equilibrium in the near future.</p> <p>The procedure for the review of applications to become established would seem to be rigorous, with particular care to monitor financial forecasts and prudential ratio projections. The increased presence of foreign banking groups within the Union, however, requires enhanced collaboration with the supervisors in the host countries.</p> <p>Last, frequent on-site missions on the start-up conditions of newly licensed or established institutions allow to monitor them.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • The financial soundness of the applications and projections under the prudential rules should be analyzed, taking into account the most conservative assumptions for the applicants, and any discounts that may be required should be applied. The review guide should be amended accordingly. • The regulatory texts should include the possibility of accompanying the issue of licenses with qualitative steering conditions, and licenses should be revoked if any false information is submitted. • The instructions on procedures for preparing license applications should be amended to require the collection of data on the beneficial owners when license applications are filed and examined. • Meetings should be systematically organized with the sponsors and future senior managers, attended by the supervisory authority and BCEAO staff responsible for prudential supervision. • For license applications from applicants outside of the Union, opportunities for the consultation of supervisors in the host country should be strengthened with the continued signing of cooperation agreements. |
| <p>Principle 6</p> | <p>Transfer of Significant Ownership</p> <p>The supervisor¹⁶ has the power to review, reject and impose prudential conditions on any proposals to transfer significant ownership or controlling interests held directly or indirectly in existing banks to other parties.</p> <p>(Reference documents: ¹⁷ <i>Parallel-owned banking structures</i>, January 2003; and <i>Shell banks and booking offices</i>, January 2003.)</p> |

¹⁶ While the term “supervisor” is used throughout Principle 6, the Committee recognises that in a few countries these issues might be addressed by a separate licensing authority.

¹⁷ Unless otherwise noted, all reference documents are BCBS documents.

| Essential Criteria | |
|----------------------------------|---|
| EC1 | Laws or regulations contain clear definitions of "significant ownership" and "controlling interest". |
| Description and conclusions, EC1 | <p>The terms "significant holdings" and "controlling interest" are defined in the regulations introduced in June 2016: the prudential system applicable to credit institutions and financial companies and the decision on the consolidated supervision of parent credit institutions and financial companies. According to these texts:</p> <ul style="list-style-type: none"> • Significant holdings are all of the institution's exposures in the banking or trading book included in the capital of another institution, insurance enterprise, or other financial institution, when the institution directly or indirectly holds more than 10 percent of the common stock in such entities (Paragraph 14, Prudential System). • "Controlling interest" is defined in paragraph 5 of the prudential system, in Article 1 of the decision on consolidated supervision and in Banking Chart Accounts (BCA) Instruction 033-11-2016 on consolidated financial statements. These texts define the concepts of joint control, exclusive control, and significant influence. <p>These definitions are not used in the authorization process by the supervisory authority for changes in control. They are used in other prudential regulations, such as in the definition of capital and consolidated supervision.</p> <p>The provisions relating to the approval of changes in shareholders are provided in the Banking Law. This involves the approval of changes in control to a blocking minority, which is defined under Article 39, paragraph 2 of the Banking Law as the number of votes that can block a change in the charter of the bank or financial institution. The Banking Law does not establish any numerical threshold. In practice, the SGCB indicates that the threshold of 33.3 percent, corresponding to the blocking minority in a public limited company, is applied.</p> <p>This reference to the blocking minority would seem to be high in comparison with best practices, which use a lower threshold corresponding to the concept of significant holdings for the approval of changes in control. Moreover, even if there is annual reporting on shareholding (see Criterion 4), there is no obligation to inform the supervisory authority of any changes in the shareholding structure should this threshold not be reached.</p> |
| EC2 | There are requirements to obtain supervisory approval or provide immediate notification of proposed changes that would result in a change in ownership, including beneficial ownership, or the exercise of voting rights over a particular threshold or change in controlling interest. |
| Description and Conclusions, EC2 | Under Article 39 of the Banking Law, any acquisition or transfer of holdings that would have the effect of changing the holdings of one person, directly or through an intermediary person, or of the same group of persons acting jointly, first, above the blocking minority, and second, above the majority of voting rights in the credit institution, or of reducing these holdings below these limits, is subject to the prior approval of the minister responsible for finance, subject to the opinion of the CBU. The Banking Law does not define these limits numerically. In practice, the SGCB indicates that the threshold of 33.3 percent corresponds to |

| | |
|----------------------------------|--|
| | <p>the blocking minority in a public limited company and a 50 percent threshold is established for majority voting rights.</p> <p>Similarly, as provided in Article 40 of the Banking Law, any transfer by a credit institution of more than 20 percent of its assets, placement under management, or the cessation of all activities is subject to the same authorizations.</p> <p>The minister is bound by the favorable or unfavorable opinion of the CBU. The minister must notify the credit institution of the decision within 30 days. After that period, if the minister from the country in question has not issued an order, the CBU's decision will become binding.</p> <p>The concept of persons acting jointly is mentioned in the Banking Law and the SGCB indicates that relations between shareholders must be considered in order to detect this type of situation (by analyzing the capital linkages between legal entities and the family relations between individuals). However, off-site supervision, that involves the analysis of the annual statement on the shareholding structure (see Criterion 4), is not subject to a formally established methodology to assess this concept, defining the rules applicable to individuals as well as legal entities, and specifying the cross checking of information to be carried out to detect possible linkages between persons who might be acting jointly to circumvent the reporting thresholds.</p> <p>The Banking Law also refers to intermediary persons and defines this concept. However, the definition in Article 39 lacks clarity.¹⁸ We also observe that the concept of beneficial owner has been introduced into the texts relating to AML-CFT (see Principle 29) but has yet to be included in the Banking Law.</p> |
| EC3 | <p>The supervisor has the power to reject any proposal for a change in significant ownership, including beneficial ownership, or controlling interest, or prevent the exercise of voting rights in respect of such investments to ensure that any change in significant ownership meets criteria comparable to those used for licensing banks. If the supervisor determines that the change in significant ownership was based on false information, the supervisor has the power to reject, modify or reverse the change in significant ownership.</p> |
| Description and Conclusions, EC3 | <p>Prior authorizations for changes in shareholders will be granted under Article 41 of the Banking law, as in the case of licensing.</p> <p>The licensing service within the DERI is responsible for applications for the approval of changes in control. It conducts checks on the origin of the funds, the financial situation, objectives pursued, moral standing, and expertise of the new shareholders.</p> |

¹⁸ Article 39 the Banking Law provides that "The following, in particular, shall be considered intermediary persons with relation to the same individual or legal entity:

- Legal entities in which the person holds the majority voting rights.
- Majority-owned subsidiaries, i.e., companies in which the companies referred to in the foregoing paragraph hold the majority of the voting rights, or in which their holdings, added to those of the individual or legal entity in question, constitute majority voting rights.
- Subsidiaries of subsidiaries as defined in the foregoing paragraph.

| | |
|----------------------------------|--|
| | <p>The BCEAO may be provided with any additional documents or information it deems useful. Central Bank Instruction 19-12-2011 of December 27, 2011, lists the documents and information constituting the application for prior authorization. Information is requested on the situation of the institution, the proposed operation (minutes from the decision-making bodies that authorized the operation, objectives pursued by the assignor and the assignee, CVs of the proposed new directors, criminal record excerpt, and strategy of the institution). The following information is required:</p> <ul style="list-style-type: none"> • For shareholders who are individuals: identification document, CV, criminal record excerpt, notarized declaration on the wealth position (assets and liabilities), and source of funds. • For legal entities: company name, amount of capital and list of key shareholders, financial position, notarized declaration of the legitimate origin of funds, etc. <p>However, the requirements in the regulatory text do not explicitly include the verification of beneficial owners.</p> <p>In 2017 and 2018, nine requests for prior authorization to change the shareholding structure were submitted and received favorable opinions. In 2019, three out of 16 requests were rejected. In 2020, unfavorable opinions were issued to credit institutions located in Benin, Côte d'Ivoire, and Togo. These rejections were justified by the insufficient assurance of the financial capacity of the shareholders.</p> <p>The regulatory texts do not explicitly mention that the CBU has the power to modify or to cancel a change of control made on the basis of false information provided to the supervisory authority. However, the supervisory authority has the possibility to take legal action to request the cancellation of a change in control made in violation of legal and regulatory provisions, which covers cases of false declarations.</p> |
| EC4 | <p>The supervisor obtains from banks, through periodic reporting or on-site examinations, the names and holdings of all significant shareholders or those that exert controlling influence, including the identities of beneficial owners of shares being held by nominees, custodians and through vehicles that might be used to disguise ownership.</p> |
| Description and Conclusions, EC4 | <p>Under Article 33 of the Banking Regulation Law, shares issued by credit institutions having their headquarters within the WAMU must be registered.</p> <p>In addition, in the context of license applications, the supervisory authority requires a list of all shareholders, indicating the level of each party's holdings, nationality, and address.</p> <p>Last, at the end of each fiscal year, the CBU will obtain a declaration that specifies the shareholding structure. This statement, which is used by the DSP, provides the distribution of the capital and voting rights. It provides the identity, nationality, address, and the number of securities held by each shareholder. While it can be used to monitor changes in shareholding, the reporting does not contain any information that can be used to check the identity of the beneficial owners of the shares in the event of indirect holdings through the intermediary of figureheads, custodians, etc.</p> |
| EC5 | <p>The supervisor has the power to take appropriate action to modify, reverse or otherwise address a change of control that has taken place without the necessary notification to or approval from the supervisor.</p> |

| | |
|----------------------------------|---|
| Description and Conclusions, EC5 | <p>The regulatory texts do not explicitly mention that the CBU has the power to modify or to cancel a change in control made without its authorization (when required). However, it has the option to take legal action to request the cancellation of a change in control made in violation of the legal and regulatory provisions.</p> <p>The SGCB indicated that the cases in which these changes are not reported to the supervisory authorities are rare. However, it did mention an old case in which a transaction involving a change in shareholders was canceled because it had not been validated by the CBU. In another case, the CBU issued a penalty against a credit institution that subsequently applied for an authorization to regularize the situation.</p> |
| EC6 | <p>Laws or regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material information which may negatively affect the suitability of a major shareholder or a party that has a controlling interest.</p> |
| Description and Conclusions, EC6 | <p>Article 19 of Circular 05-2017/CB/C of September 27, 2017, on management of compliance with the current rules requires supervised institutions to inform the CBU immediately of any deficiencies identified by the compliance function that have a significant impact on the reputation and/or financial soundness of the institution. Furthermore, when the auditors discover during the course of their work illegal acts or those that could compromise the business continuity of a supervised institution, they must inform the Banking Commission immediately in writing.</p> <p>However, there is no text that specifically mentions cases of information that may have an impact on the acceptability of a significant shareholder. In practice, the SGCB has never received this type of information.</p> |
| Assessment of Principle 6 | Materially Non-compliant |
| Comments | <p>Proposals to transfer controlling interest to existing banks must be approved by the CBU. In practice, the latter rejects these proposals when it does not deem that the financial situation of the new shareholders is sufficiently robust. The application also contains information that can be used to verify the moral standing and expertise of the new shareholders. However, the requirements in the regulatory texts do not explicitly include the collection of information or verification of the beneficial owners.</p> <p>Furthermore, this power does not apply to significant holdings representing more than 10 percent of the shares in a given bank. The reference to the blocking minority leads to a higher approval threshold than international best practices in this area, and there is no obligation to inform the supervisory authority immediately of any changes in the shareholding structure if the threshold has not been reached.</p> <p>Moreover, if the regulatory system indicates that changes in control requiring authorization must be determined to reflect intermediary or jointly acting persons, these concepts should be defined more clearly in the law or specified in the internal methodologies to make them more practicable.</p> <p>Monitoring systems exist for changes in shareholders through annual declarations from banks. In addition, compliance obligations require banks to report factors potentially</p> |

| | |
|----------------------------------|--|
| | <p>impacting their reputation, although there is no explicit obligation in the texts to declare any significant information that may have a negative impact on the acceptability of a major shareholder or person holding controlling interest.</p> <p>The regulatory texts do not explicitly give the CBU power to amend or cancel changes in control made without its authorization, when required, or based on false information provided to the supervisory authority. However, it has the option to take legal action to request the cancellation of a change in control carried out in violation of the legal and regulatory provisions.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • A lower threshold of 10 percent should be introduced for approval by the supervisory authority for a change in shareholders. • An internal procedure should be established so that jointly acting persons can be identified more effectively by defining the rules applicable to individuals and to legal entities. • The concept of beneficial owner should be introduced and defined in the banking law and information should be collected to monitor and approve significant changes in control involving beneficial owners. • An explicit requirement should be included for banks to submit to the supervisory authority any significant information potentially having a negative impact on the acceptability of a major shareholder or shareholder having controlling interest. • A provision should be introduced into the regulatory texts that the CBU has the power to cancel or amend changes in shareholders made without its authorization, when required, or based on false information provided to the supervisory authority. |
| Principle 7 | <p>Major Acquisitions</p> <p>The supervisor has the power to approve or reject (or recommend to the responsible authority the approval or rejection of), and impose prudential conditions on, major acquisitions or investments by a bank, against prescribed criteria, including the establishment of cross-border operations, and to determine that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.</p> |
| Essential Criteria | |
| EC1 | <p>Laws or regulations clearly define:</p> <p>(a) what types and amounts (absolute and/or in relation to a bank's capital) of acquisitions and investments need prior supervisory approval; and</p> <p>(b) cases for which notification after the acquisition or investment is sufficient. Such cases are primarily activities closely related to banking and where the investment is small relative to the bank's capital.</p> |
| Description and Conclusions, EC1 | <p>Article 56 of the Banking Law states that the WAMU Council of Ministers is authorized to take any measures concerning the conditions under which credit institutions may acquire stakes. However, there are no texts that provide further definitions of these conditions. For example,</p> |

| | |
|----------------------------------|--|
| | <p>it is not specified that an authorization is required, and the types of stakes that require prior authorization or <i>ex-post</i> notification are not indicated.</p> <p>Despite the absence of authorizations/notifications of the acquisitions of stakes, there are rules imposing the deduction from capital of different types of holdings exceeding the thresholds provided by the regulations:</p> <ul style="list-style-type: none"> • For the acquisition of stakes in financial institutions, the regulations do not set a limit, but those not subject to consolidation are deducted from capital according to the Basel III deductibles. • For investments in nonbanking sectors, the Banking Law (Article 43) and the Prudential System (paragraph 483) prohibit credit institutions and financial companies from engaging in commercial, industrial, agricultural, or service activities, on their own behalf or on behalf of others, except when such operations are required for or ancillary to the practice of their banking activity or the recovery of their claims. In this connection, credit institutions cannot: <ul style="list-style-type: none"> ○ Directly or indirectly hold, in the same business entity, stakes in excess of 25 percent of the capital in the enterprises or of 15 percent of their Tier 1 capital. In addition, the total amount of investments in commercial entities cannot exceed 60 percent of the institution’s effective capital. ○ Hold an overall amount of non-working capital assets exceeding 15 percent of their Tier 1 capital (except when required for staff housing). <p>Amounts in excess of these limits will be deducted from core Tier 1 capital.</p> • Total tangible or intangible assets (excluding expenses and intangible fixed assets) and investments (excluding investments in credit institutions) cannot exceed 100 percent of effective capital (Tier 1 and Tier 2 capital net of investments in credit institutions). Amounts in excess of these limits will be fully deducted from Tier 1 capital. <p>On-site supervision may be required to analyze certain acquisitions, and off-site supervision will ensure that the limits imposed by the regulations in terms of holdings are observed, although these analyses are conducted on an <i>ex-post</i> basis.</p> |
| EC2 | Laws or regulations provide criteria by which to judge individual proposals. |
| Description and Conclusions, EC2 | The regulatory texts do not provide criteria that can be used to assess proposed acquisitions. |
| EC3 | Consistent with the licensing requirements, among the objective criteria that the supervisor uses is that any new acquisitions and investments do not expose the bank to undue risks or hinder effective supervision. The supervisor also determines, where appropriate, that these new acquisitions and investments will not hinder effective implementation of corrective |

| | |
|----------------------------------|--|
| | measures in the future. ¹⁹ The supervisor can prohibit banks from making major acquisitions/investments (including the establishment of cross-border banking operations) in countries with laws or regulations prohibiting information flows deemed necessary for adequate consolidated supervision. The supervisor takes into consideration the effectiveness of supervision in the host country and its own ability to exercise supervision on a consolidated basis. |
| Description and conclusions, EC3 | <p>Decision 014/24/06/2016/CM/UMOA on consolidated supervision, adopted by the WAMU Council of Ministers, now gives the supervisory authority the possibility of restricting the activity of parent credit institutions and financial companies. Article 9 of the Decision provides that the CBU is authorized to:</p> <ul style="list-style-type: none"> • Limit the scope of activities that a supervised entity may undertake and the jurisdictions in which it conducts them, when it considers that: <ul style="list-style-type: none"> ○ The security and soundness of the supervised institution are jeopardized by these activities, which expose the supervised institution to excessive risks or are not properly managed. ○ The control exercised by other supervision authorities is unsatisfactory, in light of the risks involved. ○ It is prevented from exercising effective consolidated supervision. • Not to authorize capital or organizational structures that prevent the authorities from obtaining consolidated financial data, or that in any other way impede the effective supervision of a group. <p>While this regulatory framework has been in force since 2016, it has not been used to date.</p> |
| EC4 | The supervisor determines that the bank has, from the outset, adequate financial, managerial and organisational resources to handle the acquisition/investment. |
| Description and conclusions, EC4 | <p>Where startups are concerned, the review of the license application includes an examination of the financial situation of the proposed shareholders and the five-year financial projections, specifying the acquisitions of capital assets or holdings, and the planned investments. The regulations subsequently do not provide for prior authorization of large acquisitions.</p> <p>For the acquisition of holdings analyzed on an <i>ex-post</i> basis, the SGCB indicated that their impact on the prudential and financial situation of the institution acquiring the holdings is taken into account.</p> |
| EC5 | The supervisor is aware of the risks that non-banking activities can pose to a banking group and has the means to take action to mitigate those risks. The supervisor considers the ability of the bank to manage these risks prior to permitting investment in non-banking activities. |
| Description and | The limits prescribed by the prudential system for industrial, commercial, agricultural, or service activities will also be applicable to banking groups on a consolidated basis. Banking groups are required to observe the limits on an individual and consolidated basis. Amounts exceeding these limits will be deducted in full from Tier 1 core capital in accordance with |

¹⁹ In the case of major acquisitions, this determination may take into account whether the acquisition or investment creates obstacles to the orderly resolution of the bank.

| | |
|----------------------------------|---|
| Conclusions, EC5 | <p>paragraph 38 (i) of the prudential system. Should the standards established in the prudential system not be observed, the CBU may issue an order to the institution to take any corrective measures required to comply within a specified deadline. During this period, the institution will be prohibited from making discretionary distributions.</p> <p>However, in the absence of a prior authorization, there will be no analysis prior to the bank's acquisition of its capacity to manage the risks involved in nonbanking activities. The SGCB indicated that holdings in commercial entities are in practice fairly limited in light of the regulatory restrictions. They generally correspond to support activities (information technology and real property). The SGCB relies on the information available from the financial statements and a Prudential Statement Declaration Form (FODEP) that takes stock of various investments.</p> |
| Additional Criterion | |
| AC1 | <p>The supervisor reviews major acquisitions or investments by other entities in the banking group to determine that these do not expose the bank to any undue risks or hinder effective supervision. The supervisor also determines, where appropriate, that these new acquisitions and investments will not hinder effective implementation of corrective measures in the future.²⁰ Where necessary, the supervisor is able to effectively address the risks to the bank arising from such acquisitions or investments.</p> |
| Description and Results AC1 | <p>The SGCB does not conduct any analyses of large operations by other institutions in the banking group.</p> |
| Assessment of Principle 7 | <p>Non-compliant</p> |
| Comments | <p>The current legal framework does not define the categories and amounts of acquisition and investment operations that require prior approval from the CBU. It also does not cover cases in which <i>ex-post</i> notification of acquisitions or investments is sufficient. In addition, the legislation does not provide criteria for assessing each proposal. This regulatory vacuum should be filled in the draft banking law.</p> <p>The regulatory framework has been strengthened by giving the CBU the capacity since 2016 to limit activities of groups when they involve exposure to excessive risks or if there are obstacles to consolidated supervision. This power, however, has yet to be used.</p> <p>There is a system of limits and/or capital deductions for investments and nonoperational fixed assets. <i>Ex-post</i> monitoring of acquisitions is carried out by the SGCB. However, the CBU does not conduct any prior analyses to ensure that the bank has the required financial and organizational resources to address the acquisitions.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • In connection with the review of the Banking Law, the categories and amounts of acquisitions and investments requiring prior authorization from the CBU and those |

²⁰ Please refer to footnote 33 under Principle 7, Essential Criterion 3.

| | |
|----------------------------------|--|
| | <p>for which it is sufficient to report their execution on an <i>ex-post</i> basis should be introduced; and</p> <ul style="list-style-type: none"> An implementing text should specify the mechanisms for authorizing large acquisitions and investments, including the criteria to be used to assess proposals. |
| Principle 8 | <p>Supervisory Approach</p> <p>An effective system of banking supervision requires the supervisor to develop and maintain a forward-looking assessment of the risk profile of individual banks and banking groups, proportionate to their systemic importance; identify, assess and address risks emanating from banks and the banking system as a whole; have a framework in place for early intervention; and have plans in place, in partnership with other relevant authorities, to take action to resolve banks in an orderly manner if they become non-viable.</p> |
| Essential Criteria | |
| EC1 | <p>The supervisor uses a methodology for determining and assessing on an ongoing basis the nature, impact and scope of the risks:</p> <p>(a) which banks or banking groups are exposed to, including risks posed by entities in the wider group; and</p> <p>(b) which banks or banking groups present to the safety and soundness of the banking system.</p> <p>The methodology addresses, among other things, the business focus, group structure, risk profile, internal control environment and the resolvability of banks, and permits relevant comparisons between banks. The frequency and intensity of supervision of banks and banking groups reflect the outcome of this analysis.</p> |
| Description and Conclusions, EC1 | <p>Supervision of credit institutions is organized around a control structure led by two divisions: the DSP for off-site supervision and the DCPEME²¹ for on-site inspections.</p> <p>The DSP's methodological approach to microprudential risk assessment is based on:</p> <ul style="list-style-type: none"> Daily use of financial and prudential reporting statements and the analysis of available documentation (annual risk management reports, semiannual internal supervision reports, reports submitted by the auditors, etc.); A risk-based approach focusing on the rating exercise for credit institutions. <p>Analytical activities are designed to identify risk factors as well as potential or confirmed violations of the prudential standards. They include a process involving the verification of accounting, prudential, and qualitative information submitted by the institutions as well as a regular dialog in various forms (written correspondence and hearings) with the institutions.</p> <p>The DSP uses the Credit Institution Rating System derived from the capital adequacy, asset quality, management, earnings, and sensitivity (CAMELS) approach, which was overhauled in 2016, with the assistance of AFRITAC West, to take factors such as the implementation of the</p> |

²¹ The DCPEME does not monitor decentralized financial systems that are the responsibility of a specific directorate.

| | |
|----------------------------------|--|
| | <p>Basel II/Basel III rules and regulatory developments in governance, internal supervision, and risk management into account.</p> <p>The CBU distinguishes systemic institutions from other banks. The CBU uses a methodology based on the approach proposed by the Basel Committee. The WAMU banking sector has six regional-scale systemically important banks and 22 national systemically- important banks. The DSP has a body of methodological notes that have been updated to reflect the regulatory developments, and technical notices drafted within the framework of a performance plan involving multidisciplinary teams.</p> <p>Although the DSP does not formally have expertise centers, the development of expertise is encouraged. The DCPEME, however, has specialized inspectors.</p> |
| EC2 | <p>The supervisor has processes to understand the risk profile of banks and banking groups and employs a well defined methodology to establish a forward-looking view of the profile. The nature of the supervisory work on each bank is based on the results of this analysis</p> |
| Description and Conclusions, EC2 | <p>The SNEC uses quantitative and qualitative data from accounting and prudential reporting as well as periodic reports to establish ratings for the various risks and to identify the risk profile of each credit institution or financial company. Quantitative data are always entered manually at this stage, in the absence of an automated system.</p> <p><u>Although the implementation of a computerized solution designed to automate processing and incorporating management indicators with integrated indicators was initially planned for mid-2021, its implementation was postponed as a result of the health crisis.</u></p> <p>Methodological Approach of the SNEC</p> <p>The SNEC is based on a conventional methodological approach. It aims to rate 11 individual risk factors and to combine the ratings into a composite rating with an expert mechanism that uses a mix of quantitative and qualitative approaches.</p> <p>The 11 risk factors are: credit, concentration, market, operational risk, liquidity and interest rate risk in the banking book, capital adequacy, business model, governance, internal supervision, and AML-CFT. Risk factors are addressed individually through qualitative questionnaires and the inherent risk assessment. The responses to the questionnaires make it possible to rate the risk management system with three-level scale ("satisfactory," "requires improvement," or "deficient"). <u>We should bear in mind that the questions are not weighted to reflect their degree of importance, which could bias the assessment of certain criteria.</u> By contrast, individual risk factors are weighted to reflect their relative importance with relation to the banking system of the Union. <u>In this connection, the weighting (5.6 percent) for concentration risk would seem to be low. Two risk factors, although low at the scale of the Union, are not rated (market risk and overall interest rate risk).</u> The SGCB plans to review the SNEC methodology, including the calibration of weightings, when it has collected all of the required data.</p> <p>A rating scale of one to four was adopted to assign an overall rating, from acceptable (1) to very high (4) (see Note 4). The overall rating is used to prioritize supervision activities. The rating attributed to institutions is considered in preparing the survey program.</p> <p>Calibration tests to evaluate the predictive performance of the tool were carried out during the overhaul of the methodology. <u>However, since it has been in use, the rating system has not been back tested to assess its performance on an ex-post basis, owing to the shortage of</u></p> |

| | |
|----------------------------------|---|
| | <p>available resources. The procedure, however, provided for an <i>ex-post</i> review of the system on an annual basis.</p> <p>The review of the rating tables shows that they provide comprehensive coverage for the risks addressed by the supervised institutions. To date, <u>the rating tool has been largely manual, using Excel spreadsheets</u>. Each risk criterion is evaluated on a dedicated sheet. However, the overall rating is generated automatically.</p> <p>Implementation of Ratings</p> <p>Ratings must be issued, according to the methodology, on an individual and consolidated basis and should use a risk-based approach. The frequency of the reviews reflects the risk profile and the rating of the institution.</p> <p>The ratings can be updated with the results of on-site supervision activities and the findings from off-site supervision. Similarly, the development of the on-site inspection program is based as a priority on the results of the credit institution rating system. However, there is no audit cycle <i>per se</i> (see Principle 9).</p> <p>In 2020, the ratings of more than 85 percent of the institutions were reviewed by DSP analysts. The semiannual frequency of reviews of ratings for vulnerable and systemically important institutions has been observed, according to the DSP. Approximately 20 institutions were given a rating of 4 (“very high risk”).</p> <p>Validation Process</p> <p>Ratings are validated based on an “expert” approach, that at least follows the rule of dual review. In practice, the ratings, particularly those awarded to sensitive institutions (systemically important and vulnerable institutions) are subject to a highly organized validation system involving the Deputy Director and the DSP. Some ratings may be based on a collegial decision or may be escalated to the Secretary General. A rating may differ from the rating deriving from the analysis, although these cases are limited, according to the DSP. The ratings assigned are justified.</p> |
| EC3 | The supervisor assesses banks’ and banking groups’ compliance with prudential regulations and other legal requirements. |
| Description and Conclusions, EC3 | <p>CBU Circular 05-2017/CB/C of September 27, 2017, establishes the rules governing management of compliance by the supervised institutions with the current rules. Compliance with these provisions will be verified in the context of off-site and on-site supervision.</p> <p>Monitoring of compliance with the prudential rules should be carried out on an ongoing basis, through the examination of the accounting and prudential statements the supervised institutions are required to submit, on an individual and consolidated basis. DSP analysts ensure that the financial and regulatory statements and documentation received are carefully reviewed and analyzed. As a result of the staff shortage, analysts may have a fairly large portfolio of institutions, including a combination of systemic and small-scale institutions. This situation may prevent a thorough review of all of the risk factors the institutions present. In addition, consolidated monitoring of institutions is still insufficient.</p> <p>Further, the tasks of rating institutions are also designed to monitor changes in the risks to which the institutions are subject and to anticipate possible deterioration. DSP analysts are responsible for monitoring the situation of their respective institutions on a daily basis. <u>In this connection, we should bear in mind that off-site supervision staffing (19 full-time</u></p> |

| | <p><u>equivalents—ETPs, including senior management, plus four ETPs currently being assigned to the services) would now seem to be insufficient, despite the recruitment efforts undertaken during the past two years, in light of the number of institutions to be supervised (152), that has increased substantially during the past 10 years).</u></p> <p>Frequency of Discussions with Representatives from the Institutions</p> <p><u>The frequency of discussions between the CBU and/or the SGCB (hearings, working sessions, meetings with supervision boards and representatives from the institutions (senior managers and industry representatives), not including procedures with input from both parties under Article 32 of the Annex to the Convention, would seem to be insufficient, despite the efforts made in 2021 (see also BCP 26). These discussions are intended primarily to gain a better understanding of the risk factors to which the institutions are exposed and the relevant control measures, and to monitor progress in connection with the recommendations from on-site missions. They may also be requested by institutions that require clarifications on regulatory matters.</u></p> <p>The SGCB meets with an average of just over 20 institutions per year. In 2021, however, it had met with more than 30 institutions by the end of July. Regional systemically important institutions are generally seen every year. We note, however, that the SGCB has not met with a list of regional systemically important institutions during the past five years.</p> <p style="text-align: center;">Meetings of the Supervisory Authority with Institutions</p> <table border="1" data-bbox="354 989 1396 1230"> <thead> <tr> <th>Type of meeting</th> <th>2017</th> <th>2018</th> <th>2019</th> <th>2020</th> <th>2021</th> </tr> </thead> <tbody> <tr> <td>Meetings with the institutions (hearings and working sessions)</td> <td>21</td> <td>19</td> <td>21</td> <td>19</td> <td>33</td> </tr> <tr> <td>Meetings with supervision boards</td> <td>2</td> <td>1</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Meetings with provisional administrator</td> <td>4</td> <td>3</td> <td>1</td> <td>2</td> <td></td> </tr> <tr> <td>Total</td> <td>27</td> <td>23</td> <td>22</td> <td>21</td> <td>33</td> </tr> </tbody> </table> <p>Source: WAMU.</p> <p>The SGCB organizes only a few meetings with the 14 institutions under special surveillance. With the exception of one institution, with which three meetings have been held during the past five years, the majority of the institutions have been met with only once since 2017. Meetings were not held with three institutions during the period. Members of senior management of these institutions are, however, summoned by the CBU in the framework of disciplinary proceedings.</p> | Type of meeting | 2017 | 2018 | 2019 | 2020 | 2021 | Meetings with the institutions (hearings and working sessions) | 21 | 19 | 21 | 19 | 33 | Meetings with supervision boards | 2 | 1 | | | | Meetings with provisional administrator | 4 | 3 | 1 | 2 | | Total | 27 | 23 | 22 | 21 | 33 |
|--|---|-----------------|------|------|------|------|------|--|----|----|----|----|----|----------------------------------|---|---|--|--|--|---|---|---|---|---|--|-------|----|----|----|----|----|
| Type of meeting | 2017 | 2018 | 2019 | 2020 | 2021 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Meetings with the institutions (hearings and working sessions) | 21 | 19 | 21 | 19 | 33 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Meetings with supervision boards | 2 | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Meetings with provisional administrator | 4 | 3 | 1 | 2 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 27 | 23 | 22 | 21 | 33 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EC4 | The supervisor takes the macroeconomic environment into account in its risk assessment of banks and banking groups. The supervisor also takes into account cross-sectoral developments, for example in non-bank financial institutions, through frequent contact with their regulators. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Description and Conclusions, EC4 | <p>The CBU has a studies unit consisting of five full-time equivalents, including a Unit Chief, three Statistician Engineers, and one Financial Analyst. This service primarily conducts studies on the structure of the banking system (monitoring of certain banking groups and studies on the restructuring of public banks) and the exposure of institutions to key risks.</p> <p>In addition, the service participates, along with the other supervision authorities in the financial sector, in the work of the CSF-WAMU established under a Memorandum of</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| | |
|----------------------------------|--|
| | <p>Understanding of May 20, 2010. The Internal Rules of Procedure of the CSF-WAMU establish meetings between the authorities "as often as required, and at least twice per year" as well as a framework for sharing information, cooperation, and joint missions. <u>It has not, however, developed capabilities for macroprudential supervision and the development of crisis simulations. Accordingly, the SGCB relies primarily on the expertise of the DSF of the BCEAO.</u></p> <p>The DSF in fact conducts stress tests on solvency and liquidity on an annual basis, that also take into account concentration risks, which constitute one of the key risks in the WAMU area. The results of these stress tests, which are submitted to the DSP, are intended to be reflected in the analysis of the vulnerabilities of the institutions. <u>We should note that the DSP does not always diligently use the results of these stress tests or reflect them in the ratings of the institutions. Accordingly, the DSP did not use the results of the latest stress tests conducted by the DSF, affecting the solvency of two institutions, to take any actions against them.</u> Similarly, from a more general standpoint, the DSP might make more effective use of the work of the DSF.</p> <p>While exchanges do exist with the supervision authorities of nonbank financial institutions, they do not always occur on a regular basis.</p> |
| EC5 | <p>The supervisor, in conjunction with other relevant authorities, identifies, monitors and assesses the build-up of risks, trends and concentrations within and across the banking system as a whole. This includes, among other things, banks' problem assets and sources of liquidity (such as domestic and foreign currency funding conditions, and costs). The supervisor incorporates this analysis into its assessment of banks and banking groups and addresses proactively any serious threat to the stability of the banking system. The supervisor communicates any significant trends or emerging risks identified to banks and to other relevant authorities with responsibilities for financial system stability.</p> |
| Description and Conclusions, EC5 | <p>Work is in progress in the WAMU Financial Stability Committee (CSF-WAMU), including the <u>risk mapping of the financial system, which should be completed by the end of 2021 in the best-case scenario.</u> These activities will contribute to the analysis of risk factors for financial instability. The Banking Commission is represented in the CSF-WAMU by its Chair.</p> <p>The CSF-WAMU's duties include the following:</p> <ul style="list-style-type: none"> • To assess risks likely to undermine the stability of the financial system as a whole, through the analysis of macroprudential indicators, <i>inter alia</i>. • To examine malfunctions in the system that may ultimately result in costs and affect its resilience to internal and external shocks; to define the actions required to correct the identified vulnerabilities and to coordinate and monitor them. |
| EC6 | <p>Drawing on information provided by the bank and other national supervisors, the supervisor, in conjunction with the resolution authority, assesses the bank's resolvability where appropriate, having regard to the bank's risk profile and systemic importance. When bank-specific barriers to orderly resolution are identified, the supervisor requires, where necessary, banks to adopt appropriate measures, such as changes to business strategies, managerial, operational and ownership structures, and internal procedures. Any such measures take into account their effect on the soundness and stability of ongoing business.</p> |
| Description and conclusions, EC6 | <p><u>The banking crisis resolution system was not formally established until 2020 with the entry into force of Circular 03/2020/CB on the Conditions and Mechanisms for the Application of the Banking Resolution System in the WAMU. In addition, from the operational standpoint, the resolution mechanism is still being established.</u> In fact, there have been delays in the</p> |

| | |
|----------------------------------|--|
| | <p>publication of the schedule for the institutions to submit their plans. Circular 01/2020/CB established the following dates for the first announcement of the recovery plans:</p> <ul style="list-style-type: none"> • January 15, 2021, for systemically important institutions, parent credit institutions, and financial companies. • January 15, 2022, for banks, except for systemically important institutions and parent institutions. • July 15, 2023, for bank-like financial institutions and electronic money institutions. <p>Two systemically important institutions have yet to submit their recovery plans to the SGCB. The DSP indicated that the review of the first recovery plans revealed an appropriate level of quality. The recovery plans were formally established using the template provided by the supervisory authority and were validated by the competent authorities. In addition, the DSP observed that the choices in the identification of critical functions, preparation of emergency plans, and prioritization of remedial measures were relevant.</p> <p>The analysis of the documents submitted by the institutions has yet to be completed, while interactions with the submitting institutions on the overall completeness and quality of their recovery plans are still limited.</p> |
| EC7 | <p>The supervisor has a clear framework or process for handling banks in times of stress, such that any decisions to require or undertake recovery or resolution actions are made in a timely manner.</p> |
| Description and Conclusions, EC7 | <p>Through the Supervision Board, the CBU has a framework to be applied to supervised institutions in difficulty. In this connection, in addition to the corrective measures listed in Article 29.1 of the Annex to the Convention, it may take a number of precautionary measures listed in Article 29.2 of the Annex. It also has other instruments described in Article 29.3, including special surveillance.</p> <p>Furthermore, in addition to disciplinary penalties and fines, the CBU has the power to place any institution in difficulty in provisional administration (Article 34).</p> <p>More specifically, the CBU has formally established and gradually implemented a resolution mechanism during recent years. Article 52 of the Annex provides that, at the request of the Supervision Board, the Resolution Board may decide to place in resolution any institution that is deemed not to be viable and not to have any prospect of restoring its viability. The Supervision Board relies on the analysis of the preventive recovery plan that all supervised institutions are required to have.</p> <p>The legal conditions for the independence and intervention of the Resolution Board would seem to be observed. In urgent cases, the Resolution Board is authorized to take any resolution measures it deems appropriate, without any procedure involving input from both parties (Article 56 of the Annex to the Convention). Moreover, the cancellation of a decision of the Resolution Board after an appeal cannot affect the validity of the actions of the Board, unless fraud is involved.</p> <p>The resolution measures available to the Resolution Board are listed in Article 53 of the Annex to the Convention. <u>However, these measures do not include the possibility of liquidation.</u> Liquidation can only be ordered by the CBU and is contingent on the prior withdrawal of the</p> |

| | |
|----------------------------------|--|
| | <p>banking institution's license as the result of a disciplinary procedure, with potential risks of lengthy delays.</p> <p>To date, the CBU has not used the resolution mechanism for banks in difficulty and has preferred other options (see Principle 11).</p> |
| EC8 | Where the supervisor becomes aware of bank-like activities being performed fully or partially outside the regulatory perimeter, the supervisor takes appropriate steps to draw the matter to the attention of the responsible authority. Where the supervisor becomes aware of banks restructuring their activities to avoid the regulatory perimeter, the supervisor takes appropriate steps to address this. |
| Description and Conclusions, EC8 | <p>Article 13 of the Banking Law provides that institutions cannot engage in banking activities without having been previously licensed and placed on the list of banks or bank-like financial institutions. When organizations illegally engaging in banking activity are identified, the CBU will inform the competent authorities. This might have occurred a number of times, according to the CBU.</p> <p>When banks restructure their activities outside of the supervision area, the CBU has the capacity to analyze the operation, to ensure that the licensing conditions are still met, and to apply penalties for any shortcomings that may be observed, including the withdrawal of the license. The SGCB has not detected any of such cases.</p> |
| Assessment of Principle 8 | Materially Non-compliant |
| Comments | <p>The WAMU supervisory authority's supervision framework is organized on the basis of an appropriate reporting system, with a risk-based approach. The rating system for credit institutions (SNEC) uses a consistent methodology, despite some weaknesses that have been identified (failure to reflect certain risk factors and weighting of risk factors). However, since its implementation, it has never been subject to an <i>ex-post</i> review to assess its performance level in terms of predictability. The risk-based approach, which is defined in detail through the SNEC, could be reflected to a greater extent in establishing the on-site supervision program (see also Principle 11).</p> <p>It should also be noted that the SNEC cannot be used to rate banking groups or electronic money institutions. The situation of electronic money institutions is assessed using an expert opinion with an approach that has not been formally established. Corrective actions to date have been announced without any established schedule.</p> <p>The Pillar 2 methodology, which is being gradually implemented, and the computerized application of off-site supervision activities, will strengthen the WAMU supervisor's tools for the forward-looking analysis of the individual situation of institutions.</p> <p>The SGCB has yet to develop expertise in the area of stress testing, despite its quantitative resources. However, the staff of the Studies Unit still have limited capacity to cope with the range of assigned tasks (processing of license applications, banking studies, and macroprudential surveillance). Work in progress in the CSF-WAMU, including risk mapping for the financial system, will be used in the analysis of risk factors in connection with financial instability.</p> |

| | |
|---------------------------|--|
| | <p>The delays observed in the release of preventive recovery plans have impacted the efforts to formally establish recovery plans. Not all systemically important banking institutions have submitted their recovery plans. Adjustments will be required at the regulatory level to strengthen the resolution architecture. More specifically, resolution measures do not include liquidation, which can only be activated following a disciplinary proceeding.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • The methodology of the rating system for credit institutions should be updated and an <i>ex-post</i> review should be conducted on at least a semiannual basis. • The rating process should be consolidated with the establishment of special rating tools for groups. • Assess the capacity of banks to implement robust and credible strategies for orderly resolution. Formalize, after analysis and evaluation of the solvency of the institutions, a program for the development of recovery plans organizing the conditions and modalities of their financial stabilization, along with a timetable for implementation. • The frequency of cross analyses and systemic risk mapping should be increased to gain a better understanding of the trends and accumulation of risks in the sector, so that they can be more effectively managed. • Continue development of expertise (DERI, DSF) in the conduct of stress tests so as to better support the banks on the methodological level in introducing such tools (introducing a development outline). |
| Principle 9 | <p>Supervisory Techniques and Tools</p> <p>The supervisor uses an appropriate range of techniques and tools to implement the supervisory approach and deploys supervisory resources on a proportionate basis, taking into account the risk profile and systemic importance of banks.</p> |
| Essential Criteria | |
| EC1 | <p>The supervisor employs an appropriate mix of on-site²² and off-site²³ supervision to evaluate the condition of banks and banking groups, their risk profile, internal control environment and the corrective measures necessary to address supervisory concerns. The specific mix between on-site and off-site supervision may be determined by the particular conditions and circumstances of the country and the bank. The supervisor regularly assesses the quality,</p> |

²² On-site work is used as a tool to provide independent verification that adequate policies, procedures and controls exist at banks, determine that information reported by banks is reliable, obtain additional information on the bank and its related companies needed for the assessment of the condition of the bank, monitor the bank's follow-up on supervisory concerns, etc.

²³ Off-site work is used as a tool to regularly review and analyse the financial condition of banks, follow up on matters requiring further attention, identify and evaluate developing risks and help identify the priorities, scope of further off-site and on-site work, etc.

| | |
|----------------------------------|--|
| | effectiveness and integration of its on-site and off-site functions, and amends its approach, as needed. |
| Description and Conclusions, EC1 | <p>Article 21 of the Annex to the Convention indicates that the CBU will conduct or assign the task of conducting, in particular by the BCEAO, on-site and off-site supervision activities with supervised institutions, on an individual or consolidated basis, to ensure that the relevant provisions are being observed. It will define the frequency and scope of the supervision and assessment of a supervised institution in light of its size, structure, risk profile, the nature and complexity of its activities, and its systemic importance.</p> <p>In practice, the SGCB has separate directorates responsible for on-site and off-site supervision.</p> <p>Off-site Supervision</p> <p>The monitoring of the 370 supervised institutions by the DSP is divided into three units:</p> <ul style="list-style-type: none"> • The Sub-Regional Banks and Financial Institutions Directorate monitors financial institutions whose shareholders are individuals or legal entities resident in the WAMU. It has four staff members. • The Cross-Border Surveillance Unit monitors intermediary financial holding companies and subsidiaries held by foreign groups. It has six staff members. • The Specialized Institutions Unit monitors electronic money institutions, decentralized financial systems, and mutual and cooperative banks. It has four staff members. <p>In addition to these 14 staff members, the unit has one director and two deputies, i.e., a total of 17 staff members.</p> <p>The institutions are distributed among different surveillance managers, and the largest institutions are assigned to the most experienced surveillance officers.</p> <p>There are no regular staff interactions between on-site and off-site supervision, although off-site supervision controllers can be involved in on-site supervision from time to time.</p> <p>Off-site supervision includes individual monitoring activities of supervised institutions:</p> <ul style="list-style-type: none"> • Document management. • Monitoring and analysis of accounting and financial statements. • Monitoring and analysis of internal supervision, risk management, and compliance reports, as well as minutes of board of directors' meetings. • Annual rating of institutions, or semiannual rating of nationally systemic and vulnerable institutions. Cases in which the vulnerabilities require the presence of senior management will be escalated to the level of the Secretary General (SG). Similarly, the rating of national systemic institutions will be escalated to the SG, and |

| | |
|--|--|
| | <p>the remaining cases will be validated by the directorate. Ratings have yet to be established for electronic money groups and institutions.</p> <ul style="list-style-type: none"> • Definition of supervision activities to be carried out for inspections, through the terms of reference • Follow-up of action plans for the implementation of recommendations. <p>The data collected on the institutions also enable the International Relations and Studies Directorate to conduct general or specific studies on overall trends in the banking system, microfinance activities, and the issue of electronic money in the WAMU.</p> <p>On-site Supervision</p> <p>On-site supervision (not including decentralized financial systems) has a staff of 20 persons: one director, one deputy, and one assistant, six mission heads, three senior inspectors (equivalent to a deputy director), three principal inspectors (equivalent to a unit chief) and five inspectors.</p> <p>The unit decided in 2021 to establish expertise centers in the following areas: AML-CFT/Governance, Accounting/Finance, Information System/Digital, Credit Portfolio, Market Risk, and Liquidity. The objective is for each center to have two persons. These centers were created to address mission requirements.</p> <p>Four types of inspections are conducted:</p> <ul style="list-style-type: none"> • General inspections, the number of which is on the decline. In 2019, for example, three general missions were conducted. • Special inspections based on several topics indicated by the off-site supervision function. During these inspections, several aspects are monitored in a given bank (such as credit risk, risk control, AML-CFT, and governance). In 2019, for example, 33 specific inspections were conducted. • Topical missions in several banks. Two topical missions were conducted in 2019 in the area of AML-CFT. • Inspection missions on implementation of recommendations. For example, two of this type of mission were conducted in 2019. <p>During the past five years, 230 missions have been conducted. In the survey conducted in the framework of the FSAP, 45 percent of the banks surveyed indicated that the last two CBU on-site inspections dated back less than three years, and 26 percent reported no inspections during the past three years. They indicated for specific missions that the supervision activities primarily involved the AML-CFT system, banking and transfer conditions, compliance with capital requirements, and risk management systems.</p> <p>Missions are conducted as follows:</p> <ul style="list-style-type: none"> • The mission is announced one month before it will begin and is preceded by a preaudit phase. |
|--|--|

- Topical missions generally last one week; special missions last two weeks; and those for systemically important institutions last three weeks.
- Before leaving the institution, a feedback sheet is prepared and submitted with the list of provisional findings. The institution will have one week to respond.
- The mission head will have a period of one week to submit the report after the on-site mission ends. The preliminary draft report is pre-validated with the Director and, for the last two years, by a peer mission head.
- The report is reviewed by a review committee comprised of all directors and deputies, the Secretary General, and the Deputy Secretary General.
- The follow-up letter to the Chair of the Board of Directors, the Minister of Finance, and the Chair of the CBU is drafted by the on-site-supervision authorities and signed by the Secretary General of the CBU. There is a six-week period between the filing of the report and the preparation of the follow-up letters.

A relatively lengthy six-week process is allocated for the finalization, review of the report, and drafting of the follow-up letter, in comparison with the time allotted for on-site investigations (one to three weeks).

On-site supervision is based on an annual program approved by the Chair of the CBU. It is carried out as part of an approach based on the risks identified in off-site supervision, making it possible to prepare a list of the supervised institutions considered to be the most vulnerable. Off-site supervision uses the risk mapping prepared based on the rating of all supervised institutions. It also reflects newly licensed institutions. In preparing this program, some directorates of the BCEAO are consulted (the Financial Stability Directorate and Financial Inclusion and Payments Systems Directorate). By contrast, the supervisory authority does not take the bank audit program into account. Moreover, the length of the time between inspections is not the essential criterion, owing to the substantial increase in the number of institutions to be supervised. There are no rules that require a minimum frequency for inspections that differentiates between vulnerable, systemic, and lower-risk institutions.

The inspection program may be adapted during the year to reflect specific concerns or risks identified by off-site supervision and the urgency of operations or situations that arise during the year. In 2021, for example, adaptations were made to assess the impact of the pandemic on institutions.

To enhance the efficacy of on-site and off-site supervision functions, the SGCB is reorganized as required to reflect changes in activities and risks in the banking sector. For example, on-site supervision was divided into two directorates to monitor credit institutions and decentralized financial systems, as the latter have been placed under the supervision of the CBU.

Assessment of the Quality of Supervision

The directorates responsible for on-site supervision conduct an annual assessment of the efficacy of their activities, and more specifically by conducting a review workshop and a quality assurance improvement program. A similar approach has not been implemented for

| | |
|----------------------------------|---|
| | off-site supervision, although this function participates in on-site supervision review workshops, as it may be affected by some of the topics. |
| EC2 | The supervisor has a coherent process for planning and executing on-site and off-site activities. There are policies and processes to ensure that such activities are conducted on a thorough and consistent basis with clear responsibilities, objectives and outputs, and that there is effective coordination and information sharing between the on-site and off-site functions. |
| Description and conclusions, EC2 | <p>On-site supervision activities are planned by defining a schedule of surveys approved by the Chair of the CBU. This activity is part of an approach based on the risks identified by off-site supervision, that will be used to prepare a list of supervised institutions considered to be the most vulnerable. In preparing this program, some directorates of the BCEAO will be consulted (the Financial Stability Directorate and Financial Inclusion and Payments Systems Directorate). For off-site supervision, the rating procedures provide more frequent supervision of systemic and vulnerable institutions.</p> <p>On-site and off-site supervision activities are carried out based on guides and procedures that define the objectives, the scope of the activities, and the expected results. On-site supervision procedures must be updated to reflect regulatory developments related to the implementation of Basel II/III (see Principle 16). They must also be supplemented in connection with the analysis of liquidity and interest rate risks in the banking and market books. While on-site supervision procedures are current, there is scope for further development in the analysis of liquidity and interest rate risks in the banking book.</p> <p>There is clear coordination and sharing of activities between the on-site and off-site supervision functions in the organization of on-site missions: definition of the survey program, terms of reference for missions, review of the report, and follow-up of recommendations. Off-site supervision is responsible for the follow-up of the recommendations made as a result of the inspection missions. These findings and their follow-up are included in the analyses conducted by the off-site supervision function, particularly in connection with rating activities. The analyses deriving from off-site supervision activities are systematically used in on-site supervision activities. While the on-site supervision guide covers aspects of coordination between the two functions, a procedure for coordinating on-site supervision with off-site supervision is in the process of being implemented. Its objective is to formally establish the existing coordination between on-site and off-site supervision.</p> |
| EC3 | The supervisor uses a variety of information to regularly review and assess the safety and soundness of banks, the evaluation of material risks, and the identification of necessary corrective actions and supervisory actions. This includes information, such as prudential reports, statistical returns, information on a bank's related entities, and publicly available information. The supervisor determines that information provided by banks is reliable ²⁴ and obtains, as necessary, additional information on the banks and their related entities. |
| Description and Conclusions, EC3 | The primary source of information for the supervisory authority is reports submitted by the supervised parties. In addition to the annual financial statements required by Article 50 of the Banking Law, credit institutions and financial companies must also prepare statements during |

²⁴ Please refer to Principle 10.

the fiscal year in the frequency and under the conditions prescribed by the BCEAO. These statements are submitted to the BCEAO and to the CBU (Article 51).

Moreover, Article 53 of the Banking Law and Article 25 of the Annex to the Convention Governing the CBU require the supervised parties to provide, on request by the CBU, in the specified time and forms, all required documents, information, clarifications, and justifications. In addition, banking secrecy is not binding on either the CBU or the BCEAO.

Accordingly, institutions provide information at monthly, quarterly, semiannual, and annual frequencies, on the accounting and prudential statements, on an individual, sub-consolidated, and consolidated basis. The prudential statements are prepared on a semiannual basis, with the exception of the liquidity ratio and the liquidity coverage ratio that will replace it, which are prepared on a monthly basis. This relaxed semiannual frequency (see Principle 11) can be explained by the alignment of the prudential statements with the accounting submissions and the requirement for an opinion on the accounts before any prudential information is submitted. However, the frequency of submissions should be reduced to a quarterly basis under the new banking law.

Institutions also submit reports on internal supervision (semiannual), compliance (semi-annual), risk management (annual), and the AML-CFT system (semiannual). The internal control and risk management reports must be validated by the decision-making body before they are submitted. They also submit the minutes from board of directors' meetings and the auditors' reports. The auditors produce a specific report each year on compliance with the prudential regulations and a report on the assessment of the 50 largest risks.

The accounting and prudential data are collected through the Register of Accounting Statements of Financial institutions (FISEC) and the Prudential Statement Declaration Form (FODEP). Qualitative data are submitted in hardcopy form. We also observe the following in terms of the information provided by the institutions:

- That internal supervision reporting templates were not updated after the last regulatory reform. Similarly, the table used by the off-site supervision function to analyze these reports has not been updated.
- Reporting to the supervision authorities on interest rate and liquidity risk is incomplete (see Principles 23 and 24).
- The instruction defining the template and specifying the information to be published under Pillar 3 has yet to be adopted. In practice, the information published by the institutions would appear to be insufficient in terms of the relevant international requirements, particularly in the area of credit risk (see Principle 28).

When information is published in the press reporting on an operation or situation on which it does not have any official information, the CBU can order any supervised institution to provide it with information in connection with such articles. While the data provided by the rating agencies can be used, the supervisor may also use it when the agencies in question have been validated by the BCEAO Financial Stability Directorate.

The system for verification and assessment of the validity and integrity of the prudential information involves four types of intervention:

| | |
|----------------------------------|--|
| | <ul style="list-style-type: none"> • Legal checks of the accounting and internal supervision statements by the auditors; and verification of the quality of the financial and prudential statements. • Automated consistency checks integrated into the reporting platforms. The FODEP reporting system includes 10,000 control rules. • The off-site supervision activities carried out by the DSP, which verifies the plausibility of the information submitted in connection with various cross checks and consistency controls, as well as its compliance with the current regulatory texts. • Targeted controls that may be carried out by the DCPME in the context of general or specific surveys. |
| EC4 | <p>The supervisor uses a variety of tools to regularly review and assess the safety and soundness of banks and the banking system, such as:</p> <p>(a) analysis of financial statements and accounts. (b) business model analysis; (c) horizontal peer reviews. (d) review of the outcome of stress tests undertaken by the bank. (e) analysis of corporate governance, including risk management and internal control systems.</p> <p>The supervisor communicates its findings to the bank as appropriate and requires the bank to take action to mitigate any particular vulnerabilities that have the potential to affect its safety and soundness. The supervisor uses its analysis to determine follow-up work required, if any.</p> |
| Description and Conclusions, EC4 | <p>With the exception of horizontal peer review, the various mechanisms indicated will be used during different phases of the operation of credit institutions. On-site and off-site supervision activities make it possible to analyze the financial statements, the operational model, profitability, corporate governance, and the risk management and internal control systems based on the various circulars from the CBU.</p> <p>The prudential system, the circular on risk management, and the circular on systemic banks include requirements for crisis simulations that credit institutions are required to carry out. However, the provisions are still limited and must be clarified and supplemented with a circular. The draft circular has been finalized and should be adopted in the near future. In practice, only a minority of institutions meet the crisis simulation requirements (see Principle 15).</p> <p>The findings of the supervision activities carried out by the CBU will be transmitted to the institutions, in the form of correspondence and reports, so that they can correct the problems observed within a specific time frame. The correction of these deficiencies will also be monitored with periodic reports to be produced by the supervised institution.</p> |
| EC5 | <p>The supervisor, in conjunction with other relevant authorities, seeks to identify, assess and mitigate any emerging risks across banks and to the banking system as a whole, potentially including conducting supervisory stress tests (on individual banks or system-wide). The supervisor communicates its findings as appropriate to either banks or the industry and requires banks to take action to mitigate any particular vulnerabilities that have the potential to affect the stability of the banking system, where appropriate. The supervisor uses its analysis to determine follow-up work required, if any.</p> |

| | |
|---|--|
| <p>Description and Conclusions, EC5</p> | <p>Crisis simulations are carried out by the BCEAO. These involve annual stress tests on solvency and liquidity, in order to identify vulnerable institutions. The scope covers all banks in operation. The findings of these stress tests will be reported to the DSP. We should bear in mind that the results of these stress tests are not always used appropriately by the DSP. Accordingly, the DSP did not use the results of the latest stress tests conducted by the DSF, affecting the solvency of two institutions, to take any actions against them.</p> <p>This involves sensitivity tests developed by Martin Čihák (2007) designed to quantify the impact of various shocks on the solvency (the impact on capital and the solvency ratio) and liquidity of banks (the impact on the capacity to cover immediate commitments). The first step is to identify the risks (credit risk, concentration risk, and liquidity risk). Shock scenarios and assumptions are then established (loan losses, default of one or more large borrowers, or a run-on deposits).</p> <p>The following test assumptions and scenarios are used:</p> <ul style="list-style-type: none"> • The sensitivity of banks to credit risk simulates an increase in the gross impairment rate of the credit portfolio, through increased bad claims outstanding and the downgrading of sound and restructured claims to doubtful or disputed status. • The vulnerability of banks to concentration risk is assessed by simulating the default of each bank's largest borrower, and subsequently its two largest borrowers. This risk was also assessed by simulating the default of the main borrower, and then of the banks' two largest borrowers on the regional interbank market. • Liquidity risk is assessed by simulating a run-on bank deposits for five consecutive days, resulting in the daily withdrawal of 5 percent of demand deposits and 3 percent of time deposits during the first three days, then of 10 percent and 5 percent, respectively, during the last two days. The liquidity risk analysis may also focus on simulating the interruption of banks' access to wholesale financing. • The impact of sovereign risk is studied by assuming a 50 percent loss on the public securities portfolio of the banks' host country, directly affecting their capital. • The risk of interbank contagion or interconnection assesses the series of bank defaults that would be caused by the insolvency of one bank. • The scenario of a sociopolitical and security crisis in the countries of the Union is simulated with a combination of shocks to the credit portfolios of the banks in the Union. <p>A project is being established to enable the CBU to conduct its own independent tests. A solvency model is expected to be rolled out this year. It will subsequently be extended to contagion (the impact of one credit institution's default) and to liquidity. The SGCB indicated that it has statistical engineers (three in the DERI) who are, <i>inter alia</i>, capable of conducting these stress tests and establishing suitable scenarios.</p> |
|---|--|

| | |
|----------------------------------|--|
| EC6 | The supervisor evaluates the work of the bank's internal audit function, and determines whether, and to what extent, it may rely on the internal auditors' work to identify areas of potential risk. |
| Description and Conclusions, EC6 | <p>The SGCB will assess the work of the internal audit function in the context of the SNEC rating system (using 17 checkpoints) and during on-site supervision missions. The DCPEME's supervision methodology in fact also covers internal audit matters. The check points include verification of the existence of control procedures and frameworks to assess the robustness of the operational processes and the efficacy of the first and second lines of supervision. The analysis of the human and technical resources allocated to the internal audit function includes the systematic checkpoints of the DCPEME. The latter also ensures that the internal audit function of banks has the scope to act freely to discharge its duties without any obstacles. It evaluates the audit plan and audit cycle and reviews the status of the recommendations.</p> <p>Article 25 of the Internal Supervision Circular states that the CBU relies on the work of the internal audit function and the auditors of the institution. For that purpose, it pays particular attention to the comments and recommendations on the efficacy of the internal supervision system deriving from these structures. It also ensures that the governance bodies address in a satisfactory manner any concerns and recommendations that may be expressed (Article 25).</p> <p>The analysis of the banks' risk profile takes into account the internal audit findings, that are used to produce a semiannual report on internal supervision to be submitted to the CBU. In case of any shortcomings, notification letters containing comments on the analysis of the internal supervision reports will be forwarded to the banks.</p> <p>However, there are no periodic meetings between the off-site supervision and internal audit functions, even for systemic groups. These meetings are held instead to address individual cases when vulnerability issues must be discussed. In addition, the off-site supervision function does not collect audit reports and audit programs prepared by banks. However, periodic reports provided by banks often contain information on the programs and results of internal audit missions.</p> |
| EC7 | The supervisor maintains sufficiently frequent contacts as appropriate with the bank's Board, non-executive Board members and senior and middle management (including heads of individual business units and control functions) to develop an understanding of and assess matters such as strategy, group structure, corporate governance, performance, capital adequacy, liquidity, asset quality, risk management systems and internal controls. Where necessary, the supervisor challenges the bank's Board and senior management on the assumptions made in setting strategies and business models. |
| Description and Conclusions, EC7 | <p>The SGCB is in touch with the heads of the supervised institutions on topics including changes in the institution's financial position, strategy, corporate governance, and capital adequacy. Rather than holding meetings periodically, they are held at the request of the institutions or the Office of the Secretary General when vulnerabilities are detected. These meetings are held in the presence of the Secretary General. Under Article 53 of the Banking Law, institutions are required, on request from the CBU, to provide the latter with any documents, information, clarifications, and justifications deemed to be useful in the discharge of its duties.</p> <p>It may also summon any senior managers or directors of any institution to a hearing on any topic involving its situation (Article 24 of the Annex to the Convention). Hearings will also be held when disciplinary proceedings are initiated (Article 32). Article 24 has not been used in</p> |

| | |
|----------------------------------|---|
| | <p>practice. Members of senior management of the institutions will only be required to appear for hearings in connection with disciplinary proceedings.</p> <p>The frequency of meetings of the authority with representatives from the institutions (members of the board of directors, members of senior management, and industry managers) outside of proceedings with input from both parties provided in Article 32 would seem to be insufficient, despite the efforts made in 2021 (see Table, Principle 8, Criterion 3). The SGCB meets with an average of just over 20 institutions per year, except in 2021, when it had met with more than 30 institutions by end-July 2021. Regional systemically important institutions are generally seen each year, although the SGCB has not met with a list of regional systemically important institutions during the past five years. The SGCB only organizes a few meetings with the 14 institutions under special surveillance. With the exception of one institution with which three meetings had been held during the past five years, the majority of the institutions have been met only once since 2017. Meetings were not held with three institutions during the period. However, the CBU summons members of senior management of these institutions in the framework of disciplinary proceedings. The SGCB organizes an annual meeting with all of the General Managers of the credit institutions and with their auditors.</p> <p>Last, the CBU may participate as an observer in meetings of the decision-making body when it deems necessary. It has done so in practice for one institution during the past two years.</p> |
| EC8 | <p>The supervisor communicates to the bank the findings of its on- and off-site supervisory analyses in a timely manner by means of written reports or through discussions or meetings with the bank's management. The supervisor meets with the bank's senior management and the Board to discuss the results of supervisory examinations and the external audits, as appropriate. The supervisor also meets separately with the bank's independent Board members, as necessary.</p> |
| Description and Conclusions, EC8 | <p>In connection with off-site supervision activities, the SGCB reports its findings to the supervised institutions in correspondence (notification letters on periodic reports received or related to the use of the minutes from the board of directors' meetings, follow-up letters on decisions made by the CBU, and correspondence on problems identified), or in meetings with members of senior management. In particular, the rating results are used to target the entities for which meetings are organized as a priority with the supervisor. There is no procedure for transmitting ratings to the supervised parties. However, they can be discussed in meetings between members of senior management and the SGCB to highlight areas of vulnerability.</p> <p>When the on-site supervision has been completed, in accordance with Article 27 of the Annex to the Convention, the supervisory authority will issue the conclusions of the inspections to the credit institutions involved in follow-up letters and reports on the supervision activities carried out (see Criterion 1).</p> <p>In the survey conducted in connection with the FSAP, banks indicated that they interacted regularly with the bank supervisor, at least on a semiannual basis. These interactions occur primarily within the framework of regular regulatory reporting and monitoring of recommendations and administrative instructions from the CBU.</p> |
| EC9 | <p>The supervisor undertakes appropriate and timely follow-up to check that banks have addressed supervisory concerns or implemented requirements communicated to them. This includes early escalation to the appropriate level of the supervisory authority and to the bank's Board if action points are not addressed in an adequate or timely manner.</p> |

| | |
|-----------------------------------|--|
| Description and Conclusions, EC9 | <p>Implementation of the recommendations is monitored through off-site supervision. Monitoring is carried out using an Excel spreadsheet, through requests for information made by the off-site supervision function, or possibly by new on-site supervision missions to verify implementation of the recommendations of an order from the CBU or recommendations from the Supervision Board.</p> <p>However, in light of the number and sensitivity or severity of the comments and recommendations made in on-site supervision reports, the frequency of discussions with representatives and key staff of the institutions involved, on-site supervision missions would seem to be insufficient.</p> <p>In case of violations, major risks, or the failure to properly implement recommendations, the Secretary General may propose to the CBU the application of administrative measures or penalties (Articles 29, 30, and 31 of the Annex to the Convention).</p> |
| EC10 | <p>The supervisor requires banks to notify it in advance of any substantive changes in their activities, structure and overall condition, or as soon as they become aware of any material adverse developments, including breach of legal or prudential requirements.</p> |
| Description and Conclusions, EC10 | <p>The 2017 Circular on Internal Supervision requires the Head of Internal Audit to report any significant deficiencies in internal supervision immediately to the governance bodies and to the CBU (Article 14).</p> <p>The 2017 Circular on Compliance Management provides that supervised institutions must inform the CBU immediately of any deficiencies identified by the compliance function that have a significant impact on the reputation and/or financial soundness of the institution (Article 19).</p> <p>The Circular on the operating conditions of the auditors requires the auditors to report to the CBU immediately when they become aware of any illicit facts or those that may jeopardize the business continuity of an institution (Article 19).</p> <p>In practice, the supervisory authority rarely indicates that it receives this type of alert from the control functions. The SGCB is attempting to improve the implementation of these requirements by making the institutions more aware of the need to implement independent control functions.</p> <p>Under Article 39 of the Banking Law, banks are required to request prior authorization for any changes in legal form, company name, trade name, transfer of headquarters, mergers, splits, dissolutions, and any modifications of the shareholding structure resulting in the crossing of a threshold (blocking minority or majority of voting rights). By contrast, they are not required to inform the SGCB in advance if any holdings are acquired (see Principle 7), or of any substantial changes in their activity or overall situation.</p> |
| EC11 | <p>The supervisor may make use of independent third parties, such as auditors, provided there is a clear and detailed mandate for the work. However, the supervisor cannot outsource its prudential responsibilities to third parties. When using third parties, the supervisor assesses whether the output can be relied upon to the degree intended and takes into consideration the biases that may influence third parties.</p> |
| Description and | <p>The provisions of Article 21 and 29.3 of the Annex to the Convention governing the CBU provide the option of using external experts, the BCEAO (see Principle 1), and external</p> |

| | |
|---|---|
| Conclusions, EC11 | <p>auditors to carry out on-site and off-site supervision activities in the supervised institutions, on an individual or consolidated basis. In practice, the supervisory authority does not use external experts (see Principle 2).</p> <p>In addition, the 2017 Circular on Internal Supervision gives the CBU the option to use, at the expense of the supervised institution, the services of any auditors that the CBU has approved, to conduct specific on-site supervision missions for prudential purposes, for which it will determine the operating scope. In practice, it will ask the auditors to verify that a provision has been reflected in the accounts, or for accounting issues, when there is a disagreement with off-site supervision.</p> |
| EC12 | The supervisor has an adequate information system which facilitates the processing, monitoring and analysis of prudential information. The system aids the identification of areas requiring follow-up action. |
| Description and Conclusions, EC12 | <p>Concurrently with the recent regulatory reforms, the supervision authority undertook the modernization of the supervision tools. In this connection, since end-2019, it has acquired a computer application for on-site supervision (solution for the supervision of the relevant institutions, rating, and monitoring of recommendations—SCAN-R), that is already effective.</p> <p>Among other functions, this tool helps the mission during the preaudit phase. It addresses the balance, balance sheet, income statement, customers, and outstanding balances. It performs consistency checks with FISEC/FODEP data. It also contains questionnaires prepared based on the new regulatory texts. The shortcomings identified by the tool are included in the report, the format of which has not changed since SCAN-R was implemented.</p> <p>Another application dedicated to off-site supervision and incorporating the rating system is in the process of being implemented. The rating or analysis of an institution through the off-site supervision function requires many manual data collection tasks to be performed prior to the analysis. The ratings are prepared with an Excel spreadsheet, and the accounting and prudential data are not automatically entered. In addition, surveillance officers do not have the tools to analyze the financial statements or management indicators summarizing the key prudential data or providing alert indicators.</p> <p>The SCAN-R tool (for off-site supervision), that will be implemented in the very short term, should make it possible to automate these tasks and to provide surveillance officers with management indicators and comparisons with the data from other institutions.</p> |
| Additional Criterion | |
| AC1 | The supervisor has a framework for periodic independent review, for example by an internal audit function or third-party assessor, of the adequacy and effectiveness of the range of its available supervisory tools and their use, and makes changes as appropriate. |
| Description and Conclusions AC1 | <p>The SGCB is audited periodically by the Inspection and Audit Directorate of BCEAO Headquarters, to assess compliance of internal procedures and the adequacy of the prudential tools. One audit of the SGCB was conducted during the past five years, from April 30 until June 13, 2018.</p> <p>As part of the internal quality assurance and improvement program of the two on-site supervision directorates of the SGCB, external assessments are planned in order to obtain a critical, independent assessment of the on-site supervision system for supervised institutions. These activities may be carried out by counterpart supervision authorities that have signed a cooperation agreement with the SGCB or by an international organization having the</p> |

| | |
|----------------------------------|---|
| | required expertise in external quality assessment processes for banking supervision. This type of assessment has yet to be carried out. |
| Assessment of Principle 9 | Largely Compliant |
| Comments | <p>The texts provide an appropriate combination of on-site and off-site supervision implemented by two Directorates of the SGCB. For on-site inspections, a very limited time is spent on investigations within the institutions, and twice as much time is allocated to the drafting of the report and follow-up letter, involving a lengthy multiple review process that would seem to be unnecessary. Moreover, in preparing the survey program, we note that there are no rules requiring a minimum frequency for inspections that differentiates vulnerable, systemic, and lower-risk institutions.</p> <p>On-site and off-site supervision activities would seem to be coordinated and to involve the sharing of information. The supervisory authority uses different sources of information to conduct regular reviews and assessments of the soundness of banks. However, shortcomings were highlighted in the other principles examined, in connection with the data published by banks under Pillar 3 (see Principle 28), quantitative reporting to the supervisory authority on liquidity risk management, interest rates in the banking book (see principles on management of different risks), or the absence of a uniform template for internal supervision and risk management reporting (see Principle 15). Requests made under the FSAP also revealed some difficulty in obtaining time series with prudential data. Last, banks are not required to inform the supervisory authority of any substantial changes in their activity or overall situation.</p> <p>The supervisory authority will evaluate the work of the internal audit function and may rely on periodic reports from the banks' internal and external audit functions (auditors). It may ask the auditors to conduct specific audits at the expense of the supervised parties. In practice, off-site supervision does not collect reports on audits conducted by the banks. In addition, there are no regular meetings between off-site supervision, supervision, risk management, internal audit functions, the audit and risk committees, or the auditors for systemic and vulnerable institutions. Last, we note that the warning system that requires banks' internal or external auditors to report incidents or problems is rarely used in practice.</p> <p>The SGCB will contact senior management of the institutions in case any vulnerabilities are detected, and the CBU will meet with senior management of institutions under special surveillance in connection with disciplinary procedures. We note however, that the frequency of SGCB meetings with senior management and the board of directors of the institutions might stand to be increased, and a minimum meeting interval established for systemic and vulnerable institutions. The findings from supervision activities are reported in a timely manner and implementation of the recommendations is monitored. However, in light of the number and sensitivity or severity of the observations and recommendations made in the on-site supervision reports, the frequency of discussions with key representatives and staff of the institutions involved or on-site supervision missions should be increased.</p> <p>The SGCB conducts analyses of the financial, governance, and risk management statements, but not horizontal peer reviews. In addition, the examination of crisis simulations by institutions still suffers from the absence of a circular on crisis simulations (see Principle 15). The BCEAO conducts crisis simulations, the conclusions of which are transmitted to the SGCB, although they are not used diligently by the SGCB. Work is in progress to enable the CBU to</p> |

conduct these stress tests itself, which will also give it the expertise required to assess the crisis simulations conducted by the supervised institutions (see Principle 15).

Improvements have been made to the on-site supervision tools. By contrast, off-site supervision does not yet have an adequate computer system (absence of management indicators, and accordingly, manual data collection). However, the improvement and automation of these tools should continue.

The supervisory authority has procedures to plan and execute supervision activities. However, the template for the analysis of internal control, risk management, and compliance reports has not been updated since the new circulars in this area came into effect. More generally speaking, the off-site supervision procedures should be updated to reflect the regulatory developments in connection with the implementation of Basel II/III.

The SGCB is periodically audited by the BCEAO. While quality control has also been established at the inspection level, there is still no quality control for off-site supervision.

Recommendations:

- The quality control approach established for on-site supervision should be extended to off-site supervision.
- The internal and external supervision functions should be put to further use for systemic institutions by:
 - Considering the internal audit missions planned within the institutions in preparing the on-site supervision program.
 - Ensuring that the internal audit findings are systematically received.
 - Planning regular meetings between the internal and external control functions of the institutions and off-site supervision for vulnerable and systemic institutions.
- The frequency of meetings between the SGCB, senior management, and the board of directors (including the independent directors) of supervised institutions should be increased and a minimum frequency should be established for vulnerable and systemic institutions.
- The multiple review process for the report should be streamlined to reduce the time allocated to the drafting phase and more time should be allowed for on-site investigations.
- A minimum frequency should be established for on-site supervision, and the distinction should be made between vulnerable, systemic, and lower risk institutions.
- The frequency of on-site missions should be increased to monitor implementation of the recommendations in follow-up letters.

| | |
|----------------------------------|--|
| | <ul style="list-style-type: none"> • Banks should be required to report any substantial changes in their activities and overall situation to the CBU in advance. • Improvements should continue to be made in the tools available to SGCB by: <ul style="list-style-type: none"> ○ Improving the information technology tools available to off-site supervision. ○ Developing comparisons between peer banks. ○ Updating the off-site supervision methodology and the template for the analysis of internal supervision, compliance, and risk management reports. ○ Finalizing the tools to enable the CBU to conduct its own stress tests (improving the database with time series, more granular information, macroeconomic model) and greater integration of stress test results into supervision activities. |
| Principle 10 | Supervisory Reporting |
| | The supervisor collects, reviews and analyses prudential reports and statistical returns ²⁵ from banks on both a solo and a consolidated basis, and independently verifies these reports through either on-site examinations or use of external experts |
| Essential Criteria | |
| EC1 | The supervisor has the power ²⁶ to require banks to submit information, on both a solo and a consolidated basis, on their financial condition, performance, and risks, on demand and at regular intervals. These reports provide information such as on and off-balance sheet assets and liabilities, profit and loss, capital adequacy, liquidity, large exposures, risk concentrations (including by economic sector, geography and currency), asset quality, loan loss provisioning, related party transactions, interest rate risk, and market risk. |
| Description and Conclusions, EC1 | <p>Regulatory Basis for the Remittance of Financial and Prudential Statements</p> <p>The regulations require supervised institutions to submit their annual accounts, financial, and prudential statements to the supervisor, at regular intervals. Article 52 of the Banking Law provides that “credit institutions shall establish periodic statements with the frequency and under the conditions prescribed by the central bank.”</p> <p>Institutions are required to submit their annual accounts, certified by their auditors, to the Banking Commission by June 30 of each year. Their individual financial statements and consolidated financial statements, when appropriate, must be prepared in accordance with the revised Banking Chart of Accounts (BCS) and the implementing instructions.</p> <p>Frequency for the Submission of Financial and Prudential Statements</p> <p>Supervised institutions are required to submit 30 periodic statements, the frequency of which can be monthly, quarterly, and semiannual. The 39 FODEP prudential statements cover minimum capital requirements, major risks, concentration, liquidity, asset quality and</p> |

²⁵ In the context of this Principle, “prudential reports and statistical returns” are distinct from and in addition to required accounting reports. The former are addressed by this Principle, and the latter are addressed in Principle 27.

²⁶ Please refer to Principle 2.

| | |
|----------------------------------|--|
| | <p>provisions, transactions with related parties, as well as market risk factors. Prudential statements must also be submitted on a consolidated basis.</p> <p>Prudential statements are prepared on a semiannual basis, with the exception of the liquidity ratio and liquidity coverage ratio that will replace it, on a monthly basis. <u>This semiannual frequency would seem to be insufficiently stringent.</u> It is attributed to the alignment of the prudential statements with the accounting submissions, and the requirement for the certification of the accounts before any prudential information is submitted. However, the frequency of submissions should be reduced to a quarterly basis under the new banking law.</p> <p>In any case, <i>ad hoc</i> adjustments can be made. Accordingly, the BCEAO asked credit institutions to submit prudential statements on a monthly basis to enable collaboration with a view to more detailed monetary policy steering.</p> <p>Mechanisms for the Submission of Financial and Prudential Statements</p> <p>Declarations are filed using the reporting platform established by the BCEAO, which includes an automatic supervision system for the uploaded statements plus checks conducted by the SGCB.</p> <p>Compliance with Submission Deadlines and Possible Penalties</p> <p>Submissions are monitored by the national directorates of the BCEAO, and delays are subject to penalties as provided in Instruction 013-12/2010/RB of December 13, 2010 establishing the amounts of penalties for the late transmission of documents to the BCEAO and to the CBU.</p> |
| EC2 | <p>The supervisor provides reporting instructions that clearly describe the accounting standards to be used in preparing supervisory reports. Such standards are based on accounting principles and rules that are widely accepted internationally.</p> |
| Description and Conclusions, EC2 | <p>Update of Accounting Standards</p> <p>As part of its transition to international standards, the Union established the revised banking chart of accounts under Decision 357-11-2016. This chart of accounts entered into force during the 2018 fiscal year. Its conceptual framework is in line with the accounting system under ordinary law (according to the Organization for the Harmonization of Business Law in Africa) and with the Basel standards.</p> <p>Article 20 of the Annex to Decision 357-11-2016 refers to internationally accepted accounting principles: consistent methods, transparency, prudence, specialization of fiscal years, inviolability of the opening balance, and the significant importance and preeminence of the real economic situation over the legal appearance.</p> <p>The banking chart of accounts has also helped to strengthen the conceptual framework and to bring the Union's accounting standards closer to the new International Financial Reporting Standards (IFRS), to reflect business continuity and commitment-basis accounting. The banking chart of accounts also made it possible to standardize the notes to the accounts by outlining the type of qualitative information required, including information on overdue claims, to supplement the balance sheet and income statement. Twenty-seven notes to the financial statements have been defined for that purpose. The accepted consolidation methods for the preparation of the consolidated accounts are defined in a specific instruction (Instruction 033-11-2016).</p> |

| | |
|----------------------------------|--|
| | <p>The entry into force of the new accounting standards was preceded by a cycle of 23 simultaneous missions at the end of 2017 to prepare institutions for the transition to the new standards.</p> <p>Transition to the IFRS</p> <p>To date, only listed banks are subject to the publication of the IFRS. The BCEAO has launched a number of efforts to prepare for an ultimate transition to the IFRS. Among other things, a questionnaire was sent to banks to assess their level of preparation for the IFRS. The information obtained from the questionnaire will be used to determine the prior conditions for the transition process. The BCEAO would like to apply the IFRS framework to institutions in the Union on an individual and consolidated basis, but it is considering arrangements, particularly in the area of provisioning for outstanding balances, to facilitate implementation of the standards for small institutions.</p> <p>Instructions on the Production of Prudential Statements</p> <p>The process for preparing prudential statements is covered primarily by two instructions: Instruction 03-05-2017 and Instruction 05-08-2017 on the approach for prudential statements. The instruction [...] is supplemented with a technical annex, which outlines the mechanisms for completing the prudential statement declaration forms (FODEP). It specifies the references, as well as the instructions for the completion of each of the 39 prudential statements.</p> |
| EC3 | <p>The supervisor requires banks to have sound governance structures and control processes for methodologies that produce valuations. The measurement of fair values maximises the use of relevant and reliable inputs and are consistently applied for risk management and reporting purposes. The valuation framework and control procedures are subject to adequate independent validation and verification, either internally or by an external expert. The supervisor assesses whether the valuation used for regulatory purposes is reliable and prudent. Where the supervisor determines that valuations are not sufficiently prudent, the supervisor requires the bank to make adjustments to its reporting for capital adequacy or regulatory reporting purposes.</p> |
| Description and Conclusions, EC3 | <p>Definition of Fair Value and Relevant Principles</p> <p>The new BCA introduces a hybrid system for asset valuation. Article 35 of the BCA recognizes historical cost and fair value as assessment mechanisms for items on the balance sheet, in the off-balance sheet accounts, and income statement.</p> <p>Article 37 of the BCA provides a definition of fair value. It corresponds "to the price that would be received for the sale of an asset or paid for the transfer of a liability in a normal transaction between market participants on the valuation date, whether that price is directly observable or estimated using another valuation technique." It also uses three approaches for fair value assessment: the market approach, the cost-based approach, and results-based approach.</p> <p>The application of fair value within the Union is, however, relatively limited, primarily as the financial markets, and particularly the secondary markets, are insufficiently developed. It is substantially accepted for the valuation of securities held by credit institutions (essentially</p> |

| | |
|----------------------------------|---|
| | <p>transaction securities) and in the assessment of transactions in foreign exchange, including hedging instruments.</p> <p>Other assets are valued at historical cost but including transaction costs (amortized cost).</p> <p>Use of Models to Valuate Products</p> <p>Paragraph 339 of the prudential system provides valuation with reference to a model. A model can only be used when market price valuation is impossible. Paragraph 340 provides a number of requirements to be met in the use of the model (prior approval from the decision-making body, documentation of the assumptions, independent validation of the model, regular review of the model, etc.).</p> <p><u>Discussions with the SGCB did not provide any precise idea of institutions using internal models for the valuation of transactions and the recording of results. In addition, there has been no supervision in connection with these procedures to date.</u></p> |
| EC4 | The supervisor collects and analyses information from banks at a frequency commensurate with the nature of the information requested, and the risk profile and systemic importance of the bank. |
| Description and Conclusions, EC4 | <p>Article 7 of Circular 04-2017 adopting the principle of proportionality provides that prudential and reporting requirements should reflect the size, structure, nature, and complexity of the activities and the risk profile of each supervised institution.</p> <p>For institutions under special surveillance or provisional administration, in addition to the regulatory reporting, the Authority will define a periodic report to be produced. The type, quality, and frequency of the information to be produced will be defined in the decision of the CBU on implementation of special surveillance. Systemically important institutions will be expected to submit some prudential statements more frequently.</p> |
| EC5 | In order to make meaningful comparisons between banks and banking groups, the supervisor collects data from all banks and all relevant entities covered by consolidated supervision on a comparable basis and related to the same dates (stock data) and periods (flow data). |
| Description and Conclusions, EC5 | <p>All data will be transmitted to the BCEAO in the form of uniform tables submitted at the same dates (stocks) and covering the same periods (flows).</p> <p>The prudential requirements also apply on a sub consolidated basis to intermediary financial holding companies and on a consolidated basis to parent credit institutions and financial holding companies. The requirements and deadlines for sub consolidated, and consolidated accounting and prudential reporting are uniform for all supervised institutions.</p> |
| EC6 | The supervisor has the power to request and receive any relevant information from banks, as well as any entities in the wider group, irrespective of their activities, where the supervisor believes that it is material to the condition of the bank or banking group, or to the assessment of the risks of the bank or banking group or is needed to support resolution planning. This includes internal management information. |
| Description and Conclusions, EC6 | Supervised institutions are required to provide, when requested by the CBU, in the specified time and forms, all necessary documents, information, clarifications, and justifications (...) under Article 53 of the Banking Law and Article 25 of the Annex to the Convention. |

| | |
|----------------------------------|---|
| | <p>The CBU may require any supervised institutions to provide it with information on their situations within the time frames it establishes. This requirement may be formally established in correspondence from the Office of the Secretary General, in a decision of the Banking Commission, or in the form of administrative measures.</p> <p>When information transmitted in connection with a potential recovery plan is specifically involved, Article 6 of the Circular on the conditions and mechanisms for the application of the banking crisis resolution system in the WAMU indicates that the supervisory authority may ask the supervised institutions to submit any information in connection with the preparation of recovery plans. Similarly, institutions subject to the resolution system must report any significant changes they undergo to the Resolution Board.</p> |
| EC7 | <p>The supervisor has the power to access²⁷ all bank records for the furtherance of supervisory work. The supervisor also has similar access to the bank's Board, management and staff, when required.</p> |
| Description and Conclusions, EC7 | <p>The regulations clearly guarantee access to credit institutions' documentation.</p> <p>Under Article 53 of the Banking Law, "credit institutions are required, on request from the CBU, to provide the latter with any documents, information, clarifications, and justifications deemed to be useful in the discharge of its duties."</p> <p>Several annexes under the Annex to the Convention explicitly provide that institutions are required to submit the information requested by the Banking Commission.</p> <ul style="list-style-type: none"> • Article 25 specifies that institutions are required to provide the Banking Commission with any documents, information, clarifications, and justifications required in the discharge of its duties, in the specified forms and time frames. • In addition, Article 21 of the Annex to the Convention provides that the CBU may carry out or order on-site or off-site supervision of credit institutions. On-site supervision may be extended to subsidiaries of credit institutions, to persons who are responsible, <i>de facto</i> or <i>de jure</i>, for their senior management, and to their subsidiaries. Moreover, credit institutions cannot oppose such supervision (Article 59 of the Banking Law). • In addition, Article 53 of the Banking Law and Article 26 of the Annex to the Convention provide that professional secrecy is not binding on the Banking Commission. <p>In terms of contacting the board of directors, senior management, and staff, Article 24 of the Annex to the Convention provides that the CBU "may conduct simple hearings of the members of senior management of supervised institutions and any persons whose assistance may be useful."</p> <p>On-site supervision investigations will involve discussions with executive management, and possibly the chair of the board of directors, in connection with the launch and feedback meetings. In addition, a feedback form is submitted by the general manager of the institution.</p> |
| EC8 | <p>The supervisor has a means of enforcing compliance with the requirement that the information be submitted on a timely and accurate basis. The supervisor determines the</p> |

²⁷ Please refer to Principle 1, Essential Criterion 5.

| | |
|----------------------------------|---|
| | appropriate level of the bank's senior management is responsible for the accuracy of supervisory returns, imposes sanctions for misreporting and persistent errors, and requires that inaccurate information be amended. |
| Description and Conclusions, EC8 | <p>Regulatory Requirements</p> <p>Articles 71 and 72 of the Banking Law explicitly provide penalties for refusing to report information, for reporting incomplete or knowingly reporting inaccurate information, and for obstructing supervision.</p> <p>Similarly, Instructions 03-05-2017 and 022-11-2016, respectively, on the filing of periodic statements and the mechanisms for filing summary documents from credit institutions provide that the failure to comply with the rules on the quality of reporting and the deadlines for submission will constitute grounds for penalties provided by the current banking regulations. A system of penalties is provided for the late submission of prudential statements (see EC1).</p> <p>In practice, the CBU does not impose penalties only on the basis of prudential information that is repeatedly incorrect or not submitted in a timely manner.</p> |
| EC9 | The supervisor utilises policies and procedures to determine the validity and integrity of supervisory information. This includes a programme for the periodic verification of supervisory returns by means either of the supervisor's own staff or of external experts. ²⁸ |
| Description and Conclusions, EC9 | <p>The system for verification and assessment of the validity and integrity of the prudential information involves four types of intervention:</p> <ul style="list-style-type: none"> • Legal checks of the accounting statements and internal control by the auditors; verification of the quality of the financial and prudential statements. • Automated consistency checks integrated into the reporting platforms. The FODEP reporting system includes 10,000 control rules. • Off-site supervision activities carried out by the DSP, that verifies the plausibility of the information submitted with various cross checks and consistency controls, as well as its compliance with the current regulatory texts. • Targeted checks that may be carried out by the DCPME in the context of general or specific surveys. In fact, it is not uncommon for deficiencies to be identified in connection with the automation and reliability of the production processes. |
| EC10 | The supervisor clearly defines and documents the roles and responsibilities of external experts, ²⁹ including the scope of the work, when they are appointed to conduct supervisory tasks. The supervisor assesses the suitability of experts for the designated task(s) and the quality of the work and takes into consideration conflicts of interest that could influence the |

²⁸ May be external auditors or other qualified external parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions.

²⁹ May be external auditors or other qualified external parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions. External experts may conduct reviews used by the supervisor, yet it is ultimately the supervisor that must be satisfied with the results of the reviews conducted by such external experts.

| | |
|-----------------------------------|--|
| | output/recommendations by external experts. External experts may be utilised for routine validation or to examine specific aspects of banks' operations. |
| Description and conclusions, EC10 | <p>The use of external experts is limited to the auditors. They contribute to prudential supervision pursuant to Circular 02-2018/CB/C. To date, the CBU has not requested any other external experts to conduct specific missions in the institutions.</p> <p>The auditors are not subject to supervision by the Banking Commission. Should the Supervisory Authority identify any anomalies in the certified accounts, the DPS may notify the auditors. The SGCB or CBU may also summon the auditors of the institution, particularly in connection with a simple hearing provided in Article 24 of the Annex to the Convention. This option has not been exercised to date.</p> |
| EC11 | The supervisor requires that external experts bring to its attention promptly any material shortcomings identified during the course of any work undertaken by them for supervisory purposes. |
| Description and Conclusions, EC11 | Article 19 of Circular 02-2018 requires the auditors to report immediately to the CBU when they become aware of any illegal events or those that may compromise the business continuity of an institution. In addition, the auditors are required to prepare a specific report on compliance with prudential regulations and an evaluation report on internal control. Implicitly, they are required to report, as soon as possible, any significant deficiencies observed in the course of their audits. |
| EC12 | The supervisor has a process in place to periodically review the information collected to determine that it satisfies a supervisory need. |
| Description and Conclusions, EC12 | The CBU has not introduced a procedure for periodic review of the information collected. |
| Assessment of Principle 10 | Largely Compliant |
| Comments | <p>The entry into force of the revised banking chart of accounts has helped to bring the accounting standards applicable to credit institutions in the Union closer to international standards. More specifically, the new standards have made it possible to supplement the qualitative information accompanying the submission of the accounts.</p> <p>The reporting mechanism is in place and is secured with multiple automated consistency checks. However, the survey reports fairly regularly highlight problems in institutions' reporting systems. The semiannual submission prudential statements—excluding liquidity ratios— would seem to be insufficient but will be reviewed in the framework of the new banking law. Penalties are not systematically applied for recurrent errors in the submission of prudential statements.</p> <p>In addition, it would seem that the SGCB does not have a detailed view of institutions using models for the valuation of securities portfolios or foreign exchange transactions. In fact, the supervisory authority has never carried out any checks on the development of any of such models or on the principles of governance and the relevant supervision.</p> <p>Recommendations:</p> |

| | |
|----------------------------------|--|
| | <ul style="list-style-type: none"> • A quarterly periodicity should be established for the submission of prudential statements, particularly in systemic cases. • A survey of institutions should be prepared using the internal model for the valuation of the trading book, and the necessary steps should be taken to verify the regulatory requirements. • It should be ensured that the system of penalties for delays in receiving reporting statements is properly applied. |
| Principle 11 | Corrective and Sanctioning Powers of Supervisors |
| | <p>The supervisor acts at an early stage to address unsafe and unsound practices or activities that could pose risks to banks or to the banking system. The supervisor has at its disposal an adequate range of supervisory tools to bring about timely corrective actions. This includes the ability to revoke the banking licence or to recommend its revocation.</p> <p>(Reference document: <i>Parallel-owned banking structures</i>, January 2003.)</p> |
| Essential Criteria | |
| EC1 | <p>The supervisor raises supervisory concerns with the bank's management or, where appropriate, the bank's Board, at an early stage, and requires that these concerns be addressed in a timely manner. Where the supervisor requires the bank to take significant corrective actions, these are addressed in a written document to the bank's Board. The supervisor requires the bank to submit regular written progress reports and checks that corrective actions are completed satisfactorily. The supervisor follows through conclusively and in a timely manner on matters that are identified.</p> |
| Description and Conclusions, EC1 | <p>Procedures for Control and Referral to the Board of Directors of the Institutions</p> <p>The regulatory texts of the Union allow the CBU to contact the board of directors of the supervised institutions at any time, on any matters (surveillance measures, surveillance decisions deriving from supervision results, and progress in connection with recommendations), including prudential or other matters (governance and management, internal supervision, risk surveillance, AML-CFT, etc.). In accordance with Article 41 of the Annex to the Convention, the decisions of the CBU are binding, <i>ipso jure</i>, upon their notification.</p> <p>Referral mechanisms may be applied in the context of off-site supervision or in the context of on-site inspections. Any shortcomings or risks identified in the context of off-site supervision will be brought to the attention of the governing bodies of the supervised institution involved.</p> <p>Where on-site supervision is concerned, Article 27 of the Annex to the Convention provides that the conclusions will be brought to the attention of the board of directors of the institution in question. This notification will be in the form of a follow-up letter (LDS) prepared by the inspector who conducted the mission, highlighting the shortcomings and violations of the banking regulations that have been identified. Under the existing procedure, the follow-up letter asks the institution to take appropriate steps to correct the problems, within the specified time limit, and to keep the SGCB and the National Directorate of the country where the supervised institution is located informed. A statement of the main problems identified and a follow-up sheet will be attached to the follow-up letter. These two documents must be returned to the SGCB and submitted to the National Directorate of the BCEAO of the country in which the institution is located, within one month after the letter has</p> |

been received, with the signature of the authorized persons. The implementation of the recommendations must be certified by the auditors.

Senior Management Hearings

Under Article 24 of the Annex to the Convention, the CBU may conduct a simple hearing of members of senior management from supervised institutions to gain a better understanding of the circumstances under which the regulatory issues occurred. The Banking Commission has used the option of simple hearings on several occasions. For example, at its meeting on September 20, 2021, two credit institutions were summoned for a simple hearing before the Banking Commission. This option should be subject to further development.

Injunctions

In light of the shortcomings observed, the CBU can also issue an injunction to supervised institutions ordering them to adopt corrective or precautionary measures required to correct the problems, within a specified time frame, under appropriate conditions to protect the depositors. Injunctions will be issued as a formal decision, indicating the regulatory basis, the justification, and the substance of the decision. The CBU will adopt Injunctions at its meetings, or they may be adopted by its Chair in connection with the powers delegated to him or her. The decision to issue Injunctions will be announced to the chair of the board of directors of the supervised institution involved. The CBU uses Injunctions on a regular basis (see Table 6).

Institutions must ensure that they document the implementation of the recommendations. Statements must be supported with evidence (such as the certification of the auditors). The Annex to the Convention does not establish a deadline for the implementation of orders.

Placement Under Special Surveillance

Orders may be accompanied with a placement under special surveillance as provided in Article 29 of the Annex to the Convention, and the institution will be required to produce a periodic report, in the specified format, so that the implementation of the terms of order can be monitored. The reporting mechanisms will be specified in the decision of the CBU.

To date, placement under special surveillance has meant that an order has been issued. The amendment of the draft banking law provides an opportunity to expand the conditions for placing a supervised institution under special surveillance, in addition to the cases of monitoring the terms of an order. Fourteen credit institutions are currently under special surveillance.

Monitoring of Corrective Measures

The DSP will prepare a monitoring table for recommendations. This monitoring may be carried out through requests for information made by the off-site supervision function, or possibly by new on-site supervision missions. The DSP in fact organizes meetings to assess the proper monitoring of on-site-supervision activities. They generally involve the Director of the DSP, his or her deputy, and the analyst responsible for monitoring the institution. These meetings will be subject to minutes to be submitted to the Chair of the CBU. If an institution fails to make progress in implementing the recommendations, this may constitute grounds for another investigation to be arranged before any administrative or disciplinary procedures are undertaken.

However, in light of the number and the sensitivity or severity of the comments and recommendations made in on-site supervision reports, it might be useful to increase the frequency of discussions with representatives and key staff of the institutions involved to

| | |
|----------------------------------|--|
| | <p>ensure that implementation of the corrective measures receives special follow-up. Similarly, it might be useful to include more frequent checks by follow-up missions in the program to ensure that the recommendations are being properly implemented.</p> |
| EC2 | <p>The supervisor has available³⁰ an appropriate range of supervisory tools for use when, in the supervisor's judgement, a bank is not complying with laws, regulations or supervisory actions, is engaged in unsafe or unsound practices or in activities that could pose risks to the bank or the banking system, or when the interests of depositors are otherwise threatened.</p> |
| Description and Conclusions, EC2 | <p>System of Administrative Measures and Penalties</p> <p>The CBU has adequate powers and a broad range of tools to intervene with institutions subject to its supervision that fail to comply with the banking regulations. These tools include administrative measures and disciplinary penalties, depending on the seriousness of the situation of the institution involved.</p> <p>(1) Administrative measures include warnings or injunctions. Injunctions entail ordering the implementation of remedial or precautionary measures.</p> <ul style="list-style-type: none"> • Remedial measures may include applying increased capital or liquidity requirements appropriate for the institution's circumstances, or requiring strengthened governance, risk management, or internal supervision systems, and the establishment of further provisions for assets. • Precautionary measures relate in particular to the suspension of all or part of the shareholders' rights, limiting or prohibiting discretionary distributions, particularly dividends to shareholders, remunerations of shares to members, remuneration bonuses, or implementation of the preventive recovery plan that all supervised institutions are required to prepare. <p>Supervised institutions that have not obeyed an order from the CBU are considered to have violated the banking regulations.</p> <p>2) <u>Disciplinary penalties</u></p> <p>Any violations of the banking regulations are subject to a disciplinary penalty and/or fine. Article 31.1 of the Annex to the Convention lists the arsenal of possible disciplinary penalties:</p> <ul style="list-style-type: none"> • Warnings. • Reprimands. • Suspension or prohibition of all or some operations. • Any other limits to the professional practice. • Suspension or resignation of the responsible members of senior management. • Disqualification of the responsible persons from senior management, administration, or management of an institution subject to its supervision or one of its agencies. Depending on the seriousness of the violation, this restriction may be permanent or |

³⁰ Please refer to Principle 1.

limited in time. This restriction may be imposed even after the foregoing persons have left office.

- Withdrawal of license or authorization to become established.

Fine Amounts

Instruction 06-05-2018 establishing the rules for the application fines sets the amount of the penalties according to the type of violation and defines three categories of violations. The fine amounts are not established by type of disciplinary penalty, but instead by the category of the violation. In some cases, fines issued correspond to the maximum penalty provided by the regulation for the category of institution involved.

Provisional Administration

Under Articles 34 and 35 of the Annex to the Convention, the CBU may also decide to place a supervised institution under provisional administration or liquidation. The provisional administrator is appointed through regulatory channels in a decree of the minister responsible for finance of the host country of the institution's headquarters. To date, only one institution in the Union, that receives government support, has been placed in provisional administration. In this connection, we should note that the provisional administrator has been renewed regularly since he took office in 2013, even though the situation of the institution has not improved, in light of the minimum capital violations observed. The regulations do not currently set a time limit for the term of a provisional administrator. Article 6 of Circular 06-2011/CB/C only specifies that the minister responsible for finance can remove a provisional administrator from office after having requested a decision of the Banking Commission, or at its request. Terms of office may be extended by the Minister of Finance, after having requested a decision from the CBU, or at its request. This systematic extension, endorsed by the CBU, is at odds with the temporary nature of such a function.

Article 9 of the Circular indicates that the provisional administrator is required to submit a number of reports while in office and at the end of his or her assignment. In this case, it is mentioned in the minutes of the 117th meeting session that the information provided in the provisional administrator's performance reports does not change from one period to the next.

Supervisor's Practices in Connection with Penalties

In practice, it should be noted that, during the past three years, the CBU has made extensive use of orders and reprimands to impose corrective measures or to punish institutions in violation of the regulations. Financial penalties have been issued only twice during the past three years. The infrequent use of fines poses questions in the following areas:

- The criticality of certain observations (governance, risk management, and AML-CFT) that appear in on-site supervision reports.
- The substantial number of institutions found to be in violation of the prudential ratios.

The identification of serious violations of the regulations does not systematically lead to stringent penalties commensurate with the type of the violation.

One example in this connection was brought to the mission's attention. One institution, under special surveillance as the result of an order, was included in the 2019 audit program for two

reasons: a specific investigation and implementation of an order issued in 2018. Examination of the report showed that the order had not been observed, and that the violations of the regulations were particularly serious. This situation led to the continuation of the special surveillance and to another order, effective no later than December 31, 2020:

- To correct its financial position by significantly reducing its overall debt.
- To establish all required provisions.
- To take steps to discontinue intermediation and investment operations.

The serious anomalies in the inspection report on the absence of a credit program, the unreliability of the accounting system, conflicts of interest, and failure to comply with the money laundering regulations (see table below) did not give rise to any penalties.

Deficiencies Identified in an On-Site Inspection

| Governance | Risk and Supervision | Credit | Liquidity | Operational Risk | AML-CFT |
|--|--|--|--|--|--|
| -Charter out of date -Representation powers of the main shareholder not submitted -A director declared to be independent did not meet the independence criteria -Board of directors' minutes not submitted to the Banking Commission -Budget execution not monitored by the board of directors -No indication that the board of directors monitors the strategic plan -Mechanism for approving staff loans not compliant with Article 45 | -Risk appetite level not approved -Specialized committees not effective -Supervision functions have no resources -No periodic meetings with internal control manager -Annual supervision plan not prepared or approved -No internal audit charter or manual -Five audit reports not submitted to the board of directors -Accounting information system not reliable or comprehensive -Chart of accounts instructions revised with no detailed specifications | -No credit policy validated by the board of directors -Standard composition of credit applications not specified in the procedures -No system to monitor large risks -No system to monitor exposures with related parties (no supporting documentation for transactions with related parties) -No system to prevent conflicts of interest when loans are granted -Operating rules of the credit committee not specified -Risk manager not involved in granting loans -No procedures for restructured loans, | -No liquidity, interbank operations, or securities management procedures | -Risk mapping not comprehensive -Several judiciary proceedings in progress -Substantial exposure to computer virus risk (Use of Windows 7) -No business continuity plan or backup site -Data center not secure | -Policy not approved by board of directors -Procedures not updated to reflect Instruction 07-09-2017 -No procedure on cash remittances at windows -Know your customer information not always complete -No national information processing unit correspondent -No surveillance of cash operations -No suspicious transaction register -No establishment of thresholds for unusual transactions |

| | | | | | | |
|--|--|--|--|--|--|--|
| | | <p>-No layout of accounts compendium</p> | <p>collections, or disbursement of loans</p> <p>-No separation of functions</p> <p>-No annual review of borrower risks or comprehensive analysis of the financial situation and repayment capacity</p> <p>-No quarterly review of overdue loans</p> <p>-No downgrading date for doubtful and restructured claims.</p> <p>-Statements of commitments not reconciled with those issued by the information system for most of the 25 largest commitments</p> <p>-Loans granted without recording in the accounting systems</p> <p>-Downgrading in Excel without entry in the accounting systems</p> <p>-Largest credit beneficiary not recorded in the loan accounts but internal account monitoring [...] reimbursement monitoring in place (loan validated by GM and administrator of the counterparty to</p> | | | |
|--|--|--|--|--|--|--|

| | | | which the loan was granted) -Provisioning procedure refers to a nonexistent instruction | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|------|--|------|--|--|-----------|--|------|------|------|--------------------------------|-----------------------------|----|----|---|----------------------|---|---|---|-------------------------------|----------|---|---|---|------------|----|---|---|-------|---|---|---|---|---|---|---|-----------------------|---|---|---|
| <p>However, we must acknowledge the increased use of penalties in examining the minutes from meetings of the CBU at the beginning of 2021. Eight fines were issued between 2019 and September 2021.</p> <p style="text-align: center;">Profile of Decisions by the Banking Commission Between 2018 and 2020</p> <table border="1"> <thead> <tr> <th colspan="2">Decisions</th> <th>2018</th> <th>2019</th> <th>2020</th> </tr> </thead> <tbody> <tr> <td rowspan="2">Administrative Measures</td> <td>Administrative instructions</td> <td>50</td> <td>31</td> <td>9</td> </tr> <tr> <td>Special surveillance</td> <td>1</td> <td>2</td> <td>3</td> </tr> <tr> <td rowspan="5">Disciplinary Penalties</td> <td>Warnings</td> <td>5</td> <td>9</td> <td>0</td> </tr> <tr> <td>Reprimands</td> <td>26</td> <td>1</td> <td>4</td> </tr> <tr> <td>Fines</td> <td>2</td> <td>0</td> <td>0</td> </tr> <tr> <td>Suspension and prohibition from operation</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Revocation of license</td> <td>1</td> <td>0</td> <td>0</td> </tr> </tbody> </table> <p>Source: Reports from the WAMU Banking Commission (2018, 2019, and 2020).</p> <p>Publication of Disciplinary Penalties</p> <p>Article 33 of the Annex to the Convention provides that disciplinary penalties imposed by the CBU may be made public. The relevant mechanisms are provided in a 2018 circular. <u>To date, however, the CBU has yet to exercise this option. The SGCB indicated that the CBU would consider using it.</u></p> | | | | | | | Decisions | | 2018 | 2019 | 2020 | Administrative Measures | Administrative instructions | 50 | 31 | 9 | Special surveillance | 1 | 2 | 3 | Disciplinary Penalties | Warnings | 5 | 9 | 0 | Reprimands | 26 | 1 | 4 | Fines | 2 | 0 | 0 | Suspension and prohibition from operation | 0 | 0 | 0 | Revocation of license | 1 | 0 | 0 |
| Decisions | | 2018 | 2019 | 2020 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Administrative Measures | Administrative instructions | 50 | 31 | 9 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Special surveillance | 1 | 2 | 3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Disciplinary Penalties | Warnings | 5 | 9 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Reprimands | 26 | 1 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Fines | 2 | 0 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Suspension and prohibition from operation | 0 | 0 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Revocation of license | 1 | 0 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EC3 | The supervisor has the power to act where a bank falls below established regulatory threshold requirements, including prescribed regulatory ratios or measurements. The supervisor also has the power to intervene at an early stage to require a bank to take action to prevent it from reaching its regulatory threshold requirements. The supervisor has a range of options to address such scenarios. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Description and Conclusions, EC3 | Under its powers of intervention, when a bank no longer meets certain regulatory threshold requirements, particularly prudential ratios, as a corrective measure, in the framework of an order, the CBU may require an institution to submit a plan, along with a schedule, to restore compliance. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| | |
|----------------------------------|---|
| | <p>Moreover, in connection with early intervention measures, before the regulatory thresholds have been crossed, the CBU may require an institution to take the following precautionary measures, <i>inter alia</i>:</p> <ul style="list-style-type: none"> • To sell off any activities likely to compromise its financial soundness. • To allocate all or part of its earnings for the fiscal year to strengthen its capital. • To suspend, on a temporary basis, the free disposal of all or some of the assets. <p>The CBU has indicated that it has already established such measures, although this does not appear to be systematic for institutions whose situation has deteriorated. It was found, however, that the partial or total allocation of earnings for the fiscal year to strengthen the capital had already occurred.</p> |
| EC4 | <p>The supervisor has available a broad range of possible measures to address, at an early stage, such scenarios as described in essential criterion 2 above. These measures include the ability to require a bank to take timely corrective action or to impose sanctions expeditiously. In practice, the range of measures is applied in accordance with the gravity of a situation. The supervisor provides clear prudential objectives or sets out the actions to be taken, which may include restricting the current activities of the bank, imposing more stringent prudential limits and requirements, withholding approval of new activities or acquisitions, restricting or suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from the banking sector, replacing or restricting the powers of managers, Board members or controlling owners, facilitating a takeover by or merger with a healthier institution, providing for the interim management of the bank, and revoking or recommending the revocation of the banking licence.</p> |
| Description and Conclusions, EC4 | <p>The regulatory texts of the Union, as indicated in EC2 and BCP1, offer a broad, adequate range of measures to undertake remedial action or to punish institutions that are becoming fragile or that have committed violations.</p> <p>Management of institutions in long-term noncompliance</p> <p><u>It may be difficult for the CBU to make rapid decisions and to adopt appropriate, effective measures against institutions that are in long-term noncompliance or that are financially very fragile.</u> For example, the mission carefully examined the treatment by the CBU of three institutions (one public bank and two privately owned banks) that are in recurrent violation of the minimum capital regulations and that do not generally meet all regulatory requirements.</p> <p>The resolution of these violations is impeded, according to the information indicated in the minutes of the sessions of the CBU by the failure of senior management of these institutions to fulfill many commitments. These actions can be interpreted by the members of the CBU as delaying tactics, indicative of the need to involve member countries that are shareholders or that are engaged in the management of the cases.</p> <p>These three institutions have not complied with the decision of the Council of Ministers of March 30, 2015, on capital stock for which the deadline for compliance expired on June 30, 2017. <u>The disciplinary procedures in progress have been pending since 2018. These institutions have received numerous administrative instructions and reprimands, without any major progress,</u> except for one institution that is reportedly no longer in violation of the minimum capital requirement, according to the minutes of the CBU from June 2021.</p> <p>It should be borne in mind, however, that, in 2018, the CBU decided, albeit after lengthy delays, to place an Ivorian bank in provisional administration, and subsequently in</p> |

liquidation, and this process was carried out under satisfactory conditions from the standpoint of stability.

Summary of Measures Adopted by the CBU Against the Three Credit Institutions in Violation of Minimum Capital Requirements

| Institution | Type of Shareholding | Systemically Important Banking Institution | Type of Violation Examined by the Banking Commission | Measures Adopted | Delayed Decision | Status of disciplinary procedure | Existence of Other Prudential Violations |
|-------------|--|--|--|---|---|----------------------------------|--|
| A | Private but shares held by the host country government | No | Minimum capital | Order and reprimand (December 2017, September 2018); Order (September 2019) Under special surveillance In provisional administration since 2010 | December 14, 2018, March 18 and June 19, 2019 | Pending | Yes (representation of capital with Tier 1 capital, solvency, liquidity) |
| B | Private | No | Minimum capital | Order and reprimand (December 2017, September 2018) Order (2019) Under special surveillance | December 14, 2018, March 18 and June 19, 2019 | Pending | Yes (representation of capital with Tier 1 capital, solvency) |
| C | Public | No | Minimum capital | Order and reprimand (December 2017, September 2018) Order 2019 Under special surveillance | December 14, 2018, March 18 and June 19, 2019 | Pending | Yes (representation of capital with Tier 1 capital, solvency) |

Challenges for Credibility and Independence

It was found in the review of the minutes of the meetings that the Chair and some members of the board openly questioned the credibility of the supervision authority in light of the duration of the violations.³¹

This situation may lead to the questioning of the degree of the CBU's independence from the countries. In this connection, it is important to note that, if only one of the three banks is in fact public, another receives direct support from the government, that is responsible for holding the majority shareholder's securities. The third institution is aware of the

³¹ Page 46 of the final minutes of the 117th Session of the WAMU Banking Commission of September 18, 2019.

| | |
|----------------------------------|--|
| | <p>government's intervention in the follow-up of the case. In addition, the Chair of the CBU reminds members to avoid excessive interference from the governments.</p> <p>It should also be noted that these institutions are not systemic, including at the national level, according to the list drawn up by the CBU. It would appear, however, that this argument may be made (incorrectly) in sessions to justify precautions in handling the cases.</p> <p>An Example of a Proposal for Placing an Institution in Administration by the SGCB and not Adopted by the CBU</p> <p>The review of the minutes brought to light the situation of an institution in violation of almost all of the prudential rules, particularly involving solvency and liquidity.</p> <p>As proof that the situation of this establishment is seriously compromised, the SGCB had proposed its provisional administration at the 117th Session in September 2019. The CBU had ultimately decided to defer the decision and issue an order to the institution.</p> <p>At the 120th Session, the institution was issued a reprimand with an order to increase its capital, to comply with the capital rules, and more specifically, representation with Tier 2 capital and intensified collection activities. In addition, a review of the minutes brought to light a government's financial intervention in the case and a contribution from the SGCB to special surveillance.</p> <p>The case was no longer mentioned in CBU meetings beginning with the 124th Session of June 2021. It was decided to maintain the special surveillance and to ask the SGCB to submit a report on the situation of the institution, that had negative Tier 1 capital of CFAF 84.2 billion at December 31, 2020, at the next meeting.</p> |
| EC5 | The supervisor applies sanctions not only to the bank but, when and if necessary, also to management and/or the Board, or individuals therein. |
| Description and Conclusions, EC5 | <p>The power to issue disciplinary penalties of the WAMU CBU applies to both the supervised institutions and to the persons involved in their administration and management.</p> <p>For example, some of the disciplinary penalties provided in Article 31.1 of the Annex to the Convention specifically target the directors and members of senior management of the supervised institutions (warnings, reprimands, suspension of duties, limits to professional practice, resignation from office, disqualification from senior management, the board of directors, or management of an institution under its supervision). Depending on the seriousness of the offense, this restriction may be permanent or limited in time. This restriction may be issued even after such persons have left office.</p> <p>Since 2017, the CBU has applied 18 penalties to members of senior management of institutions subject to its supervision. <u>However, during the period 2017-2020, 14 of the 16 penalties targeted members of senior management and directors of decentralized financial systems.</u></p> <p style="text-align: center;">Penalties Issued by the Banking Commission to Members of Senior Management of Supervised institutions</p> |

| No. | Position Category | Country | Penalties | Decision References | Duration of Penalty | Date |
|---|---|---------------|---|---------------------|------------------------------------|----------|
| 1 | PCA* | Mali | Resignation, disqualification from holding office**** | 060-12-2017/CB/C | N/A | 12/11/17 |
| 2 | DG** | Mali | Resignation, disqualification from holding office | 061-12-2017/CB/C | N/A | 12/11/17 |
| 3 | DG | Senegal | Reprimand | 026-06-2018/CB/C | N/A | 06/20/18 |
| 4 | Director | Burkina | Suspension, disqualification from holding office | 028-06-2018/CB/C | - | 06/20/18 |
| 5 | PCA | Togo | Reprimand | 053-06-2019/CB/C | N/A | 06/19/19 |
| 6 | PCA | Benin | Suspension, disqualification from holding office | 054-06-2019/CB/C | - | 06/19/19 |
| 7 | Former DG | Benin | Disqualification from holding office | 056-06-2019/CB/C | - | 06/19/19 |
| 8 | DGA*** | Benin | Reprimand | 075-09-2019/CB/C | N/A | 09/18/19 |
| 9 | Former PCA | Benin | Reprimand | 076-09-2019/CB/C | N/A | 09/18/19 |
| 10 | Former DG | Benin | Reprimand | 077-09-2019/CB/C | N/A | 09/18/19 |
| 11 | Former PCA | Côte d'Ivoire | Disqualification from holding office | 091-12-2019/CB/C | Permanent ban | 16/12/19 |
| 12 | Former Director | Côte d'Ivoire | Disqualification from holding office | 092-12-2019/CB/C | Permanent ban | 16/12/19 |
| 13 | PCA | Mali | Warning | 091-12-2020/CB/C | N/A | 12/09/20 |
| 14 | Director | Mali | Reprimand | 092-12-2020/CB/C | N/A | 12/09/20 |
| 15 | PCA | Niger | Disqualification from holding office | 002-03-2021/CB/C | Five years (March 2021-March 2026) | 03/17/21 |
| 16 | General Manager | Niger | Disqualification from holding office | 003-03-2021/CB/C | Five years (March 2021-March 2026) | 03/17/21 |
| <p>*PCA – Chair of the Board of Directors **DG – General Manager ***DGA – Deputy General Manager ****Disqualification from holding office: disqualification from holding positions in administration, senior management, or management in a decentralized financial system, credit institution, or any other institution under the supervision of the Banking Commission of the West African Monetary Union.</p> | | | | | | |
| EC6 | The supervisor has the power to take corrective actions, including ring-fencing of the bank from the actions of parent companies, subsidiaries, parallel-owned banking structures and other related entities in matters that could impair the safety and soundness of the bank or the banking system. | | | | | |
| Description and Conclusions, EC6 | Circular 3-2020/CB on the conditions and mechanisms for the application of the resolution system does not explicitly indicate the possibility of establishing a ring-fencing system to protect the bank against the operations of the parent company or subsidiaries. However, provisions in Articles 29, 30, and 31 might be used for that purpose. | | | | | |
| EC7 | The supervisor cooperates and collaborates with relevant authorities in deciding when and how to effect the orderly resolution of a problem bank situation (which could include closure, or assisting in restructuring, or merger with a stronger institution). | | | | | |
| Description and | As indicated above, the CBU is both the supervisory authority (the Supervision Board) and the resolution authority (the Resolution Board) of the WAMU. These two Boards are designed to cooperate closely in the implementation of the resolution mechanism. Accordingly, the entry in resolution of an institution considered not to be viable or to have any prospects to restore | | | | | |

| | |
|-------------------------------------|--|
| Conclusions, EC7 | <p>viability is decided in accordance with Article 52 of the Annex to the Convention by the Resolution Board, at the request of the Supervision Board.</p> <p>Cooperation with the Competent Authorities</p> <p>The Resolution Board also cooperates with other units or authorities of the WAMU involved in the process of implementing the resolution mechanism. In this connection, it may, under Articles 53 and 58 of the Annex to the Convention, involve the Deposit Guarantee and Resolution Fund of the WAMU to finance resolution actions.</p> <p>The information from the national host country authorities of the institution in resolution, in this case, the minister responsible for finance, on implementation of resolution measures will also be covered by the Chair of the Commission, in accordance with Article 55 of the Annex to the Convention.</p> <p>In terms of collaboration with foreign authorities, within the framework of cross-border groups, the CBU has signed 11 cooperation agreements or memorandums of understanding with foreign supervision and resolution authorities.</p> <p><u>It is important to note, however, that the Union's cross-border banks are present in approximately 30 countries. Moreover, to date, the task of mapping the parties (other than the supervisor) that might be involved in resolution activities (such as finance ministries and central banks) has not been carried out in a comprehensive manner.</u></p> <p>Absence of Appeals in Connection with the Resolution Regime</p> <p>The CBU has never implemented a recovery plan to date, despite the existence of persistent prudential violations in some institutions. Pending a fully operational resolution regime, the CBU has given preference to other forms of intervention. The CBU considers that it has an appropriate and sufficiently broad range of tools to manage highly vulnerable institutions without having to resort to recovery plans.</p> <p>While this argument makes sense at the conceptual level, it should be borne in mind that the measures taken to correct the situation of vulnerable institutions eligible under the established criteria to be placed in resolution have not led to any improvement in the prudential situation in a number of institutions. Accordingly, for several years, three institutions have been in violation of the solvency ratio, the representation of minimum capital with Tier 1 capital, and the solvency ratio, without any prospect of correcting these problems.</p> |
| Additional Criterion | |
| AC1 | Laws or regulations guard against the supervisor unduly delaying appropriate corrective actions. |
| Description and Conclusions, AC1 | The regulations do not in any way prohibit the supervisory authority from unnecessarily delaying remedial measures. |
| AC2 | When taking formal corrective action in relation to a bank, the supervisor informs the supervisor of non-bank related financial entities of its actions and, where appropriate, coordinates its actions with them. |

| | |
|-----------------------------------|--|
| Description and Conclusions, AC2 | Microprudential coordination with the surveillance authorities of nonbank financial institutions is limited (see BCP 3). |
| Assessment of Principle 11 | Non-compliant |
| Comments | <p>The WAMU CBU has a broad mix of penalties at its disposal, so that administrative or enforcement measures can be applied to credit institutions found to be in violation of the regulations. In addition, the regulations classify offenses by seriousness and define the amount of the fines that can be issued for each type of violation.</p> <p>The CBU frequently tends to use orders when it identifies situations of vulnerability in institutions.</p> <p>By contrast, this preventive action is not combined with enforcement activities, to reflect the stakes and risks involved. First, the CBU has been very tolerant with some institutions that have committed sustained violations of the prudential regulations or that are in serious noncompliance with the regulations. In this connection, we should bear in mind that a substantial number of credit institutions have been non-compliant with the minimum capital rules and/or the prudential ratios on a prolonged basis. In light of such situations, in the best cases, the CBU has almost systematically resorted to reprimands. It can also use deferred decisions, sometimes in consecutive sessions, in case of persistent violations, that risk allowing the situations to worsen. The mission also noted the case in which the SGCB proposed for a very vulnerable institution, which had accumulated multiple prudential violations and governance issues, to be placed in provisional administration, in light of the seriousness of the situation. The CBU did not adopt the SGCB's proposal and decided to issue an order to give it more time to decide.</p> <p>Similarly, the placement of fragile institutions under special surveillance can extend indefinitely. One case of special surveillance for more than 25 years was identified.</p> <p>This failure to react quickly is also likely to impact its credibility. The review of the minutes shows that this concern exists among some members of the commission. External interlocutors met during the mission also mentioned the issue of credibility. Penalties issued may be viewed as severe by some institutions, as opposed to the alleged leniency applied to other banks in far more serious situations of noncompliance. The situation of a very small institution in the Union that had been under provisional administration for more than eight years, with the implicit support of its host country, is symptomatic of the CBU's lack of stringency and responsiveness.</p> <p>The special treatment of these institutions also raises the question of the independence of the CBU from the member countries. Attempts at interference from governments on certain issues, that can in fact be complex, combined with the search for sources of capital contributions may encourage institutions to use more or less reliable recapitalization projects as a pretext to intensify their delaying tactics. None of these institutions are on the list of systemic institutions. Moreover, the CBU recently announced the removal from the register, liquidation, and withdrawal of the license of an institution, that in fact is private. This decision</p> |

would not seem to have entailed any problems from both from the legal standpoint and in terms of financial stability.

More generally speaking, in terms of the CBU's policy on penalties, we should note that it seems to be moving towards the increased use of fines, according to the decisions made in 2021. Fines have not been prioritized to date. From 2017 until 2020, the CBU issued only two token fines against institutions.

In addition, the review of several on-site supervision reports, monitoring tables from supervision missions, and notes issued to the CBU by staff of the SGCB brought to light significant deficiencies, particularly in the AML-CFT area, that would have merited more stringent penalties.

In addition, the CBU has not used its option to publish penalties to date. However, the position of the supervisory authority could evolve on this point.

Of course, the CBU can issue severe penalties against members of senior management in the institutions, although most of the decisions have so far involved decentralized financial systems. Accordingly, only two members of senior management of credit institutions were issued penalties during the period 2017-2020.

Moreover, it would be beneficial for some intervention mechanisms to be specified in greater detail. Accordingly, the provisional administration system currently has no legal time frame. This should be corrected in the proposed amendments to the banking law.

In the area of resolution, the supervisory authority has signed collaboration agreements with 11 supervisors, although the presence abroad of institutions established in the Union involves approximately 30 countries. Further action is therefore required to ensure that the conditions for an orderly resolution are present should such a situation arise. This action should also be accompanied by an exercise to identify and map all foreign players other than the supervisor that may be involved in the implementation of resolution measures.

Recommendations:

- It should be ensured that an effective policy of penalties is in place. The full range of available penalties should be applied, with the more frequent use of fines, and penalties issued against institutions should be published, for deterrent purposes.
- The issue of several consecutive deferrals of decisions in connection with the same case should be avoided so that decisions can be made more quickly.
- Extraordinary sessions should be held to monitor cases subject to special supervision.
- The authorities should formally establish the use of voting to adopt decisions on individual cases when no consensual solution has been found.
- Cases involving the resolution of institutions whose situations meet the acceptance criteria should be transferred to the Resolution Board.

| | |
|----------------------------------|--|
| | <ul style="list-style-type: none"> • The establishment of a maximum term should be considered for appointments of provisional administrators. • Actions to promote the signing of cooperation agreements should be continued, and it should be ensured that all parties involved in the resolution processes are properly identified for cross-border groups or foreign institutions, and they should be contractually included in the cooperation agreements. |
| Principle 12 | <p>Consolidated Supervision</p> <p>An essential element of banking supervision is that the supervisor supervises the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential standards to all aspects of the business conducted by the banking group worldwide.³²</p> <p>(Reference documents: <i>Home-host information sharing for effective Basel II implementation</i>, June 2006;³³ <i>The supervision of cross-border banking</i>, October 1996; <i>Minimum standards for the supervision of international banking groups and their cross-border establishments</i>, July 1992; <i>Principles for the supervision of banks' foreign establishments</i>, May 1983; and <i>Consolidated supervision of banks' international activities</i>, March 1979.)</p> |
| Essential Criteria | |
| EC1 | The supervisor understands the overall structure of the banking group and is familiar with all the material activities (including non-banking activities) conducted by entities in the wider group, both domestic and cross-border. The supervisor understands and assesses how group-wide risks are managed and takes action when risks arising from the banking group and other entities in the wider group, in particular contagion and reputation risks, may jeopardise the safety and soundness of the bank and the banking system. |
| Description and Conclusions, EC1 | <p>Entities Supervised on a Consolidated Basis</p> <p>Consolidated supervision was instituted by the decision of the WAMU Council of Ministers of June 24, 2016, the date it entered into force. Under the terms of this text, the following entities are subject to consolidated supervision:</p> <ul style="list-style-type: none"> • Parent credit institutions having at least one subsidiary that is another credit institution. • Financial holding companies that are entities that are not licensed as credit institutions and are the parent company of a banking group. • Intermediary financial holding companies that are not licensed as credit institutions and that hold all of the group's stakes in its subsidiaries and credit institutions operating in the WAMU. |

³² Please refer to footnote 19 under Principle 1.

³³ When assessing compliance with the Core Principles, this reference document is only relevant for banks and countries which have implemented Basel II.

- Any other intermediary entity of a group, particularly when warranted by the circumstances or changes in the structure of the group.

The concept of group is defined as a set of entities, each of which has a distinct legal personality and whose activity is controlled directly or indirectly by a parent company. A banking group is a group that engages in banking activities in the WAMU.

The scope of prudential consolidation is comprised of all financial enterprises (enterprises in the banking sector and in the financial markets sector) over which the parent company either directly or indirectly exercises exclusive or joint control, or significant influence.

Banking Groups in the WAMU Area

The annual report mentions 32 banking groups at December 31, 2020. They include 109 of the 149 institutions active in the Union.

Of these 32 groups, 18 are subject to consolidated supervision, including 17 financial companies and one parent credit institution (Banque de Développement du Mali). Financial companies include the six regional systemic institutions: three from the area (Ecobank, Oragroup, and Manzi Finances) and three from Morocco (Attijari West Africa, BOA West Africa, and Atlantic Business International).

Breakdown of Groups in the Union by Type

| | |
|--|----|
| Number of banking groups at 12/31/2020 | 32 |
| Of which, institutions supervised on a consolidated basis: | 18 |
| -Parent credit institutions | 1 |
| -Financial holding companies | 13 |
| -Intermediary financial holding companies | 4 |
| -Other intermediaries | 0 |

Source: 2020 Annual Report and SGCB meetings.

Fourteen banking groups are not subject to consolidated supervision. These are foreign banking groups having subsidiaries of credit institutions located within the WAMU, while the parent company is outside of the area, and for which the CBU has not requested the establishment of an intermediary financial holding company. They do not submit consolidated or combined accounts and are not required to file periodic internal supervision

or risk management reports. The BCEAO itself is required to prepare combined accounts as part of its procedure to identify systemic institutions.

The mission's analysis of the Annual Report found that these 14 groups in the WAMU area and not supervised on a consolidated basis include, *inter alia*:

- Three groups surveyed in the largest groups in terms of market share (holding more than 2 percent of banking assets): two of which have a French parent company (SG, which has five subsidiaries; and BNPP, which has three subsidiaries), one Nigerian group (United Bank for Africa, which has five 5 subsidiaries). This list includes national systemic institutions (SG Côte d'Ivoire and SG Sénégal).
- Six foreign banking groups comprising two to four subsidiary credit institutions (BGFFI Bank, Libyan Foreign Bank, Citigroup, Banque pour le Commerce et l'Industrie, Afriland First Group, and TLG Finance).
- Five foreign banking groups, including one credit institution (Standard Chartered, First Bank of Nigeria, Guaranty Trust Bank, Crédit Libanais, and African Guaranteed Fund).

The creation of intermediary financial holding companies was therefore not required for certain parent companies located abroad and having several subsidiaries located in the WAMU area. There is no internal methodology or policy to determine cases in which it would be advisable to establish a financial company and to justify cases in which it is not required.

The SGCB indicated that these entities are monitored on a consolidated basis by foreign supervision authorities, and that it currently checks in connection with the issue of licenses, when the CBU requires a notice that there are no objections from the home supervisory authority. The SGCB also indicated that it obtains information through its participation on the Supervision Board.

However, it was found that its participation on these boards involves a limited number of groups. In 2020, the SGCB participated in six supervision boards, three of which involved banks not supervised on a consolidated basis within the WAMU (Standard Chartered, GT Bank, and BGFIBank). For the others, the CBU was not invited and does not receive information.

We also note that the CBU has not concluded a cooperation and information sharing agreement with certain home supervisory authorities of these groups that are not supervised within the WAMU (Libya, Tunisia, etc.).

Last, some of these groups include nationally systemic institutions (such as SG) or fairly large institutions (such as UBA).

Location and Activity of Banking Groups

The annual report provides information on the origin of these 32 banking groups:

- 11 groups have parent companies in the WAMU, some of which are cross-border groups (Ecobank is present in 32 countries, Oragroup in four countries, and Coris Holding in six countries).
- Seven groups originate in the Maghreb (primarily Morocco, but also Libya, Tunisia, and Mauritania).
- Five banking groups are European (France, U.K., and Switzerland).
- Three groups are from the West African Monetary Zone (Nigeria).
- One group is from the CEMAC (Gabon).
- The other groups are from South Africa (1), Mauritius (1), Saudi Arabia (1), the U.S. (1), and Lebanon (1).

By definition, the activities of the 32 banking groups of the WAMU are primarily financial with a predominance of banking. The SGCB indicates that these groups engage in universal banking activities. Financial companies have subsidiary brokerage companies or information technology subsidiaries, but they do not account for a significant weight.

Some financial companies belong to groups that otherwise engage in insurance activity (such as the NSIA group, whose insurance activity is outside the scope of a financial company). There are no specific regulations for this type of cross-sector group whose activities are in different financial sectors (banking and insurance).

There is a framework for cooperation with the CIMA and exchanges are in place within the CSF-WAMU framework, but the two authorities do not organize periodic meetings to analyze individual cases of banking and insurance groups (see Principle 3). The findings were the same for the CREPMF in the supervision of banks having subsidiaries (management and intermediation companies) supervised by the market authority (see Principle 3).

Information Available to the Supervisory Authority on Banking Groups Supervised on a Consolidated Basis

SGCB obtains information on the 18 banking groups supervised on a consolidated basis through:

- The analysis of documents and information required for periodic regulatory reporting. The group-wide risk management approach is analyzed, *inter alia*, through the review of annual reports on the overall risk management mechanism as well as internal supervision reports.
- Limited review reports on the financial statements for the first half of the year, opinion reports on the annual financial statements, special reports on compliance with the prudential regulations, and reports on the assessment of the 50 largest risks produced by the auditors.
- On-site supervision missions. Two on-site supervision activities have been carried out since 2017.

| | |
|----------------------------------|---|
| | <ul style="list-style-type: none"> • Interviews with senior management of supervised groups. These meetings are organized in cases of vulnerability, although there are no scheduled periodic meetings, including for systemic groups. • Information sharing with the host or home supervision authorities of banking groups. <p>The CBU's level of information on groups supervised on a consolidated basis is limited by the few on-site inspections of financial companies and the infrequent meetings of the DSP with senior management or supervision functions (see Principle 9).</p> <p>Measures Taken by the Supervisory Authority</p> <p>The penalty mechanism defined in the Annex to the Convention is applicable to institutions subject to consolidated supervision. Moreover, the prudential system (Article 9) gives the CBU the possibility of limiting the scope of the activities that a supervised institution may undertake and the jurisdictions in which they are conducted. This article also allows the CBU not to authorize capital or organizational structures that prevent the authorities from obtaining consolidated financial data, or that in any other way impede the effective surveillance of a group. There have not yet been any cases in which this authority given by Article 9 has been applied.</p> |
| EC2 | <p>The supervisor imposes prudential standards and collects and analyses financial and other information on a consolidated basis for the banking group, covering areas such as capital adequacy, liquidity, large exposures, exposures to related parties, lending limits and group structure.</p> |
| Description and Conclusions, EC2 | <p>Prudential Standards Applicable to the 18 Entities Supervised on a Consolidated Basis</p> <p>The prudential system in force in the WAMU, that includes, in particular, the rules on capital adequacy, liquidity, and risk limits applies on an individual basis to banks and bank-like financial institutions, as well as on a sub-consolidated or consolidated basis to financial companies and parent credit institutions. The application of liquidity ratios is currently limited to institutions on an individual basis (see Principle 24).</p> <p>Limits placed on loans to key shareholders, members of senior management, staff, and auditors also apply to institutions on a consolidated basis. Last, institutions monitored on a consolidated basis are subject to the qualitative rules of internal supervision, compliance, and risk management, that also include special provisions for groups.</p> <p>Moreover, Article 7 of Decision 14/24/06/2016 provides that these supervised parties are required to comply on a consolidated or sub consolidated basis with the decisions of the Council of Ministers, circulars from the CBU, and instructions from the central bank. We should bear in mind that the banking law does not apply to financial companies, although this does not have any impact on the application of prudential requirements to these entities. This point will be amended in the future draft banking law.</p> <p>Application of Prudential Requirements</p> <p>The 2020 Annual Report of the CBU indicates that three of the 17 financial companies did not file consolidated accounting or prudential statements. Their weight in the banking sector in terms of the total balance sheet is 6.8 percent, 0.3 percent, and 0.3 percent, respectively.</p> |

While the latter two were recently established, the first was established at the end of 2019 and is a regional systemic institution. It has not submitted consolidated accounts since it was established in 2019. Some financial companies are in violation of various prudential regulations: one for the Tier 1 capital ratio, six for risk limits, and three for the leverage ratio (2020 Annual Report). Members of senior management have been summoned, but more coercive penalties have not been issued for these regulatory violations, that have been present for a number of years.

Compliance with Prudential Standards by Financial Companies at End-2020

| | Number of Financial Compliant with the Standards out of a Total of 14 | Weight in the Banking Sector (Total Assets) |
|----------------|---|---|
| Solvency Ratio | 13 | 95.8% |
| Risk Limits | 8 | 88.6% |
| Leverage Ratio | 11 | 94.8% |

Source: CBU Annual Report, 2020.

EC3 The supervisor reviews whether the oversight of a bank's foreign operations by management (of the parent bank or head office and, where relevant, the holding company) is adequate having regard to their risk profile and systemic importance and there is no hindrance in host countries for the parent bank to have access to all the material information from their foreign branches and subsidiaries. The supervisor also determines that banks' policies and processes require the local management of any cross-border operations to have the necessary expertise to manage those operations in a safe and sound manner, and in compliance with supervisory and regulatory requirements. The home supervisor takes into account the effectiveness of supervision conducted in the host countries in which its banks have material operations.

Description and Conclusions, EC3

Surveillance by Groups of their Activities Abroad

Local groups are supervised on a consolidated basis, including the activities of their subsidiaries outside of the WAMU. These groups and their subsidiaries abroad are subject to the internal control and risk management circulars that impose the following requirements:

- That adequate control activities must be incorporated into the routine functions of all staff at all levels, and into any function within the organization, to mitigate the identified risks (Article 11).
- To adopt a consistent internal audit approach for all subsidiaries in the group. The decision-making body of each subsidiary must ensure that the subsidiary has its own internal audit function, which reports to it, and submits reports to the internal audit function of the parent company (Article 22).

| | |
|----------------------------------|---|
| | <ul style="list-style-type: none"> • To have an internal supervision system aligned with good practices and adapted to the size, structure, nature, and complexity of the activities and the risk profile of the institution and the group to which it belongs. <p>The governance circular also imposes a set of rules for groups. In particular, it provides that the decision-making body of the parent company must ensure that a system is established to facilitate sharing between the entities of the group (Article 35).</p> <p>Three local groups have subsidiaries outside of the WAMU area (Ecobank, Oragroup, and Coris Holding). The SGCB collaborates with the supervisors in the countries involved within the framework of the Supervision Board for Oragroup and Ecobank (annual board since 2015). The same approach has yet to be established for the third, as the cross-border dimension of the group is recent. In this connection, the administrative, accounting, and prudential information on the subsidiaries of the supervised groups will be collected and analyzed.</p> <p>The off-site supervision function also has the information included in the internal supervision and risk management reports. However, in the absence of a harmonized template, the information obtained from the different institutions is not uniform.</p> <p>The topic of surveillance activities abroad is also addressed during on-site supervision activities. However, we observe that, during the past five years, the financial companies Ecobank and Oragroup have only been subject to one supervision activity. Moreover, even joint supervision activities have yet to be conducted in the foreign offices of these groups.</p> <p>The other cross-border groups correspond to foreign groups whose parent company is located outside of the WAMU, three of which are regional systemic institutions of Moroccan origin. For the latter, contacts with the home supervision authority, Bank Al-Maghrib, are highly developed. The SGCB is invited and systematically participates in the supervision boards, in which Bank Al-Maghrib shares information on the parent credit institution and how it monitors activities abroad. In addition, SGCB has participated with Bank Al-Maghrib in the joint supervision of these parent companies established in Morocco.</p> |
| EC4 | <p>The home supervisor visits the foreign offices periodically, the location and frequency being determined by the risk profile and systemic importance of the foreign operation. The supervisor meets the host supervisors during these visits. The supervisor has a policy for assessing whether it needs to conduct on-site examinations of a bank's foreign operations, or require additional reporting, and has the power and resources to take those steps as and when appropriate.</p> |
| Description and Conclusions, EC4 | <p>The Annex to the Convention provides the option for the CBU to cooperate with foreign supervision and resolution authorities. In fact, the CBU can:</p> <ul style="list-style-type: none"> • Enter into cooperation agreements, with full authority, in the areas of supervision and resolution, with any competent authority (Article 59). • Provide information on the situation of a supervised institution under another supervisory or resolution authority, subject to reciprocity and confidentiality. |

| | |
|----------------------------------|---|
| | <ul style="list-style-type: none"> • Establish, along with other supervisory authorities, a supervision board for each financial holding company and parent credit institution engaging in significant international activities (Article 60). • Participate, as the host supervisory authority, in the supervision board of foreign groups, when asked by the home supervisory authority. <p>In accordance with these regulatory provisions, the WAMU SGCB organizes:</p> <ul style="list-style-type: none"> • Annual bilateral meetings with the Central African SGCB. • Sharing of Information between supervisors on the annual inspection schedules to facilitate joint mission plans. • The Supervision Boards of Oracgroup and Ecobank, as the home supervisor. • Participation in the meetings of the supervision boards of foreign banking groups whose subsidiaries are located in the Union for Moroccan groups (Attijariwafa Bank-AWB, Bank of Africa, and Atlantic Business International), Nigerian groups (UBA and FBNBANK), and others (Standard Bank Group and BGFI). <p>Joint missions with other supervisors are also scheduled each year (four in 2017, two in 2018, and eight in 2019). These joint missions in practice exclusively involve foreign groups having subsidiaries within the WAMU. In 2019, these missions were conducted with:</p> <ul style="list-style-type: none"> • Bank Al-Maghrib, with two parent companies of banks having Moroccan capital established in the WAMU and two subsidiaries of Moroccan banking groups established in the WAMU. • Central Africa Banking Commission, with two financial companies that have subsidiaries in the CEMAC area. • The French Prudential Control and Resolution Authority, with one bank operating in the Union whose parent company is located in France. • The Central Bank of Nigeria, with one subsidiary of a Nigerian banking group. <p>By contrast, with regard to local cross-border groups (Ecobank and Oragroup), the CBU does not conduct supervision alone or jointly in the foreign facilities of these groups.</p> |
| EC5 | The supervisor reviews the main activities of parent companies, and of companies affiliated with the parent companies, that have a material impact on the safety and soundness of the bank and the banking group, and takes appropriate supervisory action. |
| Description and Conclusions, EC5 | <p>Article 4 of Decision 014/24/06/2016 on consolidated supervision establishes the scope of prudential consolidation, that is comprised of all financial enterprises over which the parent company directly or indirectly exercises exclusive or joint control, or significant influence, regardless of the legal form, the country of establishment, or the host country of their activities.</p> <p>Supervision of Groups</p> |

| | |
|----------------------------------|--|
| | <p>In the context of periodic meetings of supervision boards, the financial and prudential statements of the supervised institutions are analyzed, and corrective measures are often prepared in the form of recommendations. These supervision boards make it possible to collect information on subsidiaries of supervised groups.</p> <p>In terms of on-site supervision, we note that inspectors have a supervision methodology that includes financial companies. Two financial companies (Ecobank and Oragroup) have been subject to supervision since 2017. In 2020 and 2021, two supervision activities for financial companies were scheduled but were not carried out as a result of the pandemic.</p> <p>In terms of off-site supervision, the analysis focuses substantially on internal supervision reports submitted by financial companies. There is no rating system for financial companies. A project exists to fine tune the appropriate rating criteria, after the automation of the rating tool that is now in progress has been completed. In addition, for the two cross-border local groups, for which the SGCB organizes an annual supervision board, a group analysis sheet is prepared to present its risk profile. Meetings may be organized with members of senior management in cases of vulnerability, or at their request, but there are no periodic meetings. Assessments are in progress to introduce periodic bilateral meetings between the SGCB and senior management of systemically important institutions.</p> |
| EC6 | <p>The supervisor limits the range of activities the consolidated group may conduct and the locations in which activities can be conducted (including the closing of foreign offices) if it determines that:</p> <p>(a) the safety and soundness of the bank and banking group is compromised because the activities expose the bank or banking group to excessive risk and/or are not properly managed;</p> <p>(b) the supervision by other supervisors is not adequate relative to the risks the activities present; and/or</p> <p>(c) the exercise of effective supervision on a consolidated basis is hindered.</p> |
| Description and conclusions, EC6 | <p>In the context of consolidated supervision, the current provisions give the supervisory authority full power to take special measures applicable to the supervised institutions, including the establishment of restrictions on their activities and the modification of their structure. Article 9 of this Decision provides that the CBU is authorized to:</p> <ul style="list-style-type: none"> • Limit the scope of activities that a supervised institution may undertake and the jurisdictions in which it conducts them, when it considers that: <ul style="list-style-type: none"> ◦ The security and soundness of the supervised institution are jeopardized by these activities, that expose the supervised institution to risks that are excessive, or that are not properly managed. ◦ The supervision exercised by other supervision authorities is unsatisfactory, in light of the risks involved. ◦ It is prevented from carrying out effective consolidated supervision. |

| | |
|-----------------------------------|---|
| | <ul style="list-style-type: none"> • Not to authorize capital structures or organizations that prevent the authorities from obtaining consolidated financial data, or that in any other way impede the effective supervision of a group. <p>While this regulatory framework has been in force since 2016, it has not been used to date.</p> <p>In addition, despite these measures, the CBU may, depending on the circumstances, apply any other precautionary measures it deems appropriate to the supervised institutions on a sub consolidated basis. In this connection, it might limit the dividends to the parent company in case the establishment is deemed to be vulnerable on an individual basis. In the context of the COVID crisis, the supervisory authority issued a circular letter asking for caution in this connection.</p> |
| EC7 | In addition to supervising on a consolidated basis, the responsible supervisor supervises individual banks in the group. The responsible supervisor supervises each bank on a stand-alone basis and understands its relationship with other members of the group. ³⁴ |
| Description and Conclusions, EC7 | <p>The prudential system applicable to credit institutions and financial companies of the WAMU states in paragraph 2 that it is applicable on the following bases:</p> <ul style="list-style-type: none"> • Individual, for banks and bank-like financial institutions. • Sub consolidated, for intermediary financial holding companies. • Consolidated, for parent credit institutions and financial holding companies. <p>Article 21 of the Annex to the Convention provides that the CBU will conduct or assign the task of conducting, in particular by the central bank, on-site and off-site supervision activities, on an individual or consolidated basis, with supervised institutions, to ensure that the relevant provisions are being observed. Supervision activities are effectively conducted in the subsidiaries established within the WAMU.</p> |
| Additional Criterion | |
| AC1 | For countries which allow corporate ownership of banks, the supervisor has the power to establish and enforce fit and proper standards for owners and senior management of parent companies. |
| Description and Conclusions, AC1 | The regulatory texts do not provide that the supervisory authority is authorized to define and apply standards for expertise and moral standing to shareholders and the members of senior management of parent companies. |
| Assessment of Principle 12 | Materially Non-compliant |
| Comments | The WAMU area is characterized by the presence of a substantial number of banking groups, including cross-border groups: approximately 10 local groups, some of which have subsidiaries abroad, and approximately 20 groups having a parent company abroad. |

³⁴ Please refer to Principle 16, Additional Criterion 2.

Consolidated supervision for more than half of these groups, including the largest, has been in place since 2016.

This supervision involves credit institutions having at least one subsidiary credit institution as well as financial holding companies that, although they are not credit institutions, they are the parent company of a banking group. This includes the intermediary financial holding companies that hold all of the stakes of a foreign group in its subsidiaries and credit institutions operating in the WAMU.

The quantitative standards of the prudential system, that include capital adequacy and major risks, are applied to entities monitored on a consolidated basis that are also subject to more qualitative rules of internal supervision, compliance, and risk management. Liquidity standards are currently applied only on an individual basis (see Principle 24). We note that one financial company in a regional systemic group does not meet the consolidated financial reporting requirements. In addition, several financial companies are violating the regulations on solvency, the leverage ratio, and major risks. While members of senior management have been summoned, more coercive penalties have not been applied for these regulatory violations, that have been present for a number of years.

The supervision of these groups is being established gradually. It is covered partly within the framework of the supervision boards, that make it possible to collect information on the different entities in the transnational groups that are supervised, during which recommendations are made to the supervised institutions. The on-site supervision function began to conduct inspections of financial companies in 2019 and has a methodology for that purpose. While off-site supervision analyses are currently based on the use of internal supervision reports, this function has no rating tool for groups (that include six regional systemic institutions). In addition, the level of information the CBU has on groups supervised on a consolidated basis is limited by the few on-site inspections conducted on financial companies and the infrequent interviews conducted by the DSP with members of senior management (see Principle 9).

For the supervision of WAMU groups having subsidiaries abroad, we observe that there is no on-site supervision for these subsidiaries and that the financial companies involved are subject to infrequent supervision. Accordingly, the CBU cannot assess quality of the surveillance conducted by these groups of their subsidiaries abroad.

Moreover, 14 foreign groups are not subject to consolidated supervision. There is no procedure specifying the criteria to be periodically examined, for which the establishment of an intermediary financial holding company would be required. The SGCB indicated its assurance that these groups are subject to satisfactory consolidated supervision by the home foreign authority. However, the information that the supervisory authority can collect to ensure that the home supervisory authority conducts effective consolidated supervision may be limited by the fact that memorandums of understanding have not been signed with all of these authorities. In addition, the CBU is not systematically invited to supervision board meetings. Moreover, these 14 groups include nationally systematic institutions. In the context of the identification of systemic groups, the BCEAO is also required to establish combined accounts so that it can identify regional systemically important institutions.

Recommendations:

| | |
|---------------------------|---|
| | <ul style="list-style-type: none"> • The supervision of groups should be strengthened: <ul style="list-style-type: none"> ○ By establishing a rating system for groups in the framework of the SNEC. ○ By increasing the frequency of meetings between the SGCB, senior management, and the board of directors of groups and by introducing a minimum frequency for systemic groups. ○ By strengthening on-site supervision for financial companies with the introduction of on-site supervision in major foreign subsidiaries of local cross-border groups. • Enhanced coercive measures should be applied to groups that do not meet the requirements on a consolidated basis. • Financial companies should be taken into account in the future draft banking law. • An internal policy and methodology should be established to determine cases in which the creation of an intermediary financial holding company is not required (verification of the existence of consolidated supervision, assessment of the quality of supervision, existence of a memorandum of understanding with the home foreign authority, regular sharing of information on the different entities in the group, size criterion, systemic nature, and implications on financial stability), as well as the method for monitoring these groups. • Analyses should be conducted regularly for groups not subject to consolidated supervision under the defined methodology, for which consolidated supervision should be required. |
| Principle 13 | Home-host Relationships <p>Home and host supervisors of cross-border banking groups share information and cooperate for effective supervision of the group and group entities, and effective handling of crisis situations. Supervisors require the local operations of foreign banks to be conducted to the same standards as those required of domestic banks.</p> <p>(Reference documents: FSB <i>Key Attributes for Effective Resolution Regimes</i>, November 2011; <i>Good practice principles on supervisory colleges</i>, October 2010; <i>Home-host information sharing for effective Basel II implementation</i>, June 2006³⁵; <i>The high-level principles for the cross-border implementation of the New Accord</i>, August 2003; <i>Shell banks and booking offices</i>, January 2003; <i>Report on Cross-Border Banking Supervision</i>, June 1996; <i>Information flows between Banking Supervisory Authorities</i>, April 1990; and <i>Principles for the supervision of banks' foreign establishments (Concordat)</i>, May 1983.)</p> |
| Essential Criteria | |

³⁵ When assessing compliance with the Core Principles, this reference document is only relevant for banks and countries which have implemented Basel II.

| | |
|------------------------------------|--|
| EC1 | The home supervisor establishes bank-specific supervisory colleges for banking groups with material cross-border operations to enhance its effective oversight, taking into account the risk profile and systemic importance of the banking group and the corresponding needs of its supervisors. In its broadest sense, the host supervisor who has a relevant subsidiary or a significant branch in its jurisdiction and who, therefore, has a shared interest in the effective supervisory oversight of the banking group, is included in the college. The structure of the college reflects the nature of the banking group and the needs of its supervisors. |
| Description and Conclusions EC1 | <p>The regulatory framework allows the CBU to establish, with other supervisory authorities, a college of supervisors for each financial holding company and parent credit institution with significant operations. It may also participate as the host country supervisory authority in the college of supervisors of foreign groups, at the invitation of the home country supervisory authority (Article 61 of the Annex to the Convention).</p> <p>Since 2015, the CBU has established colleges of supervisors for the Ecobank and Oragroup groups, in its capacity as the home country supervisor of banking groups with headquarters in a WAMU country. The Ecobank group, the first WAMU group in terms of balance sheet totals at end-December 2020, is notably present in more than 30 countries. The Coris Holding group, the second group originating in the Union, has only one recently created (2020) subsidiary outside the WAMU, in Guinea Conakry. This group does not yet have a college of supervisors. Oragroup, the third group set up in the WAMU, also has subsidiaries in the CEMAC, in Guinea, and in Mauritania.</p> <p>The type of college set up in the WAMU is universal. All foreign supervisors are invited, and this may represent some twenty authorities for a group like Ecobank, although not all of them participate. Central banks and supervisory bodies of the subsidiaries of these groups are invited, for each college, to sign a statement of confidentiality and mutual cooperation among the members.</p> <p>For the subsidiaries of foreign groups with a presence in the WAMU zone, the SGCB states that they are subject to monitoring on a consolidated basis by a foreign home country authority and the colleges of supervisors were set up by these authorities. The SGCB is not always invited to participate in home country colleges of supervisors, but it does participate systematically when invited (5 or 6 times per year since 2016).</p> |
| EC2 | Home and host supervisors share appropriate information on a timely basis in line with their respective roles and responsibilities, both bilaterally and through colleges. This includes information both on the material risks and risk management practices of the banking group ³⁶ and on the supervisors' assessments of the safety and soundness of the relevant entity under their jurisdiction. Informal or formal arrangements (such as memoranda of understanding) are in place to enable the exchange of confidential information. |

³⁶ See *Illustrative example of information exchange in colleges* of the October 2010 BCBS Good practice principles on supervisory colleges for further information on the extent of information sharing expected.

| | |
|------------------------------------|--|
| Description and Conclusions EC2 | <p>The regulatory framework allows the CBU to reach cooperation agreements with any competent authority on the subject of supervision and resolution (Article 59 of the Annex to the Convention). To date, the CBU has arrived at ten conventions or memoranda of understanding on cooperation with foreign supervision and resolution authorities (Morocco, France, Nigeria, CEMAC, Guinea, Liberia, Ghana, Sierra Leone, Gambia, and Congo). It may also provide information on a supervised bank's condition to another authority, subject to reciprocity and confidentiality (Article 60). These agreements and memoranda of understanding contain provisions on the confidentiality of information. Central banks and supervisory bodies of the subsidiaries of these groups are also invited, for each college, to sign a statement of confidentiality and mutual cooperation among the members.</p> <p>When colleges of supervisors meet once a year, information is shared on governance, the prudential situation, and strategic factors. A data collection template on each entity is completed by each participating authority prior to the meeting. This template notably includes information on the identity of each entity, its financial and prudential situation, and the supervisor's assessment of its principal risks. The contributions are summarized and shared during the meetings, after presentations made by each member authority.</p> <p>The memoranda of understanding also provide for information-sharing in the context of off-site monitoring of banks. The authority must inform its counterpart of any event such that it would affect the financial stability of a subject institution established within its jurisdiction.</p> |
| EC3 | Home and host supervisors coordinate and plan supervisory activities or undertake collaborative work if common areas of interest are identified in order to improve the effectiveness and efficiency of supervision of cross-border banking groups. |
| Description and Conclusions EC3 | <p>Consistent with the provisions of the cooperation agreements signed, the supervisors collaborate in the context of supervising cross-border banks.</p> <p>In this regard, each authority informs its counterpart of its annual audit schedule with respect to banks established under its jurisdiction and having capital ties or other ties with banks subject to the oversight of the other authority.</p> <p>At the start of each year, the SGCB prepares an audit schedule which is subject to validation by the CBU Chair. When the program includes proposed joint audits with other counterpart supervisory authorities, it is shared with them. The SGCB also receives notice of the joint oversight programs conducted by the supervisory authorities of foreign groups with a presence in the WAMU. Several oversight missions were conducted by the joint teams of two or more supervisors. In practice, these joint missions only concern foreign groups with subsidiaries within the WAMU. They are scheduled each year: four were conducted in 2017, two in 2018, and eight in 2019 (cf., Principle 12, Criterion 4).</p> |
| EC4 | The home supervisor develops an agreed communication strategy with the relevant host supervisors. The scope and nature of the strategy reflects the risk profile and systemic importance of the cross-border operations of the bank or banking group. Home and host |

| | |
|------------------------------------|--|
| | supervisors also agree on the communication of views and outcomes of joint activities and college meetings to banks, where appropriate, to ensure consistency of messages on group-wide issues. |
| Description and Conclusions EC4 | The memoranda or agreements signed with foreign authorities do not include a provision on establishing a common communication strategy with regard to a cross-border group. However, this common strategy is established in practice. Upon the conclusion of college of supervisors' meetings, the conclusions and recommendations are discussed and agreed among supervisors before being communicated to supervised entities. For Ecobank and Oragroup, an action plan is communicated to the director and its implementation is monitored by the supervisory authority. Conclusions and findings resulting from joint audit missions are also communicated on a coordinated basis. |
| EC5 | Where appropriate, due to the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities, develops a framework for cross-border crisis cooperation and coordination among the relevant home and host authorities. The relevant authorities share information on crisis preparations from an early stage in a way that does not materially compromise the prospect of a successful resolution and subject to the application of rules on confidentiality. |
| Description and Conclusions CE5 | The Annex to the Convention allows for concluding cooperation agreements (Article 59) and sharing information (Article 60) with foreign supervision and resolution authorities. It also allows for establishing a crisis management committee for banks subject to the resolution regime and for participating, as the host resolution authority, in the crisis management committee of foreign groups at the invitation of the home country resolution authority. Cooperation agreements mention the shared recognition of a "mutual benefit to be drawn from close collaboration," but only some supplement this generic formulation with an explicit commitment to coordinate in addressing difficulties and resolving crises. Coordination in the preparation of recovery plans or potential collaboration within a crisis management committee for the overall systemic banking group concerned are only mentioned rarely. The CBU has not yet engaged in actions to transmit information regarding crisis management for the two systemic cross-border groups for which it is the home supervisor. According to the SGCB, this cooperation will get under way once the recovery plans are finalized. |
| EC6 | Where appropriate, due to the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities and relevant host authorities, develops a group resolution plan. The relevant authorities share any information necessary for the development and maintenance of a credible resolution plan. Supervisors also alert and consult relevant authorities and supervisors (both home and host) promptly when taking any recovery and resolution measures. |
| Description and Conclusions EC6 | Title III of the Annex to the Convention specifies the framework for the prevention and resolution of banking crises. The resolution regime applies to any systemically important bank (SIB) and may be extended to any other entity the failure of which could have a |

| | |
|------------------------------------|--|
| | <p>significant impact on the financial stability or the economy of one or more of the Union's member states (Article 45). It also includes requirements for supervised entities to prepare preventive recovery plans validated by the College of Supervisors and forwarded, by the latter, to the Resolution College (<i>Collège de Résolution</i>) (Article 49) as well as requirements related to the Resolution College's preparation of recovery plans for the banks subject to the resolution regime (Article 50).</p> <p>Collaboration between home and host authorities for preparation or updating of the recovery plans for systemic banks is only rarely mentioned in the memoranda of understanding. In practice, this deficiency at the memoranda level is because the resolution authority does not work with home or host country authorities to prepare the recovery plans. Regarding groups for which the CBU is the home country authority, the first recovery plans have not yet been completed.</p> |
| EC7 | The host supervisor's national laws or regulations require that the cross-border operations of foreign banks are subject to prudential, inspection and regulatory reporting requirements similar to those for domestic banks. |
| Description and Conclusions EC7 | <p>Article 1 of the banking law stipulates that the law is applicable to credit institutions operating in State territory, regardless of their legal status, the location of their head offices or their principal place of business in the WAMU, and the nationality of their holders of capital shares or their officers.</p> <p>In addition, Section II on the scope of application of the prudential framework requirements recalls that this framework is applicable as follows:</p> <ul style="list-style-type: none"> • On a solo basis, to banks and non-bank financial institutions. • On a sub-consolidated basis, to intermediary financial holding companies. • On a consolidated basis, to parent credit institutions as well as financial holding companies. <p>All entities subject to the CBU's supervision are subject to the same regulatory and prudential provisions, regardless of their domestic or foreign origin.</p> |
| EC8 | The home supervisor is given on-site access to local offices and subsidiaries of a banking group in order to facilitate their assessment of the group's safety and soundness and compliance with customer due diligence requirements. The home supervisor informs host supervisors of intended visits to local offices and subsidiaries of banking groups. |
| Description and Conclusions EC8 | Provision is made in the cooperation agreements for the ability to conduct inspections in the foreign subsidiaries of WAMU banking groups. In effect, at the request of its counterpart, an authority may, by itself or jointly with the counterpart, conduct inspections of institutions within its jurisdiction and having capital ties or other ties with an institution subject to the requesting authority. |

| | |
|-------------------------------------|---|
| EC9 | The host supervisor supervises booking offices in a manner consistent with internationally agreed standards. The supervisor does not permit shell banks or the continued operation of shell banks. |
| Description and Conclusions EC9 | Shell banks are not authorized in the WAMU, with several regulatory provisions of the banking law relating to the presence of effective on-site management. The branches of foreign banks are not authorized within the WAMU, as foreign groups are required to set up a subsidiary to be established within the Union. Foreign banks may open representative offices in the WAMU member states, provided they have authorization granted by the competent national authorities. However, these offices do not carry out banking operations, as they are not authorized as banks and are not subject to supervision by the CBU. |
| EC10 | A supervisor that takes consequential action on the basis of information received from another supervisor consults with that supervisor, to the extent possible, before taking such action. |
| Description and Conclusions EC10 | Cooperation agreements between supervisors provide collaboration arrangements with regard to cross-border banking groups and their subsidiaries. Prior information from the counterpart supervisor is generally provided in the cooperation agreement, where the information it has provided is used in the context of measures to be taken. In effect, the agreements include a provision indicating that information sent by one of the parties should be used only for the reasons presented in the request. In the event that information used for the requirements of disciplinary, administrative, or criminal procedures opened following the sharing of information, each party informs its counterpart in advance in the request if possible and no later than before the procedure is opened. At present, this situation has not occurred as yet. |
| Assessment of Principle 13 | Largely Compliant |
| Comments | The CBU has set up colleges of supervisors, with annual meetings, for the two main cross-border groups established in the Union. For the subsidiaries of some twenty foreign groups present within the WAMU, it participates in the colleges organized by the home country authorities when invited to do so, which is not systematic. The regulatory framework allows for the creation of crisis management committees grouping together the various authorities. Memoranda of understanding were signed with ten foreign countries (cf. Principle 3 for the absence of memoranda with certain countries). That has allowed for establishing a framework for cooperation and sharing confidential information. However, it is to be noted that the memoranda do not mention establishing a coordinated communication strategy. Moreover, they do not always explicitly mention the commitment to coordinate in addressing banking difficulties and resolving crises as well as the commitment to cooperate in the preparation of recovery plans. In practice, on-site supervision activities and communication strategies are coordinated between the CBU and foreign supervisory authorities. In contrast, in the area of resolution, there is a noted absence of information-sharing between host and home country authorities |

| | |
|---------------------------------|--|
| | <p>on preparing for a crisis situation. Moreover, the CB, which has not finalized the first recovery plans for systemic institutions, has not established cooperation with the host authorities in this area, nor have recovery plans been shared with the home authorities.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Introduce in the information-sharing and coordination agreements concluded by the CBU with foreign supervision and resolution authorities an explicit commitment on coordination in handling banking difficulties and resolving crisis, as well as a commitment to cooperate in preparing recovery plans, at least those of SIB. • Strengthen information-sharing and cooperation with foreign supervision and resolution authorities on managing crisis situations and preparing recovery plans for systemic cross-border groups. |
| Principle 14 | <p>Corporate Governance</p> <p>The supervisor determines that banks and banking groups have robust corporate governance policies and processes covering, for example, strategic direction, group and organisational structure, control environment, responsibilities of the banks' Boards and senior management,³⁷ and compensation. These policies and processes are commensurate with the risk profile and systemic importance of the bank.</p> <p>(Reference documents: Principles for enhancing corporate governance, October 2010 and Compensation principles and standards assessment methodology, January 2010.)</p> |
| Essential Criteria | |
| EC1 | Laws, regulations or the supervisor establish the responsibilities of a bank's Board and senior management with respect to corporate governance to ensure there is effective control over the bank's entire business. The supervisor provides guidance to banks and banking groups on expectations for sound corporate governance. |
| Description and Conclusions EC1 | <p>In 2017, the WAMU issued a circular on the governance of credit institutions. This exacting and exhaustive text includes general principles in the area of governance, organizes the roles and responsibilities of deliberative and executive bodies, establishes the functions of specialized committees, specifies the rules of governance expected within groups, and establishes good conduct and transparency obligations.</p> <p>This strengthening of the supervisor's expectations in the area of governance goes hand in hand with the increased governance constraints following the Union's transition to the Basel II/Basel III rules (cf. paragraph 518 prudential framework). Overall, Circular No. 01-2017/CB/C seems consistent with the best standards.</p> <p>Regarding the guidelines provided to institutions in the area of good governance, paragraph 518 of the prudential framework requires institutions to have a solid governance framework, consistent with requirements defined in the circular on governance and including:</p> <ul style="list-style-type: none"> • An organizational structure clearly and consistently defining the roles and responsibilities of the various participants. |

³⁷ Please refer to footnote 27 under Principle 5.

| | |
|--|---|
| | <ul style="list-style-type: none"> • Effective processes for detection, management, monitoring, and notification of the risks to which the institution is or could be exposed. <p>References to the principles of good governance are explicitly indicated in Article 5 of Circular No. 01-2017/CB/C. These provisions are consistent with the general principles of good governance defined at the international level.</p> <p>The responsibilities of the deliberative body with regard to the principles of governance are stated in Articles 6 and 7 of the circular, those of the executive body are stated in Articles 26 and 27. These clearly commit the deliberative and executive bodies to ensure the adoption of good governance practices within their institutions.</p> |
| EC2 | <p>The supervisor regularly assesses a bank's corporate governance policies and practices, and their implementation, and determines that the bank has robust corporate governance policies and processes commensurate with its risk profile and systemic importance. The supervisor requires banks and banking groups to correct deficiencies in a timely manner.</p> |
| <p>Description and Conclusions EC2</p> | <p>The entry into force and implementation of the new circular represented a significant challenge for institutions in the WAMU. The WAMU authorities have thus undertaken various initiatives since the dissemination of the text in order to ensure the institutions' correct adoption and fair interpretation of the new rules. This has notably been reflected in various awareness-raising actions (peripatetic missions bringing together Board of Director chairs, independent directors, senior bank managers, and the BCEAO's implementation of a training and mentoring program intended for concerned audiences).</p> <p>Moreover, the CBU is sure to discuss the supervisor's issues and expectations in the area of governance during annual meetings with all credit institution directors in the Union.</p> <p>DSP Audit Tasks</p> <p>The institutions' governance practices are assessed using a governance-specific questionnaire in the rating system. The questionnaire, which has some forty questions related to regulatory expectations, provide good coverage of the different aspects of the subject. It is completed with the assistance of various supports available (survey reports, report on internal supervision, auditors' reports, information collected in the context of sharing with institutions).</p> <p>DCPEME Missions</p> <p><u>The DCPEME has not conducted thematic missions on bank governance.</u> It appears that thematic_missions were listed in the 2020 survey schedule, but the health crisis caused them to be postponed.</p> <p>Nonetheless, the DCPEME inspectors conduct systematic investigations on governance subjects in the context of specific surveys representing most of the on-site surveys over the period 2017-2020. In this regard, <u>DCPEME audits have already highlighted inadequacies with regard to compliance with various obligations related to the composition of boards of directors (failure to comply with the proportion of independent directors within independent bodies and/or specialized committees) or the updating of procedures.</u></p> |

| | |
|------------------------------------|--|
| | <p>Correcting Deficiencies Found</p> <p>The detection of regulatory gaps leads to recommendations starting with the follow-up letter calling for their quick correction. Review of some follow-up letters has shown that these procedures were carried out. In contrast, the effective implementation of corrections by the institutions is still not prompt or effective. Review of a follow-up mission report was able to verify this.</p> |
| EC3 | <p>The supervisor determines that governance structures and processes for nominating and appointing Board members are appropriate for the bank and across the banking group. Board membership includes experienced non-executive members, where appropriate. Commensurate with the risk profile and systemic importance, Board structures include audit, risk oversight and remuneration committees with experienced non-executive members.</p> |
| Description and Conclusions EC3 | <p>Composition of Boards</p> <p>WAMU regulations are exacting with regard to the composition of deliberative bodies and specialized committees. The CBU thus requires that the deliberative body include a balanced number of members with additional skills and experiences in the institution's areas of interest. Pursuant to Article 10 of Circular No. 01-2017/CB/C, most members of the deliberative body should at all times be non-executive directors. One-third of the members of the deliberative body should be independent directors.</p> <p>The chair of the deliberative body should be a non-executive or independent director.</p> <p>Creation of Specialized Committees</p> <p>The deliberative body should also establish specialized committees within the Board; the number and areas of intervention of these committees are a function of the institution's systemic importance. National SIBs should have an audit committee, a risks committee, and a compensation committee. With regard to regional SIBs, an audit committee, a risks committee, a compensation committee, and an appointments committee are required. As for non-systemic institutions, they are required to have within their deliberative body an audit committee and a risks committee. Specialized committees must also consist exclusively of non-executive directors and mostly independent directors (cf. Articles 18 and 20 of the circular on governance).</p> <p>Circular No. 01-2017/CB defines the concept of independent director as a director who "does not maintain relationships of any kind with the institution or its group that could alter his or her independence of judgment or put him or her in an apparent or potential conflict of interest situation." Article 11 of the circular adds to this definition.</p> <p>It appears that credit institutions in the WAMU have made significant efforts since the circular was issued to strengthen their governance framework and to comply with the rules on the composition of deliberative bodies. Thus, according to the questionnaire prepared by the IMF and submitted by a panel of the Union's banks, the presence of independent directors within the banks' governance structures is now widespread in the WAMU <u>although the proportion required in the circular is still not observed, as confirmed by the anomalies noted by the DCPEME</u>. It should be added that specific missions conducted by the DCPEME confirm the existence of specialized committees, the proportion of directors within them, as well as the procedures established to ensure compliance with the regulatory procedures.</p> |

| | |
|---------------------------------|---|
| EC4 | Board members are suitably qualified, effective and exercise their “duty of care” and “duty of loyalty”. ³⁸ |
| Description and Conclusions EC4 | <p>Board Members’ Skills and Training</p> <p>There is a filtering process that seeks to ensure that those charged with administering these institutions have integrity and suitable skills to properly carry out their tasks. Article 14 of Circular No. 02-2017/CB/C thus stipulates that the CBU should rule on the directors with respect to the competence of those submitted based on degrees and professional experience criteria defined by the banking law for non-nationals of the WAMU on the one hand and, on the other, based on their good character and the absence of any conviction entailing disqualification as provided by the law.</p> <p>Consequently, board member appointments must be approved in advance by the supervisor (cf. Article 14 of Circular No. 02-2017/CB/C). In addition, the current regulatory framework requires institutions to endow their boards of directors with powers allowing them to ensure that board members appointed by the shareholders are qualified for the position. (cf. Article 13 of the circular).</p> <p><u>In practice, these requirements are still not strictly implemented by the supervised entities. Thus, according to data collected in the context of the questionnaire on the Union’s institutions, only 44 percent of the banks indicate having established fit and proper standards for the appointment of their leaders (general management and directors).</u></p> <p>Article 14 of the circular also requires institutions to establish ongoing training programs for the members of deliberative bodies. <u>DCPEME inspectors confirm compliance with this and report the existence of disparities in training practices and content, where there is a conflict between small and large institutions.</u></p> <p>Evaluation of the Activities of the Deliberative Body</p> <p>Article 17 of the circular also provides that at least once a year the deliberative body should, either alone (in the context of a self-evaluation) or with expert assistance, evaluate its activities, its specialized committees, and each committee member. The results of this evaluation should be recorded in a report submitted to the general assembly. This information is utilized by the DCPEME’s inspectors during their on-site audits. <u>The conduct of this exercise by banking institutions is still not widespread nor is there always compliance with the frequency thereof.</u> Moreover, the audits conducted by the DCPEME indicate that the</p> |

³⁸ The OECD (OECD glossary of corporate governance-related terms in “Experiences from the Regional Corporate Governance Roundtables,” 2003, www.oecd.org/dataoecd/19/26/23742340.pdf.) defines “duty of care” as “The duty of a board member to act on an informed and prudent basis in decisions with respect to the company. Often interpreted as requiring the board member to approach the affairs of the company in the same way that a ‘prudent man’ would approach their own affairs. Liability under the duty of care is frequently mitigated by the business judgement rule.” The OECD defines “duty of loyalty” as “The duty of the board member to act in the interest of the company and shareholders. The duty of loyalty should prevent individual board members from acting in their own interest, or the interest of another individual or group, at the expense of the company and all shareholders.”

| | |
|------------------------------------|---|
| | consistency of these reports varies widely depending on whether they are prepared by outside firms or in the context of internal self-evaluations. |
| EC5 | The supervisor determines that the bank's Board approves and oversees implementation of the bank's strategic direction, risk appetite ³⁹ and strategy, and related policies, establishes and communicates corporate culture and values (e.g., through a code of conduct), and establishes conflicts of interest policies and a strong control environment. |
| Description and Conclusions EC5 | <p>The DSP primarily utilizes the minutes of deliberative bodies to evaluate the Board of Directors' involvement in implementing the bank's strategy and defining risk policies as well as the risk appetite framework.</p> <p>These aspects are also the subject of checkpoints in the methodology used by DCPEME inspectors but could be expanded upon in the context of investigations.</p> <p>With regard to general management's execution of strategies decided upon by the Board, this point is not developed systematically in the reports regarding on-site surveys.</p> |
| EC6 | The supervisor determines that the bank's Board, except where required otherwise by laws or regulations, has established fit and proper standards in selecting senior management, maintains plans for succession, and actively and critically oversees senior management's execution of Board strategies, including monitoring senior management's performance against standards established for them. |
| Description and Conclusions EC6 | According to the DCPEME, the formalization of fit and proper standards by institutions is still not systematic, despite efforts made by institutions to comply with this requirement. |
| EC7 | The supervisor determines that the bank's Board actively oversees the design and operation of the bank's and banking group's compensation system, and that it has appropriate incentives, which are aligned with prudent risk taking. The compensation system, and related performance standards, are consistent with long-term objectives and financial soundness of the bank and is rectified if there are deficiencies. |
| Description and Conclusions EC7 | <p>The circular on governance governs the compensation system and establishes clear obligations on the part of the bank's Board with regard to the design and operation of the compensation system.</p> <p>Obligations Incumbent Upon the Deliberative Body and Management</p> <p>The deliberative body is required to oversee the design and implementation of the bank's compensation system as well as related monitoring processes. Pursuant to Article 8 of the circular, the deliberative body assigns the members of general management performance targets and adequate compensation levels consistent with the bank's long-term strategy and financial soundness.</p> |

³⁹ "Risk appetite" reflects the level of aggregate risk that the bank's Board is willing to assume and manage in the pursuit of the bank's business objectives. Risk appetite may include both quantitative and qualitative elements, as appropriate, and encompass a range of measures. For the purposes of this document, the terms "risk appetite" and "risk tolerance" are treated synonymously.

| | |
|------------|--|
| | <p>Expected Requirements of the Compensation System</p> <p><u>Article 45 of the circular governs the compensation system in rather general terms.</u> It states that the compensation system should be:</p> <ul style="list-style-type: none"> • Accompanied by appropriate incentives consistent with prudent risk taking. • Compatible with the bank’s long-term objectives and financial soundness and adjusted if necessary. • Governed by a policy approved by the deliberative body and covering all aspects of compensation, particularly fixed compensation, variable compensation, fringe benefits, discretionary pensions, and all similar benefits. <p>In this regard, the mission has been informed that the draft circular contained several additional provisions on compensation, particularly on the management of variable compensation, but those provisions were ultimately eliminated from the final version – following consultation with the profession – considering the quite basic compensation systems prevalent in the Union’s banks and limited variable compensation.</p> <p>Compensation Committees</p> <p>Regional and national SIBs are required to have a compensation committee. Pursuant to Article 23 of the circular, these committees are responsible in particular for:</p> <ul style="list-style-type: none"> • Developing the compensation policy for the bank’s Board members, members of the executive body, and top management and for ensuring that this system complies with all legal and regulatory requirements. • Overseeing the development and implementation of the bank’s compensation system. • Ensuring that this system is appropriate and consistent with the bank’s culture and risk appetite, its long-term activities, its long-term risk management strategy, its performance, as well as its internal control system. • Examining, analyzing, and monitoring, at least once a year, the plans, procedures, and results of the bank’s compensation system in order to determine whether it creates incentives allowing for good risk, capital, and liquidity management. <p>Confirmation of Expected Procedures in the Area of Compensation Policies</p> <p>Compliance with these obligations in the area of compensation is included in the DCPEME’s checkpoints. Its inspections are intended in particular to confirm the existence of compensation committees for the SIBs as well as that the compensation levels of board members and managers are appropriate for the bank’s risk profile. With regard to the second point, it is to be noted that the reports consulted do not point to any observation. It does not appear that these aspects are systematically checked.</p> |
| EC8 | <p>The supervisor determines that the bank’s Board and senior management know and understand the bank’s and banking group’s operational structure and its risks, including those arising from the use of structures that impede transparency (eg special-purpose or related structures). The supervisor determines that risks are effectively managed and mitigated, where appropriate.</p> |

| | |
|---------------------------------|--|
| Description and Conclusions EC8 | <p>The Deliberative Body’s and Executive Management’s Knowledge and Good Understanding of Risks</p> <p>Article 519 of the prudential framework stipulates that the deliberative body should “acquire sufficient knowledge of all the bank’s lines of business so as to understand the nature and breadth of the related risk, in order to ensure that risk policies, controls, and monitoring systems are adequate and effective.”</p> <p>In addition, the circular establishes various duties on the part of the deliberative body with regard to monitoring the bank’s risk profile. Thus, it must be informed regarding significant changes arising from the bank’s economic or operational environment and must act on a timely basis to protect the bank’s long-term interests (Article 6 of Circular No. 01-2017/CB/C). Moreover, it must ensure that the knowledge and expertise of the executive body’s members remain suited to the nature of the bank’s activities and its risk profile (Article 8 of the Circular).</p> <p>The DCPEME’s methodology contains various checkpoints covering these aspects. These points are not always grasped in great detail.</p> <p>Risks Associated with the Use of Structures that Impede Transparency</p> <p>The regulations provide procedures on the use of structures that are complex and/or impede transparency. Article 38 of the circular requires banks’ and banking groups’ parent company deliberative bodies to:</p> <ul style="list-style-type: none"> • Establish adequate procedures and processes aimed at detecting and managing all significant risks arising from these structures, particularly the lack of transparent management, operational risks, intra-group exposures, and reputational risk. • Ensure that these structures are subject to independent periodic review of their supervisory processes, their activities, as well as their consistency with the group’s policies. • Re-evaluate at least once a year the relevance of maintaining these structures in terms of the group’s overall objectives. • Abandon these structures when there are either legal obstacles to the transfer of information needed to determine and confirm the risks incurred, or severe and sustained restrictions substantially calling into question the control or influence exercised by the parent company. |
| EC9 | <p>The supervisor has the power to require changes in the composition of the bank’s Board if it believes that any individuals are not fulfilling their duties related to the satisfaction of these criteria.</p> |
| Description and Conclusions EC9 | <p>The prudential framework gives the CBU the power to require changes in the composition of the deliberative body. Article 15 of the circular gives the CBU this power if it finds that some of the members are not fulfilling their duties.</p> <p>Moreover, Article 31.1 of the banking law, under disciplinary sanctions, provides for the compulsory retirement of officers responsible for regulatory offenses.</p> <p>Finally, in the context of off-site and its on-site supervision missions, the CBU evaluates the composition of the governing bodies and their performance. If there are deficiencies in the</p> |

| | |
|------------------------------------|---|
| | exercise of their functions or if their composition is deemed unsuitable, for example, with regard to the number of independent Board members or their diversity and experience, the CBU will require the financial institution to make changes. |
| Additional Criterion | |
| AC1 | Laws, regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material and bona fide information that may negatively affect the fitness and propriety of a bank's Board member or a member of the senior management. |
| Description and Conclusions CA1 | <p>The Union has a regulatory base requiring referral to the CBU of any significant information on reputational risk even if the lack of fitness or propriety of Board members or senior management is not expressly targeted. Thus:</p> <ul style="list-style-type: none"> • The deliberative body must ensure the implementation of an internal mechanism for collecting information on mismanagement. This mechanism should allow anyone in the bank to report to the CBU without delay, directly, in total confidence, and without following the hierarchical route or indirectly, through the intermediary of the internal audit or compliance functions, any practices contrary to the code of ethics as well as any events, motions, actions, or circumstances that could jeopardize the bank's interests or reputation. The referral of information as indicated in Article 44 of Circular No. 01-2017/CB/C is intended primarily for the Board. By extension, it could be applicable to potential deficiencies detected in the performance of duties by certain members of senior management. • Significant deficiencies in internal control should be reported without delay by the person responsible for the internal audit function to the governing bodies and to the CBU in accordance with Article 14 of the circular. • The Chairman of the deliberative body is required to inform the CBU as soon as a member of the governing bodies is in default on payment of his/her commitments to the bank or is banned from banking by virtue of Article 42 of the circular. • The bank must inform the CBU without delay of any deficiencies detected by the compliance function and having a significant impact on the bank's reputation and/or its financial soundness. |
| Assessment of Principle 14 | Largely Compliant |
| Comments | <p>The governance duties imposed by Circular No. 0162017/CB/C represent a particularly demanding framework consistent with best practices. Only the prescriptions regarding the compensation system would undoubtedly merit being strengthened.</p> <p>The quite recent entry into force of this text, the lack of targeted missions on the topic of governance – although the subject is quite systematically covered in the DCPME 's specific surveys – and the very uneven level of the information contained in the internal control and risk management reports still do not, however, afford the supervisor a fairly complete view of the implementation of regulatory expectations. Deficiencies remain, particularly with respect to the prescriptions regarding the participation of independent directors in the committees,</p> |

| | |
|---------------------|---|
| | <p>the formalization of selection criteria (propriety, fitness), ongoing training, or the conduct of an annual evaluation of the work done by the deliberative bodies.</p> <p>Moreover, increasing disparities have already been noted between small and large banks in the application of provisions. In this regard, the application of the principle of proportionality in establishing governance duties will have to be exercised with caution at the risk of creating the conditions for overly differentiated supervision.</p> <p>Finally, the absence of recent missions on governance subjects in several government-owned banks experiencing great difficulties should be noted.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Broaden the provisions on governance with regard to aspects of compensation, particularly compensation assigned to supervisory functions. • Schedule an audit cycle on government-owned banks to verify the good implementation and application of the circular's principles. • Finalize as soon as possible a governance report template that can be used as input for usable reporting by the DSP on meeting requirements. • Encourage DCPME inspectors to conduct more in-depth investigations on the involvement of executive and deliberative bodies in strategic and operational guidance and risk control. Extend the length of missions as needed. • Complete the credit institution rating system using a questionnaire on the banks' business model and strategic planning. |
| Principle 15 | <p>Risk Management Process</p> <p>The supervisor determines that banks⁴⁰ have a comprehensive risk management process (including effective Board and senior management oversight) to identify, measure, evaluate, monitor, report and control or mitigate⁴¹ all material risks on a timely basis and to assess the adequacy of their capital and liquidity in relation to their risk profile and market and macroeconomic conditions. This extends to development and review of contingency arrangements (including robust and credible recovery plans where warranted) that take into</p> |

⁴⁰ For the purposes of assessing risk management by banks in the context of Principles 15 to 25, a bank's risk management framework should take an integrated "bank-wide" perspective of the bank's risk exposure, encompassing the bank's individual business lines and business units. Where a bank is a member of a group of companies, the risk management framework should in addition cover the risk exposure across and within the "banking group" (see footnote 19 under Principle 1) and should also take account of risks posed to the bank or members of the banking group through other entities in the wider group.

⁴¹ To some extent the precise requirements may vary from risk type to risk type (Principles 15 to 25) as reflected by the underlying reference documents.

| | |
|---------------------------------|---|
| | <p>account the specific circumstances of the bank. The risk management process is commensurate with the risk profile and systemic importance of the bank.⁴²</p> <p>(Reference documents: <i>Principles for enhancing corporate governance</i>, October 2010; <i>Enhancements to the Basel II framework</i>, July 2009; and <i>Principles for sound stress testing practices and supervision</i>, May 2009.)</p> |
| Essential Criteria | |
| EC1 | <p>The supervisor determines that banks have appropriate risk management strategies that have been approved by the banks' Boards and that the Boards set a suitable risk appetite to define the level of risk the banks are willing to assume or tolerate. The supervisor also determines that the Board ensures that:</p> <p>(a) a sound risk management culture is established throughout the bank;</p> <p>(b) policies and processes are developed for risk-taking, that are consistent with the risk management strategy and the established risk appetite;</p> <p>(c) uncertainties attached to risk measurement are recognised;</p> <p>(d) appropriate limits are established that are consistent with the bank's risk appetite, risk profile and capital strength, and that are understood by, and regularly communicated to, relevant staff; and</p> <p>(e) senior management take the steps necessary to monitor and control all material risks consistent with the approved strategies and risk appetite.</p> |
| Description and Conclusions EC1 | <p>Regulatory Framework</p> <p>Circular No. 04-2017/CB/C established the terms of a new risk management framework for WAMU credit institutions. It defines credit institutions' duties in the area of risk governance, sets out general risk management principles, and specifies for each type of risk (credit, operational, liquidity, market, rate) the requirements to be met.</p> <p>Article 4 on the roles and duties of governing bodies indicates that they must be sure to:</p> <ul style="list-style-type: none"> • Provide the bank with a risk management process consistent with the provisions of the circular. • Establish a risk management function covering all material risks at the bank level with powers different from those of operational units. • Preserve the existence of an independent risk management function with the resources it needs as well as sufficient authority to successfully carry out its tasks. |

⁴² It should be noted that while, in this and other Principles, the supervisor is required to determine that banks' risk management policies and processes are being adhered to, the responsibility for ensuring adherence remains with a bank's Board and senior management.

- Fully exercise the duties assigned to them in the area of risk.

Article 11 on risk appetite and management of the limits mentions that the bank must establish a risk appetite mechanism approved, supervised, and reviewed annually by the deliberative body and implemented by the executive body.

In addition, Circular No. 01-2017/CB/C on the governance of credit institutions sets out various duties in the area of risk governance. The deliberative body should, in particular, approve:

- All the bank's policies.
- The bank's risk appetite and risk limits.
- Decisions on outsourcing of activities and the use of new products, substantial modifications to existing products as well as important strategic operations such as major acquisition operations, the modification of systems, processes, and the business model.
- Risk governance and internal control mechanisms. It is required to ensure that the implementation of said mechanisms is consistent with all the requirements set out, respectively, in the circulars on risk management and internal control of credit institutions and finance companies in the WAMU.

DSP Controls

The DSP's work basically focuses on review of the minutes of deliberative bodies and use of the information appearing in the different reports submitted (bank, auditors, DCPEME). The risk management reports sent annually by the banks lead, on the basis of examples communicated by the SGCB, to a formalized review on the part of DSP analysts. It should nonetheless be emphasized that the lack of an outline disseminated to the profession for preparing the report compromises the ability to collect all the expected information. Review of the content of two reports shows a lack of overall consistency, with a non-exhaustive presentation of risk factors, the lack of information on strategic directions and the risk appetite framework, and very incomplete descriptions of risk management mechanisms. Assessment of the "risk management and internal control" risk factor in the SNEC rating may in some cases have seemed inconsistent with the information appearing in the survey reports or risk management reports submitted by the banks or with their inclusion in special surveillance.

DCPEME Audit Tasks

The DCPEME's specific surveys are able to verify the organization of the risks management function (reporting lines, committees, tools) and the deliberative body's involvement in the validation of procedures. The analysis of risk appetite, the resources allocated to the function with regard to risks borne, and the Board's involvement in the development and dissemination of the risk culture would merit being covered in greater depth.

| | |
|---------------------------------|---|
| EC2 | <p>The supervisor requires banks to have comprehensive risk management policies and processes to identify, measure, evaluate, monitor, report and control or mitigate all material risks. The supervisor determines that these processes are adequate:</p> <p>(a) to provide a comprehensive “bank-wide” view of risk across all material risk types;</p> <p>(b) for the risk profile and systemic importance of the bank; and</p> <p>(c) to assess risks arising from the macroeconomic environment affecting the markets in which the bank operates and to incorporate such assessments into the bank’s risk management process.</p> |
| Description and Conclusions EC2 | <p>Regulatory Framework</p> <p>The regulations require every bank to have a risk management process suited to its size, its structure, the nature and complexity of its activities and well as its risk profile and, where appropriate, that of the group to which it belongs (cf. Article 7 Circular No. 04-2017/CB/C). The supervisor also requires that this process be based on well-documented strategies, policies, and procedures to identify, evaluate, monitor, report, and control or mitigate all the bank’s material risks (cf. Article 8 Circular No. 04-2017/CB/C).</p> <p><u>These obligations are checked through documentary and on-site inspection work.</u></p> <p>The DSP’s investigations are intended to be conducted by means of:</p> <ul style="list-style-type: none"> • Verification of the existence and analysis of regularly updated risk mapping. <u>In this regard, it should be noted that a significant number of credit institutions still do not have risk mapping (cf. the mission’s banking survey).</u> • Analysis of the content of half-yearly reports on risk management and the effectiveness of their transmission to the deliberative body. • The adequacy of the risk management process set up by the SIBs relative to their risk profiles. <p>With regard to the DCPME, its checks on compliance with these procedures are recorded in the customary investigation fields. However, the still limited number of missions since the entry into force of the new regulations on risk management provide only a partial view of the credit institutions’ situation with regard to these requirements.</p> |
| EC3 | <p>The supervisor determines that risk management strategies, policies, processes and limits are:</p> <p>(a) properly documented;</p> <p>(b) regularly reviewed and appropriately adjusted to reflect changing risk appetites, risk profiles and market and macroeconomic conditions; and</p> |

| | |
|--|---|
| | <p>(c) communicated within the bank.</p> <p>The supervisor determines that exceptions to established policies, processes and limits receive the prompt attention of, and authorisation by, the appropriate level of management and the bank's Board where necessary.</p> |
| <p>Description and Conclusions EC3</p> | <p>Regulatory Framework</p> <p>Circulars Nos. 01-2017/CB/C, 03-2017/CB/C, and 04-2017/CB/C concerning, respectively, governance, internal control, and risk management, constitute the reference framework for credit institutions in the area of risk management.</p> <p>Article 8 of the circular on risk management requires banks to establish risk management processes based on well-documented strategies, policies, and procedures. These strategies, policies, and procedures should be dynamic so as to reflect changes in the bank's degree of risk appetite, its risk profile, as well as market conditions and the macroeconomic environment. Article 8 also provides that banks must ensure the implementation of strategies, policies, and procedures capable of providing an overall view, at the organizational level, of its exposures to each type of risk.</p> <p>Article 10 of the circular on internal control stipulates that the bank's internal control system must ensure that objectives and policies in the area of risk management, defined according to the requirements set forth in the circular on risk management in WAMU credit institutions and finance companies, are disseminated and applied.</p> <p>More specifically in the area of risk appetite and the management of limits, Circular No. 04-2017/CB/C requires banks to set up a risk appetite process approved, supervised, and reviewed annually by the deliberative body and implemented by the executive body. Banks are also required to:</p> <ul style="list-style-type: none"> • Establish overall limits and operational limits at the level of their various entities. These limits must be established consistently, according to the bank's risk appetite, its risk profile, and its capital base. • Ensure the correct adoption of these limits by the staff concerned and regular internal communications. • Have a process for identifying and managing deviations from the limits, including a procedure for reporting deviations to the appropriate hierarchical level, for correcting overages monitoring corrections, and penalties in the case of persistent overages. • Clearly define the procedure to be followed for diligent submission of cases of exceptions to the established policies, procedures, and limits for review and authorization by authorized bodies. <p>The circular on internal control also stipulates that:</p> |

| | |
|---------------------------------|--|
| | <ul style="list-style-type: none"> • Compliance with risk-related limits is subject to monitoring. • Exceeded limits are corrected in accordance with the bank's policies. <p>Verification of the implementation of the CBU's requirements is primarily exercised by the DCPEME in the context of on-site audits. However, it is to be noted that awareness-raising actions have been conducted by the BCEAO on the concept of risk appetite when the circular on risk management was issued.</p> <p>DSP Tasks</p> <p>DSP supervisors endeavor to verify compliance with obligations, notably by using the bank's risk management reports with the reservations indicated above. However, the DSP does not hold up-close interviews with the internal supervisors of supervised banks to discuss the risks situation.</p> <p>DCPEME Reviews</p> <p>The DCPEME has not yet been able to conduct enough missions on which to base a representative opinion of the risk management mechanisms of WAMU credit institutions.</p> <p><u>According to the DCPEME, the banks have made progress in formalizing procedures even though this is still not reflected in the survey reports, given numerous observations regarding the lack of updating and incomplete procedures. In addition, the mechanism for setting and managing limits is not on the whole operational in the Union's banks, with the exception of large banks or those with complex operations. This shows the disparate nature of banks in the WAMU with regard to the maturity of risk management processes. Thus, a large number of banks have not yet defined non-regulatory limits, which does not ensure a precise evaluation of the risks. As for deviations from the limits, according to the DCPEME, they are generally managed by a return to the previous limits.</u></p> <p><u>The banking survey responded to by a panel of banks shows the absence of a risk and internal control culture. Most of the banks that responded believe that they must still improve the updating of internal control procedures and the development of risk mapping and strengthen their risk management culture.</u></p> |
| EC4 | <p>The supervisor determines that the bank's Board and senior management obtain sufficient information on, and understand, the nature and level of risk being taken by the bank and how this risk relates to adequate levels of capital and liquidity. The supervisor also determines that the Board and senior management regularly review and understand the implications and limitations (including the risk measurement uncertainties) of the risk management information that they receive.</p> |
| Description and Conclusions EC4 | <p>Regulatory Framework</p> <p>The regulatory framework provides good coverage of the need to regularly forward to the deliberative body information on the risk situation and establishes the responsibilities of various parties involved in risks supervision. Article 8 of the circular on governance states that</p> |

| | |
|---------------------------------|--|
| | <p>the deliberative body must hold regular meetings with the executive body on the bank's situation, in particular to gather information and explanations to clarify its judgment. The executive body, for its part, is required to inform it of all relevant information and data needed for its decision-making.</p> <p>The duties of the executive body are established in Articles 26 and 27 of the circular. It must at all times have sufficient information on the nature and level of risk taken by the bank, understand the interrelationships existing among these different risks, and understand the level of capital and liquidity required to cover these exposures.</p> <p>Those responsible for supervising functions, including those in charge of risks management, must provide the governing bodies with precise, up-to-date, and intelligible information to allow them to make informed decisions (cf. Article 29 of Circular No. 01-2017/CB/C).</p> <p>Finally, the regulations establish the requirements in the area of effectiveness, particularly in terms of the compilation and reporting of information on risks (in particular, the bank's risk profile relative to its capital and liquidity levels). Thus, the information system must ensure timely submission to the governing bodies of all relevant information useful for decision-making, pursuant to Article 12 of Circular No. 4-2017/CB/C on risks management.</p> <p>It is to be noted that the widespread use of risks committees (cf. banking survey), at least within the SIBs, ensures greater collegiality in sharing information and making decisions.</p> <p>When reviewing the reports made available to it, the assessors found several cases where the risks management report was not approved by the deliberative body.</p> <p>SGCB Tasks</p> <p>The DCPME's methodology provides checkpoints on these issues that could be studied further during on-site investigations.</p> <p>For its part, the DSP utilizes the banks' risk management reports.</p> |
| EC5 | <p>The supervisor determines that banks have an appropriate internal process for assessing their overall capital and liquidity adequacy in relation to their risk appetite and risk profile. The supervisor reviews and evaluates banks' internal capital and liquidity adequacy assessments and strategies.</p> |
| Description and Conclusions EC5 | <p>The CBU requires banks to have a process for assessing the overall adequacy of their internal capital relative to their risk profile, on the one hand, and the strategies they have adopted to maintain their capital levels, on the other. To this end, banks must have sound, effective, and comprehensive strategies and processes to permanently hold internal capital levels that they deem appropriate in terms of their risk profile (cf. paragraphs 506 and 513 of prudential framework).</p> |

| | |
|---------------------------------|---|
| | <p>Banks are also required to assess their capital adequacy in terms of their liquidity risk profile as well as the liquidity of the markets on which they operate. They must ensure that the stress tests done in the context of capital and liquidity risk management planning are complementary (cf. paragraph 540 of the prudential framework).</p> <p>In the context of performing its specific duties, the CBU also requires the deliberative body to continuously ensure the adequacy of the bank's capital and liquidity levels in terms of its risk profile (cf. Article 7 of Circular No. 1-2017/CB/C).</p> <p><u>As of now, the large majority of banks do not have formalized capital adequacy frameworks (see BCP 16) of the internal capital adequacy assessment process type (ICAAP). Besides the formalization work involved, for which the banks are not prepared, it should be noted that the supervisor has not yet established a report format.</u></p> <p><u>In effect, the supervisory tasks of the DCPEME and DSP do not specifically include these subjects as yet.</u></p> |
| EC6 | <p>Where banks use models to measure components of risk, the supervisor determines that:</p> <p>(a) banks comply with supervisory standards on their use;</p> <p>(b) the banks' Boards and senior management understand the limitations and uncertainties relating to the output of the models and the risk inherent in their use; and</p> <p>(c) banks perform regular and independent validation and testing of the models.</p> <p>The supervisor assesses whether the model outputs appear reasonable as a reflection of the risks assumed.</p> |
| Description and Conclusions EC6 | <p>WAMU banks do not use an internal model, with the exception of the trading book valuation process (see BCP 22). In this regard, the trading book's weight in the banks seems residual, with some exceptions. Of the 149 banks and financial institutions required to report their trading books to the supervisor, only ten have trading books representing more than one percent of their assets.</p> <p>However, it should be noted that <u>market risks management models have not led to audits by the DSP nor the DCPEME</u>, particularly the value-at-risk model used by a large international group. Incidentally, according to the off-site controller, the information contained in the risks management report sent by this bank offers no real added value compared to the information appearing in the annual report.</p> |
| EC7 | <p>The supervisor determines that banks have information systems that are adequate (both under normal circumstances and in periods of stress) for measuring, assessing and reporting on the size, composition and quality of exposures on a bank-wide basis across all risk types, products and counterparties. The supervisor also determines that these reports reflect the</p> |

| | |
|---------------------------------|--|
| | bank's risk profile and capital and liquidity needs, and are provided on a timely basis to the bank's Board and senior management in a form suitable for their use. |
| Description and Conclusions EC7 | <p>Regulatory Framework</p> <p>The requirements established by the CBU in the area of information systems are essentially specified in the three circulars cited above, specifically in Article 12 of Circular No. 04-2017/CB/C and scattered throughout the other two circulars cited above.</p> <p>Performance and Quality of Credit Institutions' Information Systems</p> <p>The operation and performance level of the banks' main information systems produce controls on the part of the DCPEME inspectors. Review of a panel of reports (auditors' reports, audit reports) has thus highlighted inadequacies in the information systems of several banks, as reflected in:</p> <ul style="list-style-type: none"> • Obsolescent software and management systems in some banks. • A quite widespread lack of automation of certain accounting treatments, notably subordination/provisioning of non-performing loans. • A weakness in the quality of intelligence and the handling of customer data. <p>Security of Information Systems and Prevention of Cyber Risks</p> <p><u>With regard to risks related to the security of information – in a context where the exposure of banks in the WAMU to cyber risk is increasingly pronounced – it should be pointed out that Article 12 on procedures in this area is quite cursory. In this regard, the BCEAO indicated to the mission that a draft regulatory text was being formalized.</u> In effect, as indicated in CP 25, this year the BCEAO launched a partnership with the World Bank and the University of Tel-Aviv for evaluation of cybersecurity in the WAEMU financial sector, in parallel with the FSAP. The purpose of the project is to carry out a sectoral evaluation of the current cybersecurity capacities of the financial sector in the WAEMU in order to suggest recommendations for improving cyber resilience in the short and long term. The tasks focus specifically on the regulatory framework for the WAEMU financial sector's cybersecurity, supervision of the financial sector in terms of cybersecurity, and the maturity of the central bank's cybersecurity capabilities.</p> <p>Procedures related to the outsourcing of IT services or business continuity are, in contrast, more developed.</p> <p>The DCPEME, in the context of specific surveys, conducts quite systematic investigations on the security of IT assets, access systems, the existence of business continuity plans, and backup sites that highlight significant gaps. Moreover, a questionnaire on practices and mechanisms introduced by banks on system security was sent to them at the beginning of 2021. Analysis of the responses was being finalized at the time of the mission.</p> |
| EC8 | The supervisor determines that banks have adequate policies and processes to ensure that the banks' Boards and senior management understand the risks inherent in new products, ⁴³ material modifications to existing products, and major management initiatives (such as |

⁴³ New products include those developed by the bank or by a third party and purchased or distributed by the bank.

| | |
|---------------------------------|--|
| | changes in systems, processes, business model and major acquisitions). The supervisor determines that the Boards and senior management are able to monitor and manage these risks on an ongoing basis. The supervisor also determines that the bank's policies and processes require the undertaking of any major activities of this nature to be approved by their Board or a specific committee of the Board. |
| Description and Conclusions EC8 | <p>Regulatory Framework</p> <p>The regulations govern the risks inherent to new products, new activities, or changes to products. Article 32 of Circular No. 04-2017/CB/C indicates that banks must take into account the identification and assessment of risks inherent to new products, new activities, major acquisitions, as well as those arising from changes in systems, processes, or the business model.</p> <p>For this purpose, the bank should have policies and procedures enabling governing bodies to understand and manage these new risks. This process should take the following into account in particular:</p> <ul style="list-style-type: none"> • The inherent risks. • Resulting changes in the risk profile, risk appetite. • Necessary controls, strategies, and process for mitigating risks as well as residual risk. <p>For its part, Circular No. 01-2017/CB/C on governance establishes the duties of the deliberative body with regard to the approval of new products.</p> <p><u>The frameworks governing the launch of new products result in inspections by the DCPEME. The review of several DCPEME reports showed that the processes related to the launch of new products were not well-structured – lack of a clearly formalized framework – and that the compliance manager was not always associated with their evaluation.</u></p> |
| EC9 | The supervisor determines that banks have risk management functions covering all material risks with sufficient resources, independence, authority and access to the banks' Boards to perform their duties effectively. The supervisor determines that their duties are clearly segregated from risk-taking functions in the bank and that they report on risk exposures directly to the Board and senior management. The supervisor also determines that the risk management function is subject to regular review by the internal audit function. |
| Description and Conclusions EC9 | <p>Circulars Nos. 01/2017/CB/C and 04/2017/CB/C on governance and risk management both include the requirement to have a risk management function. They also specify its role and responsibilities.</p> <p>The CBU regulations thus require that banks have, in proportion to their size, complexity, structure, and risk profile, control functions in the area of internal audit, risks management, and compliance. These control functions should be assigned a sufficient number of competent staff to perform their tasks effectively. They must also be independent and have</p> |

| | |
|----------------------------------|---|
| | <p>the reputation and authority sufficient to allow those in charge to perform their duties. In this regard, the deliberative body must ensure that the General Director respects and promotes their independence and does not interfere in the performance of the duties assigned to them. To ensure and assess their tasks, the deliberative body has periodic discussions with the control function managers and evaluates their performance.</p> <p>The control functions may access the deliberative body directly or, when applicable, its specialized committees, as well as the bank's auditors to discuss their opinions, findings, and the conclusions of their work.</p> <p>The requirement to establish a risk management function seems to be observed by the supervised banks according to the SGCB and the items of information contained in the banking survey. In particular, the DSP specifies that the positioning of the risk function within the banks is now well understood. Similarly, the conditions of access to the Board are on the whole respected. <u>In contrast, the number of staff assigned to the risk management function seems insufficient for one out of every two banks according to the results of the banking survey initiated by the IMF.</u></p> <p>The SGCB verifies compliance with the principle of the separation of functions as well as the existence of dedicated reporting lines between the risk reporting function and senior management and/or the Board.</p> <p>The internal control reports are tabulated by the DSP analysts and the list of internal audits conducted during the year is generally confirmed. However, it was not mentioned whether periodic control's conduct of the risk function audit is verified.</p> |
| EC10 | <p>The supervisor requires larger and more complex banks to have a dedicated risk management unit overseen by a Chief Risk Officer (CRO) or equivalent function. If the CRO of a bank is removed from his/her position for any reason, this should be done with the prior approval of the Board and generally should be disclosed publicly. The bank should also discuss the reasons for such removal with its supervisor.</p> |
| Description and Conclusions EC10 | <p>The regulations explicitly provide for the establishment of a risk management function for supervised banks. Thus, Article 28 of Circular No. 01-2017/CB/C mentions that regional and national SIBs must have at least the internal audit, risk management, and compliance functions. This requirement is well respected by the SIBs according to the SGCB.</p> <p>Moreover, Article 31 of this same circular stipulates that the appointment, change, or removal of the person responsible for the risk management function is subject to prior approval by the deliberative body on the well-founded suggestion of the General Director. These decisions should be made known to the CBU.</p> |
| EC11 | <p>The supervisor issues standards related to, in particular, credit risk, market risk, liquidity risk, interest rate risk in the banking book and operational risk.</p> |
| Description and | <p>The circular on risk management establishes requirements for all risk factors to which the banks are exposed. These may be described differently according to the type of risk.</p> |

| | |
|---|--|
| <p>Conclusions EC11</p> | <p>Moreover, conversion of the Basel II and III rules in the framework is accompanied by the issuance of standards in the area of credit risk, market risk, liquidity risk, and interest rate risk in the banking book and operational risk.</p> <p><u>Furthermore, the WAMU supervisor would benefit from supplementing its texts with guidelines allowing greater specificity regarding its expectations with regard to certain obligations. This will also make it easier to monitor the bank's formalization and reporting approach.</u></p> |
| <p>EC12</p> | <p>The supervisor requires banks to have appropriate contingency arrangements, as an integral part of their risk management process, to address risks that may materialise and actions to be taken in stress conditions (including those that will pose a serious risk to their viability). If warranted by its risk profile and systemic importance, the contingency arrangements include robust and credible recovery plans that take into account the specific circumstances of the bank. The supervisor, working with resolution authorities as appropriate, assesses the adequacy of banks' contingency arrangements in the light of their risk profile and systemic importance (including reviewing any recovery plans) and their likely feasibility during periods of stress. The supervisor seeks improvements if deficiencies are identified.</p> |
| <p>Description and Conclusions EC12</p> | <p>Regulatory Framework</p> <p>The regulatory framework in the area of contingencies is based on several regulatory texts</p> <ul style="list-style-type: none"> • Paragraphs 519 and 522 to 525 of the prudential framework require the deliberative body to ensure that the bank has a capital planning process that is an integral part of its overall strategic plan, clearly and concisely describing the range of strategies that the executive body can deploy to address an anticipated or unforeseen capital inadequacy, including during periods of economic slowdown or stress. • Articles 45 and 53 of Circular No. 04-2017/CB/C on risk management require banks to have a contingency funding plan, clearly setting out their strategies for resolving liquidity shortages in an emergency. • In addition, since January 2021 and in accordance with Circular No. 001-2020/CB/C, SIBs, finance companies, and parent company credit institutions are required to submit for assessment by the CBU a preventive recovery plan identifying the measures that may be taken at the initiative of said institutions to address a significant deterioration in their financial situation or that of the group to which they belong. This plan must take into account essential services that the institution provides to the economy, particularly critical functions, to ensure continuity. The requirement to submit a recovery plan will be mandatory for other banks and non-bank financial institutions, respectively, as from January 2022 and 2023. |

| | |
|----------------------------------|---|
| | <p>Assessment of Emergency and Recovery Plans</p> <p>Considering the delays noted in BCP 11 in the schedule for submitting recovery plans, the CBU does not have an exhaustive view of the solidity of the plans. <u>All the SIBs concerned by a submission in 2021 have still not sent their recovery plans.</u></p> <p>DCPEME Audits</p> <p><u>The DCPEME methodology contains various checkpoints on the banks' emergency plans.</u></p> |
| EC13 | <p>The supervisor requires banks to have forward-looking stress testing programmes, commensurate with their risk profile and systemic importance, as an integral part of their risk management process. The supervisor regularly assesses a bank's stress testing programme and determines that it captures material sources of risk and adopts plausible adverse scenarios. The supervisor also determines that the bank integrates the results into its decision-making, risk management processes (including contingency arrangements) and the assessment of its capital and liquidity levels. Where appropriate, the scope of the supervisor's assessment includes the extent to which the stress testing programme:</p> <ul style="list-style-type: none"> (a) promotes risk identification and control, on a bank-wide basis; (b) adopts suitably severe assumptions and seeks to address feedback effects and system-wide interaction between risks; (c) benefits from the active involvement of the Board and senior management; and (d) is appropriately documented and regularly maintained and updated. <p>The supervisor requires corrective action if material deficiencies are identified in a bank's stress testing programme or if the results of stress tests are not adequately taken into consideration in the bank's decision-making process.</p> |
| Description and Conclusions EC13 | <p>Article 13 of Circular No. 04-2017/CB/C explicitly provides for the banks' development of stress testing programs, for purposes of risk management, in order to assess the potential impact of adverse but plausible scenarios on their financial soundness. However, the terms of this article seems quite cursory. However, the CBU plans to remedy this. A draft circular on stress testing is thus being finalized and should be complete by the end of 2021. Its objective will notably be to consider the principle of proportionality in stress testing programs and to strengthen the requirements in terms of governing bodies' responsibilities.</p> <p>Stress testing programs should include all material risks to which the bank is exposed. They should also provide corrective measures when the results of stress tests detect potential weaknesses that would have a negative impact on the bank's financial soundness.</p> |

| | |
|-------------------------------------|---|
| | <p>Banks are also expected to perform in-depth analysis of capital instruments and their performance during stress periods, including their ability to absorb losses and maintain operations on a continuous basis (paragraphs 544 and 545 of the prudential framework).</p> <p><u>In practice, the requirements in the area of stress tests are complied with by only a minority of the supervised banks. Thus, only 36 percent of the banks questioned in the context of the banking survey state that they conduct regular stress testing exercises.</u> These primarily cover credit risk and liquidity risk (with quarterly and monthly frequency, respectively) and to a lesser extent market risk (quarterly frequency).</p> <p><u>Moreover, the stress testing exercises conducted by the banks do not systematically result in extensive investigations (methodology, choice of variables, validation of guidelines) on the part of SGCB teams both from the DSP and the DCPEME, including for groups.</u></p> |
| EC14 | The supervisor assesses whether banks appropriately account for risks (including liquidity impacts) in their internal pricing, performance measurement and new product approval process for all significant business activities. |
| Description and Conclusions EC14 | Verification of these requirements does not explicitly appear in the on-site survey reports consulted. |
| Additional Criterion | |
| AC1 | The supervisor requires banks to have appropriate policies and processes for assessing other material risks not directly addressed in the subsequent Principles, such as reputational and strategic risks. |
| Description and Results AC1 | <p>Consideration of other risks is clearly stipulated in the regulations. In Article 56 of Circular No. 04-2017/CB/C on risks management, the CBU requires the deliberative body to ensure – in quite succinct terms – that country, transfer, reputational, and strategic risk exposures are monitored, managed, and mitigated based on formalized policies and procedures. The bank is also required to monitor and assess their development and to react by taking the appropriate measures.</p> <p>These requirements would gain from being clarified with specific – qualitative or quantitative – requirements, for example, with guidelines. In addition, they are not well covered by the DCPEME methodology.</p> |
| Assessment of Principle 15 | Materially Non-compliant |
| Comments | Circular No. 04/2017/CB imposes strict requirements on supervised banks in the area of risk management. Nonetheless, the coverage of some regulatory aspects could be improved. Prescriptions on the subject of the security of information systems or new products could thus be made clearer, by means of guidelines, for example. However, the circular's implementation |

in the banks risk management procedures is still very gradual based on the review of various reports consulted (on-site survey reports, auditors' reports in particular).

Besides the lack or inadequacy of the risk measurement and monitoring methodologies, most banks do not have effective or appropriate tools, which prevents detailed monitoring of risks and compliance with regulatory requirements. Banks also struggle to formalize their risk appetite framework and to establish sets of limits strictly governing operations. In this regard, insufficient involvement of the deliberative bodies in risk supervision represents an additional obstacle.

The supervisor's approach to control is generally well-organized, although inadequate staffing for control prevents full utilization of the information available (DSP), while in-person discussions with the banks' risk management functions are limited. The DCPEME has not been led to expedite specific missions on risk management (DCPEME). Some aspects touching on risk supervision (risk management by executive bodies, dissemination of a risk culture, definition and breakdown of a risk appetite policy) are still not sufficiently developed in the context of on-site investigations.

The supervisor would also benefit from promptly securing expert resources to ensure the development of stress tests to be used to regularly assess the resiliency capacities of the banking sector and better support the banks in conducting such exercises. In addition, it would be advisable to quickly design a report outline for the banks so they can formalize their internal capital adequacy assessment process (ICAAP) first of all, followed by the internal liquidity adequacy assessment process (ILAAP) as soon as the regulations on the new liquidity ratios are published.

Finally, with regard to the importance of cybersecurity risks repeatedly noted by the CBU representatives and the awareness-raising actions taken, the supervisor should be sure to issue strong and preventive recommendations directed to the banks it deems to be highly exposed to these risks. In this regard, the initiatives undertaken – notably the partnership with the World Bank and the University of Tel Aviv with the bonus of a roadmap of cyber-capacities to be developed – represent significant advances.

Recommendations

- Expand investigations on the development, use, and governance of stress tests (credit, liquidity, market) than can be used by the banks.
- Expedite on-site supervision visits on the subject of risk management and control. Strengthen in particular investigations on the involvement of deliberative bodies in defining risk appetite, as well as in risk supervision, and impose increased penalties in the event of non-compliance.
- Instruct banks that do not have expert internal capabilities in information system security to arrange for external audits.

| | |
|---------------------------------|--|
| | <ul style="list-style-type: none"> Strengthen the regulations on information system security, including, for example, the conduct of intrusion tests at regular intervals by external audit firms. Set up an organization ensuring formalization and regular updating of recovery plans. |
| Principle 16 | <p>Capital Adequacy⁴⁴</p> <p>The supervisor sets prudent and appropriate capital adequacy requirements for banks that reflect the risks undertaken by, and presented by, a bank in the context of the markets and macroeconomic conditions in which it operates. The supervisor defines the components of capital, bearing in mind their ability to absorb losses. At least for internationally active banks, capital requirements are not less than the applicable Basel standards.</p> <p>(Reference documents: <i>Revisions to the Basel II market risk framework</i>, February 2011; <i>Minimum requirements to ensure loss absorbency at the point of non-viability</i>, January 2011; <i>Capitalisation of bank exposures to central counterparties</i>, July 2012; <i>Sound practices for backtesting counterparty credit risk models</i>, December 2010; <i>Guidance for national authorities operating the countercyclical capital buffer</i>, December 2010; <i>Basel III: A global regulatory framework for more resilient banks and banking systems</i>, December 2010; <i>Guidelines for computing capital for incremental risk in the trading book</i>, July 2009; <i>Enhancements to the Basel II framework</i>, July 2009; <i>Range of practices and issues in economic capital frameworks</i>, March 2009; <i>International convergence of capital measurement and capital standards: a revised framework, comprehensive version</i>, June 2006; and <i>International convergence of capital measurement and capital standards</i>, July 1988.)</p> |
| Essential Criteria | |
| EC 1 | Laws, regulations or the supervisor require banks to calculate and consistently observe prescribed capital requirements, including thresholds by reference to which a bank might be subject to supervisory action. Laws, regulations or the supervisor define the qualifying components of capital, ensuring that emphasis is given to those elements of capital permanently available to absorb losses on a going concern basis. |
| Description and Conclusions EC1 | The regulatory framework for the solvency ratio in place since 2000 and based on Basel I was revised in 2016 to ensure convergence toward the Basel II/III international standards. In June 2016, the WAMU Council of Ministers adopted this new "prudential framework," which entered into force on January 1, 2018. It is applicable on a solo basis to credit institutions, including banks and non-bank financial institutions, and on a sub-consolidated or consolidated basis to groups subject to supervision on a consolidated basis (intermediary financial holding companies, financial holding companies, and parent company credit institutions). |

⁴⁴ The Core Principles do not require a jurisdiction to comply with the capital adequacy regimes of Basel I, Basel II and/or Basel III. The Committee does not consider implementation of the Basel-based framework a prerequisite for compliance with the Core Principles, and compliance with one of the regimes is only required of those jurisdictions that have declared that they have voluntarily implemented it.

Definition of Capital

The prudential framework defines three categories of capital:

- Core capital (common equity tier 1 capital - CET1) includes paid-up share capital, consisting of common shares or member shares meeting the inclusion criteria, premiums linked to the issuance of shares, retained earnings, unallocated intermediate or year-end earnings, limited to the net amount after deduction of foreseeable expenses and dividends, the special reserves, as well as statutory, contractual, optional, and regulated reserves.
- Additional core capital (additional tier 1 capital - AT1) consists of capital instruments issued by the bank that meet the inclusion criteria, and premiums linked to the issuance of these instruments.
- Supplementary capital (tier 2 capital - T2) consists of items subject to eligibility criteria (investment grants, allocated funds, blocked accounts of shareholders or associates, capital instruments, subordinated loans, and premiums linked to the issuance of these instruments) as well as regulated provisions.

The different categories of capital are broadly based on the composition and eligibility criteria of Basel III, but two notable differences can be noted:

- Provision is made for the Basel III eligibility criteria (Global regulatory framework for more resilient banks and banking systems, December 2010) relating to the conversion/depreciation of AT1 instruments, but the regulations do not specify the threshold that triggers the absorption mechanism. WAMU regulations also provide for type AT1 and T2 type instruments a mechanism for absorbing losses at the point of non-viability, which corresponds to the requirements of the Basel Committee's press release of January 13, 2011, and is triggered by the competent authority.
- Supplementary capital includes regulated provisions that are not subject to the Basel III eligibility criteria. Prior to the introduction of Basel III, they were considered in core capital. The decision was made to transfer it gradually over a transitional ten-year period to supplementary capital. It includes provisions recorded in accordance with tax provisions authorizing depreciation in excess of what is economically justified. In practice, these regulated provisions represent only a small fraction of capital, on the order of one percent.

Some components of capital that no longer meet the Basel III requirements are excluded (in-kind contributions, revaluation differences, subordinated loans no longer meeting the eligibility criteria) or transferred to a new category of capital (regulated provisions, allocated funds) pursuant to the transitory provisions provided from 2018 to 2028.

The regulations also establish the principle that the supervisory authority must give its approval when a bank wishes to include a new instrument in its capital. Requests are handled through off-site supervision. The latter has not yet had to review type AT1 capital instruments, which is the new capital instrument introduced by the Basel reform. In practice, capital primarily consists of common shares and secondarily of type T2 subordinated loans.

| | |
|--|---|
| | <p>Deductions made for each category of capital correspond to those provided in the Basel framework. In particular, deductions from core capital include losses carried forward, losses for the year in progress, intangible fixed assets, deferred tax assets (with the deductibles mechanism for deferred tax assets resulting from a timing difference), cross shareholdings, holdings in financial institutions (with the deductibles mechanism for some of them), where the amount of the components exceeding additional capital should be deducted from additional core capital.</p> <p>For the deduction of holdings in financial institutions, it is noted that they were formerly fully provisioned and are now deducted by applying the deductions. In contrast, some options more conservative than the Basel standard have been retained. Thus, for the deduction of these holdings, it is not possible to deduct short positions from long positions.</p> <p>Also deducted from capital are value adjustments due to prudent assessment requirements (valuation reserves for less liquid positions) and amounts exceeding limits on shareholding in commercial entities. Moreover, other deductions have been added compared to the international standards: the limit applicable to non-operating fixed assets, the limit applicable to fixed assets and holdings as well as the limit applicable to the loans of major shareholders, managers, and staff.</p> <p>The deductions framework seems on the whole consistent with and in some cases more conservative than the Basel rules and is well-defined with the exception of the concept of indirect holdings, which is not specified.</p> <p>The treatment of consolidated capital is well-defined, particularly the treatment with regard to minority interests.</p> <p>Minimum Requirements</p> <p>The capital requirements established are slightly higher than the Basel minimums of 4.5, 6, and 8 percent, respectively, for CET1, AT1, and total capital (Table x). The total capital requirement is being gradually implemented up to 2022 with a one-year delay due to the pandemic.</p> <p>In addition, the regulations provided for different types of additional buffers:</p> <ul style="list-style-type: none"> • The requirement relating to the conservation buffer (paragraphs 92 to 97 of the prudential framework) is being introduced gradually with a current requirement of 1.875% that should reach 2.5% in 2022. • The framework relating to the counter-cyclical buffer is still not fully specified. While the prudential framework makes provision for this buffer (paragraphs 98-100), the macro-prudential authority responsible for activating it has not yet been designated. • The surcharge for regional systemic banks has been introduced in the prudential framework (paragraphs 101-102). Provision was made for gradual implementation at |
|--|---|

0.4% in June 2020, 0.7% in 2021, and 1% in 2022. This schedule has been postponed by one year due to the pandemic.

Capital Requirements

| Requirements in 2020 and Target | Solvency Ratio | Buffers | | |
|---------------------------------|----------------|--------------|------------------|------------|
| | | Conservation | Counter-cyclical | Systemic |
| Core Capital (CET1) | 5% | + 1.875% | | |
| Target or Max | | +2.5% (2022) | + 2.5% max | 1 % (2023) |
| Core Capital (T1) | 6% | | | |
| Effective Capital | 8.25% | | | |
| Target | 9% (2023) | | | |

The banking law also requires that banks' core capital (T1) should be at least equal to minimum share capital. Finally, capital should not be less than half of share capital (OHADA uniform act on commercial companies and economic interest groups, Article 664).

The banking law has still not been updated following adoption of the prudential framework defining the different categories of capital. In particular, it does not mention core capital, a new category introduced with the Basel III reform. The SGCB indicates that this lack of updating of the banking law has not prevented the entry into force of the prudential framework.

Controls on Compliance with Capital Requirements

Every six months, the banks send their prudential declaration form, which is checked by the off-site supervision and on-sites supervision directorates. For this, on-site supervision has a procedure that considers the latest regulatory developments. In contrast, off-site supervision does not have a control methodology incorporating the introduction of Basel II/Baset III.

To support the introduction of the reforms, the BCEAO has conducted major training actions for the banking sector in the different countries of the Union, particularly on the new definition of capital. These training sessions have also involved CBU staff, some of whom have been involved in the development of the reform, and the software companies.

Compliance with Prudential Standards

The periodic declaration allows the supervisor to monitor the situation with regard to the banks' compliance with the prudential standards, particularly observance of the regulatory ratios, and potentially to intervene. The prudential framework provides that in the case of failure to observe the standards, the CBU sends an administrative instruction to the bank ordering it to adopt within a given period of time all corrective measures needed to bring it into compliance. The bank is forbidden, during this period, to proceed with any discretionary distributions.

| | <p>A substantial segment of the banking sector is not managing to comply with these regulations. As of December 31, 2019, about ten banks, mostly in Côte d'Ivoire and Togo and representing 4.8 percent of the sector's total balance sheet, showed negative capital. As of the same date, 19 banks representing 12.7 percent of the banking sector's total balance sheet (including banks with negative capital), were in breach of the solvency requirement. These breaches involve government-owned banks in particular, where the situation has been the subject of a presentation to the CBU. For some of them, this situation persists after several years engaged in recapitalization plans, for which implementation has been slow. These cases lead to the issuance of administrative instructions, the imposition of special surveillance arrangements or administrative censure-type penalties on the part of the CBU (cf. Principle 11).</p> <p>The solvency ratio of the banking sector has increased by about one point over the course of the last five years. In the absence of the banks' issuance of type AT1 capital instruments, the T1 ratio seems less than the CET1 considering the deductions.</p> <p style="text-align: center;">Change in the Banking Sector's Solvency Ratio</p> <table border="1" data-bbox="493 842 1263 1283"> <thead> <tr> <th></th> <th>CET1</th> <th>T1</th> <th>TOTAL</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td></td> <td></td> <td>11.3%</td> </tr> <tr> <td>2017</td> <td></td> <td></td> <td>11.7%</td> </tr> <tr> <td>2018</td> <td>10.1%</td> <td>10%</td> <td>10.8%</td> </tr> <tr> <td>2019</td> <td>10.7%</td> <td>10.3%</td> <td>11.6%</td> </tr> <tr> <td>2020</td> <td>11.7%</td> <td>11.4%</td> <td>12.4%</td> </tr> </tbody> </table> <p>Source: SGCB</p> | | CET1 | T1 | TOTAL | 2016 | | | 11.3% | 2017 | | | 11.7% | 2018 | 10.1% | 10% | 10.8% | 2019 | 10.7% | 10.3% | 11.6% | 2020 | 11.7% | 11.4% | 12.4% |
|---------------------------------|---|-------|-------|----|-------|------|--|--|-------|------|--|--|-------|------|-------|-----|-------|------|-------|-------|-------|------|-------|-------|-------|
| | CET1 | T1 | TOTAL | | | | | | | | | | | | | | | | | | | | | | |
| 2016 | | | 11.3% | | | | | | | | | | | | | | | | | | | | | | |
| 2017 | | | 11.7% | | | | | | | | | | | | | | | | | | | | | | |
| 2018 | 10.1% | 10% | 10.8% | | | | | | | | | | | | | | | | | | | | | | |
| 2019 | 10.7% | 10.3% | 11.6% | | | | | | | | | | | | | | | | | | | | | | |
| 2020 | 11.7% | 11.4% | 12.4% | | | | | | | | | | | | | | | | | | | | | | |
| EC2 | At least for internationally active banks, ⁴⁵ the definition of capital, the risk coverage, the method of calculation and thresholds for the prescribed requirements are not lower than those established in the applicable Basel standards. | | | | | | | | | | | | | | | | | | | | | | | | |
| Description and Conclusions EC2 | The definition of capital is consistent with the Basel requirements (cf. Criterion 1). The thresholds applicable to the requirements are higher than the Basel requirements and apply to all credit institutions (cf. Criterion 1) whether internationally active or not. | | | | | | | | | | | | | | | | | | | | | | | | |

⁴⁵ The Basel Capital Accord was designed to apply to internationally active banks, which must calculate and apply capital adequacy ratios on a consolidated basis, including subsidiaries undertaking banking and financial business. Jurisdictions adopting the Basel II and Basel III capital adequacy frameworks would apply such ratios on a fully consolidated basis to all internationally active banks and their holding companies; in addition, supervisors must test that banks are adequately capitalised on a stand-alone basis.

Risk Coverage

Adoption of the prudential framework in 2016 made it possible to go from a solvency ratio calculated according to the Basel I rule, limited to credit risk to a ratio based on Basel II and incorporating the coverage of credit, market, and operational risk.

For credit risk, the reform was adopted in June 2016 and is thus based on the consultative document related to the new standard approach, as the final Basel document was published in December 2017 (“Basel III, finalizing post-crisis reforms”). This reform made it possible to introduce a more refined methodology to take account of risks:

- Sovereign: weighting of 0% to 150% (100% in the absence of rating), 0% for the WAMU/BCEAO states if claims denominated and financed in CFAF.
- Government agencies other than central government: weighting of 20% to 100% (100% in the absence of rating), 0% for WAMU government agencies if claims denominated and financed in CFAF.
- Multilateral development banks: weighting from 0% to 150% (50% in the absence of rating).
- Financial institutions: weighting from 20% to 150% (20% in the absence of rating).
- Companies: weighting between 20% and 150% (100% in the absence of rating).
- Retail customer: weighting of 75%.
- Loans secured by residential property: weighting of 35% (first mortgage, “loan to value” conditions, and debt service coverage).
- Loans secured by commercial property: weighting of 75% (first mortgage, “loan to value” condition).
- Non-performing loans: weighting of 100% to 150%.
- High risk claims: weighting of 150%.
- Other assets: weighting of 0% to 250%.
- Off balance sheet: conversion in equivalent credit risk (ERC) by means of conversion factor in equivalent credit, five categories from 10% to 100%.

The reform has introduced some mechanisms such as the “loan to value” ratio to anticipate the final Basel III reform. However, full compliance is not contemplated in the short term given the new application date of the reform (January 1, 2023) announced by the Basel Committee in the context of the pandemic. Moreover, the supervisor does not want to impose new changes in the method for the solvency ratio, as the entry into force of the prudential framework is quite recent.

| | |
|---------------------------------|--|
| | <p>Calculation of the credit risk requirements also includes treatment of counterparty risk, which did not exist before, as well as a part relating to the credit risk mitigation technique with an expansion of eligible securities.</p> <p>Internal approaches for calculating credit risk have not been introduced.</p> <p><u>A market risk requirements calculation</u>, based on a certain threshold, was introduced by the 2016 reform. Rules governing the trading book have been introduced. According to the survey conducted with the banks, 18 out of 149 banks declare a trading book. The capital requirements are calculated separately for each risk category (interest rate, position on property titles, exchange, and commodities) based on standard rates applied to calculate the specific and/or general risks. This framework is based on the Basel II standard approach to market risk.</p> <p><u>With regard to operational risk</u>, the prudential framework has established two approaches taken from Basel II: the basic indicator approach (coefficient of the average of gross annual proceeds over the last three years), which is most often used by the banks, and the standard approach which is subject to prior authorization from the CBU. The bank's operations are divided into eight business lines (business financing, market operations, retail banking, commercial banking, payments and settlements, representative functions, asset management, and retail brokerage). For each line of business, gross proceeds is the overall proxy indicator of the volume of operations and, thereby, of the degree of exposure to operational risk. As for credit risk, the advanced measurement approach based on the banks' models has not been retained.</p> <p>The new standard approach for operational risk published by the Basel Committee in December 2017 and that takes into account the measure of the bank's historic losses has not been established. As for credit risk, compliance is not contemplated in the short term (cf. above).</p> |
| EC3 | <p>The supervisor has the power to impose a specific capital charge and/or limits on all material risk exposures, if warranted, including in respect of risks that the supervisor considers not to have been adequately transferred or mitigated through transactions (e.g., securitisation transactions⁴⁶) entered into by the bank. Both on-balance sheet and off-balance sheet risks are included in the calculation of prescribed capital requirements.</p> |
| Description and Conclusions EC3 | <p>The calculation of capital requirements prescribed in the prudential framework includes risks appearing both on-balance sheet and off-balance sheet. For purposes of calculating the amounts of exposures weighted for credit risk, a bank must apply risk weights to all its on-balance sheet and off-balance sheet exposures (cf. Criterion 2). The leverage ratio also incorporates on-balance sheet and off-balance sheet exposures (cf. Criterion 4).</p> |

⁴⁶ Reference documents: Enhancements to the Basel II framework, July 2009 and: International convergence of capital measurement and capital standards: a revised framework, comprehensive version, June 2006.

| | |
|------------|--|
| | <p>Islamic Finance</p> <p>Some banks in the WAMU are involved in Islamic banking operations. Approval conditions as well as Islamic finance products have been defined in the regulations. The accounting framework is being finalized. There is also a draft prudential framework specific to Islamic finance. The BCEAO has an asset trained in this area, but the SGCB has no specialist as yet.</p> <p>Pillar 2</p> <p>The power to impose capital requirements and specific limits, as provided in Basil II, pillar 2, is included in two texts:</p> <ul style="list-style-type: none"> • The prudential framework (2016): the CBU must assess the strategies and procedures followed by the bank to ensure the adequacy of its capital vis-à-vis its risks. It must take appropriate prudential measures if these strategies and procedures are not satisfactory. The CBU may impose on the bank a capital threshold higher than the regulatory level. • The Annex to the Convention (2017) also provides that the CBU may establish differentiated prudential standards for supervised banks. It gives the CBU power to impose a set of administrative measures on banks when it finds that a bank has noticeably compromised its financial equilibrium or practiced irregular management. The supervisor may, as a corrective measure, establish capital requirements higher than the regulatory targets defined in the prudential framework, based on the bank's risk profile. It may also take precautionary measures to limit the bank's risk-taking or strengthen its soundness. <p>Requirements in ICAAP terms have been included in the prudential framework applicable since January 1, 2018 (paragraphs 516-547). However, it lacks the implementing text regarding the outline enabling the banks to transmit information on the internal capital assessment process. This text should be established in 2022. The SGCB does not yet supervise the banks' ICAAP processes.</p> <p>In addition, it may be noted that no bank is subject to supplementary capital requirements or differentiated prudential standards in the context of Pillar 2 (cf. Principle 1).</p> |
| EC4 | <p>The prescribed capital requirements reflect the risk profile and systemic importance of banks⁴⁷ in the context of the markets and macroeconomic conditions in which they operate and constrain the build-up of leverage in banks and the banking sector. Laws and regulations in a particular jurisdiction may set higher overall capital adequacy standards than the applicable Basel requirements.</p> |

⁴⁷ In assessing the adequacy of a bank's capital levels in light of its risk profile, the supervisor critically focuses, among other things, on (a) the potential loss absorbency of the instruments included in the bank's capital base, (b) the appropriateness of risk weights as a proxy for the risk profile of its exposures, (c) the adequacy of provisions and reserves to cover loss expected on its exposures and (d) the quality of its risk management and controls. Consequently, capital requirements may vary from bank to bank to ensure that each bank is operating with the appropriate level of capital to support the risks it is running and the risks it poses.

| | |
|--|---|
| <p>Description and Conclusions EC4</p> | <p>To effectively take into account the risk profile of WAMU banks and the macroeconomic conditions in which they operate, solvency ratios are slightly higher than the minimums recommended by the Basel Committee (cf. Criterion 1).</p> <p>The prudential framework also introduced the conservation buffer, for which the requirement increases gradually to reach the Basel minimum of 2.5% in 2022. The counter-cyclical buffer was also established in the regulations. It should protect against potential losses associated with excessive growth of loans. However, its implementation necessitates the appointment of the authority responsible for its activation (cf. Criterion 1).</p> <p>The supervisor has the power to require capital higher than the regulatory targets defined in the prudential framework based on the supervised bank's risk profile. In practice, this ability has not been used as yet (cf. Criterion 3).</p> <p>Systemic Banks</p> <p>The Annex to the Convention defines two types of systemic banks: regional SIBs the failure of which may have repercussions at the regional level; and national SIBs that may have an impact in the country where they are installed. For regional SIBs, a surcharge has been provided for in the regulations (prudential framework, paragraph 101) published in 2016 and in force as of January 1, 2018.</p> <p>The methodology for identifying SIBs and determining the capital surcharge applicable to them was published by the BCEAO in December 2019 (Opinion No. 001-12-2019). It is based on the Basel Committee guidelines, while taking into account the specifics of the Union's financial system. It is based on a score established on the basis of several criteria (size, interdependence, substitutability/financial infrastructure, and complexity) and the judgment of the supervisor's expert.</p> <p>The first list of SIBs was published by decision of the CBU in April 2020. It includes six regional SIBs and 22 national SIBs. However, the application of the systemic buffer which was to be effective in June 2020 was postponed by one year as a consequence of the health crisis. This requirement is in effect since June 2021.</p> <p>Leverage Ratio</p> <p>The prudential framework has also introduced a minimum leverage ratio of three percent to control the growth of the banks' balance sheet in terms of capital and to constrain the build-up of leverage in the banking sector. The CBU has the power to raise or lower the level of this standard for a bank to take account of its systemic importance, its risk profile, or the effectiveness of its risk management framework (paragraphs 466 to 469).</p> <p>This ratio is in effect since January 1, 2018, with no transitional provision, to the extent that the impact study indicated that the banking sector on the whole complied with the new standard. It is applicable on a solo and consolidated basis and takes into account on-balance sheet and off-balance sheet items. As of December 31, 2020, the WAMU banking sector's leverage ratio is 6.4% and 108 banks hold 88.5% of the assets in compliance with the leverage standard.</p> |
| <p>EC5</p> | <p>The use of banks' internal assessments of risk as inputs to the calculation of regulatory capital is approved by the supervisor. If the supervisor approves such use:</p> |

| | |
|---------------------------------|--|
| | <p>(a) such assessments adhere to rigorous qualifying standards.</p> <p>(b) any cessation of such use, or any material modification of the bank's processes and models for producing such internal assessments, are subject to the approval of the supervisor.</p> <p>(c) the supervisor has the capacity to evaluate a bank's internal assessment process in order to determine that the relevant qualifying standards are met and that the bank's internal assessments can be relied upon as a reasonable reflection of the risks undertaken.</p> <p>(d) the supervisor has the power to impose conditions on its approvals if the supervisor considers it prudent to do so.</p> <p>(e) if a bank does not continue to meet the qualifying standards or the conditions imposed by the supervisor on an ongoing basis, the supervisor has the power to revoke its approval.</p> |
| Description and Conclusions EC5 | <p>Banks are not authorized to use an internal risk assessment procedure for calculating regulatory capital. In effect, the WAMU prudential framework transposes only the standard and comprehensive approaches recommended by the Basel Committee. Under Pillar 1, the Basel I standard approaches were retained for assessing capital requirements for credit risk and market risk and the core indicators and standard approaches for operational risk.</p> <p>Prior to the transposition of these approaches in the WAMU, the BCEAO conducted several quantitative impact studies and a study on the preparedness of the banks' subject to the transposition of the Basel II and Basel III rules. The results of these studies, particularly those on the bank's preparedness, highlighted certain deficiencies in the banks with regard to information systems and the historical lack of long-term data. In an initial phase, these findings led to the choice of the simple Basel II and Basel III approaches.</p> <p>Despite not using the advanced approaches, during its on-site supervision the SGCB performs analyses of information and counterparties rating systems within the banks. In this area, there are differences between small banks with a rudimentary rating system and some banking groups with more sophisticated approaches. The survey conducted in the banks indicates that three-quarters of them do not calculate the probabilities of default in assessing credit risk. Those indicating that they did calculate the probabilities of default provided only summary descriptions of their methodology.</p> |
| EC6 | <p>The supervisor has the power to require banks to adopt a forward-looking approach to capital management (including the conduct of appropriate stress testing).⁴⁸ The supervisor has the power to require banks:</p> |

⁴⁸ "Stress testing" comprises a range of activities from simple sensitivity analysis to more complex scenario analyses and reverse stress testing.

| | |
|---------------------------------|---|
| | <p>(a) to set capital levels and manage available capital in anticipation of possible events or changes in market conditions that could have an adverse effect; and</p> <p>(b) to have in place feasible contingency arrangements to maintain or strengthen capital positions in times of stress, as appropriate in the light of the risk profile and systemic importance of the bank.</p> |
| Description and Conclusions EC6 | <p>a) The prudential framework requires banks in the ICAAP context:</p> <ul style="list-style-type: none"> • To have a capital planning process that is an integral part of their overall strategic plan, the objective of which is to provide a view of current and future capital requirements that is commensurate with their risk profile (paragraph 522 to 525 of the prudential framework). • To incorporate in capital planning a forward-looking view taking into account the potential impact of an economic slowdown on its earnings and capital. The bank must incorporate rigorous and forward-looking stress testing exercises in its capital planning process (cf. paragraph 544 of the prudential framework). <p>Work is being done on a circular specifying the requirements applicable to banks with regard to stress testing; it should be completed between now and the end of 2021.</p> <p>The SGCB's supervision is currently more focused on the components of capital than on requirements in the area of capital planning.</p> <p>b) With regard to emergency plans in times of stress, banks must develop a preventive recovery plan defining the measures considered for reestablishing financial equilibrium in the event of significant deterioration of the financial situation (Annex to the Convention, Article 21). Considering the delays in the schedule for submitting recovery plans, the CBU does not have an exhaustive view of the solidity of the plans. <u>All the SIBs scheduled to submit their plans in 2021 have not actually sent their recovery plans (cf. Principle 8).</u></p> |
| Additional Criterion | |
| AC1 | For non-internationally active banks, capital requirements, including the definition of capital, the risk coverage, the method of calculation, the scope of application and the capital required, are broadly consistent with the principles of the applicable Basel standards relevant to internationally active banks. |
| Description and Conclusions AC1 | The WAMU prudential framework, which transposes the principles of the Basel framework, is applicable on a solo basis to banks and financial institutions and on a consolidated and/or sub-consolidated basis to finance companies and parent company credit institutions. Thus, this framework, which defines the capital requirements, the components of capital, risk coverage, the calculation method, and the scope of application is applicable to all banks including those not internationally active. |
| AC2 | The supervisor requires adequate distribution of capital within different entities of a banking group according to the allocation of risks. ⁴⁹ |

⁴⁹ Please refer to Principle 12, Essential Criterion 7.

| | |
|-----------------------------------|--|
| Description and Conclusions CA2 | Banking groups with a parent company located in the WAMU determine their capital requirements on a consolidated/sub-consolidated basis at the level of their parent companies located within the WAMU, i.e., finance companies and parent credit institutions. In addition, they must also determine capital requirements at the solo level for each of their subsidiary credit institutions in the WAMU. This process allows for an adequate distribution of capital among the different entities of a banking group established in the Union, based on allocation of the risks to which it is exposed, at both the consolidated and solo level. |
| Assessment of Principle 16 | Largely Compliant |
| Comments | <p>Significant progress has been made to incorporate capital requirements in the regulatory texts that are consistent with the Basel standards. The definition of capital and the requirements defined adhere to the Basel Committee's provisions. Some mechanisms should still be defined in greater detail to ensure their operability (conversion/depreciation of AT1, counter-cyclical buffer, indirect holdings). In addition, the off-site supervision teams should have up-to-date procedures to guide them in the implementation of these new regulations that are more complex than the previous regulations.</p> <p>In addition to credit risk, new requirements have been introduced to cover operational risks and market risks. The rules for calculating risk have been defined with reference to the Basel standards and rightly taking into account the local context. Thus, the internal risk measurement approaches have not been incorporated, as the prerequisites for introducing such approaches have not been met. With regard to sovereign risk, it is noted that it is weighted at 0% for claims on WAMU governments in domestic currency. The Basel minimum⁵⁰ is thus applied without taking into account sovereign risks proper to the region. In addition, it is noted that the more granular, and more conservative, treatment of risk introduced by the standard Basel III approach (December 2017) for some unrated counterparties (banks, financial institutions) has not been adopted. This treatment is still in the implementation phase in the Basel Committee countries, but it may prove to be relevant for regions like the WAMU in which external rating by rating agencies is not developed.</p> <p>Some twenty banks fail to meet the minimum solvency ratio and ten of them have negative capital. This situation relating to government-owned banks in particular has in some cases continued for many years (cf. Principle 11). The banking sector's solvency ratio, which amounts to 12.4% in 2020, seems on the whole higher than the minimum requirement of 10.1%. A strengthening of capital is expected of the banks over the course of the next two years to respond to the increasing need for capital buffers.</p> |

⁵⁰ Paragraph 54 of the Basel Committee's *International Convergence of Capital Measurement and Capital Standards*: "At national discretion, a lower risk weight may be applied to banks' exposures to their sovereign (or central bank) of incorporation denominated in domestic currency and funded in that currency."

There is Islamic financing activity in the WAMU. The approval conditions and products have been defined, but the prudential provisions have still not been adapted to this activity. The SGCB does not have a specialist in this area.

Powers of the Pillar 2 type have been provided in the regulations. As of now, no additional requirements have been imposed on any bank in this context (cf. Principle 1) and the SGCB does not exercise control over the banks' ICAAP. The effective implementation of Pillar 2 is still contingent on the specificity of the requirements in terms of stress testing and ICAAP introduced in the prudential framework.

Recommendations:

- Complete the regulatory texts related to introduction of Basel II/Basel III as follows:
 - Finalize the regulatory texts related to some provisions: threshold triggering the conversion/depreciation of AT1, indirect holdings.
 - Finalize the provisions needed to introduce the counter-cyclical buffer.
 - Update the banking law by introducing the new categories of capital in particular, as well as the Pillar 2 and 3 requirements.
- Exclude from the definition of capital the regulatory provisions that do not meet with the eligibility requirements of Basel III.
- Introduce the prudential provisions related to Islamic finance and give the SGCB specialized human resources in this area.
- Finalize the implementing texts related to the ICAAP and to stress testing and introduce methodologies to ensure in-depth supervision by the SGCB in these areas.
- Strengthen the off-site supervision capabilities on the new ratios by introducing control methodologies.
- Consider introducing the more granular treatment of the standard Basel III approach (December 2017) for certain unrated counterparties.
- Implement the provisions for imposing additional capital requirements under Pillar 2 to cover risks not taken into account in the context of Pillar 1, in particular public and private concentration risk and emerging risks such as interest rate risk in the banking book.
- Take more forceful measures with banks not consistently compliant with the solvency ratio requirements.

| | |
|---------------------------------|--|
| Principle 17 | <p>Credit Risk⁵¹</p> <p>The supervisor determines that banks have an adequate credit risk management process that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate credit risk⁵² (including counterparty credit risk⁵³) on a timely basis. The full credit lifecycle is covered including credit underwriting, credit evaluation, and the ongoing management of the bank's loan and investment portfolios.</p> <p>(Reference documents: <i>Sound practices for backtesting counterparty credit risk models</i>, December 2010; <i>FSB Report on Principles for Reducing Reliance on CRA Ratings</i>, October 2010; <i>Enhancements to the Basel II framework</i>, July 2009; <i>Sound credit risk assessment and valuation for loans</i>, June 2006; and <i>Principles for the management of credit risk</i>, September 2000.)</p> |
| Essential Criteria | |
| EC1 | <p>Laws, regulations or the supervisor require banks to have appropriate credit risk management processes that provide a comprehensive bank-wide view of credit risk exposures. The supervisor determines that the processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank, take into account market and macroeconomic conditions and result in prudent standards of credit underwriting, evaluation, administration and monitoring.</p> |
| Description and Conclusions EC1 | <p>Regulatory Framework</p> <p>The requirements applicable to banks in the area of credit risk management are defined in Title IV of Circular No. 04-2017/CB/C. This includes eleven articles defining general principles and also establishing requirements with respect to the underwriting approach, approvals, credit risk assessment, overall review of the portfolio, tool and data systems, treatment of non-performing loans, provisioning, related party transactions, and concentration risk management. In particular, Article 17 indicates that banks must establish a risk management process providing a comprehensive, bank-wide view of its credit risk exposures, based on prudent credit underwriting, evaluation, administration, and monitoring standards.</p> <p><u>Supervision of the implementation of these procedures</u> is based on the work of the DSP and DCPEME.</p> <p>The DSP uses different documents submitted by the banks (annual risk management report, annual internal control report, semi-annual reports on comprehensive review of loan portfolios), auditors' reports (reports on the largest 50 exposures, reports on compliance with</p> |

⁵¹ Principle 17 covers the evaluation of assets in greater detail; Principle 18 covers the management of problem assets.

⁵² Credit risk may result from the following: on-balance sheet and off-balance sheet exposures, including loans and advances, investments, inter-bank lending, derivative transactions, securities financing transactions and trading activities

⁵³ Counterparty credit risk includes credit risk exposures arising from OTC derivative and other financial instruments.

| | |
|---------------------------------|--|
| | <p>prudential standards) as well as the DCPEME's reports. Utilization of these data is summarized in the context of the banks' rating approach. In this regard, credit risk is captured by means of a – relatively complete – questionnaire with about 30 closed questions.</p> <p><u>Over the last five years, the DCPEME has not conducted thematic missions on credit risk alone.</u> In contrast, the DCPEME's specific surveys quasi-systematically contain a credit component, including control of the main components of the credit allocation and loan management process.</p> |
| EC2 | <p>The supervisor determines that a bank's Board approves, and regularly reviews, the credit risk management strategy and significant policies and processes for assuming,⁵⁴ identifying, measuring, evaluating, monitoring, reporting and controlling or mitigating credit risk (including counterparty credit risk and associated potential future exposure) and that these are consistent with the risk appetite set by the Board. The supervisor also determines that senior management implements the credit risk strategy approved by the Board and develops the aforementioned policies and processes.</p> |
| Description and Conclusions EC2 | <p>The regulations provide that the deliberative body approves the bank's overall strategy, risk appetite, and risk limits (cf. paragraph 519 of the prudential framework and Article 7 of Circular No. 01-2017/BC/C). Similarly, several articles in the circular establish the executive body's responsibilities, particularly with regard to implementing the strategy approved by the Board.</p> <p>In the context of its controls, the DCPEME confirms the Board's approval of the following in particular:</p> <ul style="list-style-type: none"> • All the bank's policies. • The bank's risk appetite and risk limits. • The risk governance and internal control processes. <p>However, the observance of these procedures is based more on a compliance than an analytical approach. In effect, due to lack of time given the limited duration of the on-site investigations, the inspectors basically confirm the deliberative body's approval of such documents more than how it analyzes, develops, and potentially amends them.</p> |
| EC3 | <p>The supervisor requires, and regularly determines, that such policies and processes establish an appropriate and properly controlled credit risk environment, including:</p> <p>(a) A well-documented and effectively implemented strategy and sound policies and processes for assuming credit risk, without undue reliance on external credit assessments.</p> <p>(b) Well defined criteria and policies and processes for approving new exposures (including prudent underwriting standards) as well as for renewing and refinancing existing exposures</p> |

⁵⁴ "Assuming" includes the assumption of all types of risk that give rise to credit risk, including credit risk or counterparty risk associated with various financial instruments.

| | |
|--|---|
| | <p>and identifying the appropriate approval authority for the size and complexity of the exposures.</p> <p>(c) Effective credit administration policies and processes, including continued analysis of a borrower’s ability and willingness to repay under the terms of the debt (including review of the performance of underlying assets in the case of securitisation exposures); monitoring of documentation, legal covenants, contractual requirements, collateral and other forms of credit risk mitigation; and an appropriate asset grading or classification system.</p> <p>(d) Effective information systems for accurate and timely identification, aggregation and reporting of credit risk exposures to the bank’s Board and senior management on an ongoing basis.</p> <p>(e) Prudent and appropriate credit limits, consistent with the bank’s risk appetite, risk profile and capital strength, which are understood by, and regularly communicated to, relevant staff.</p> <p>(f) Exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank’s senior management or Board where necessary.</p> <p>(g) Effective controls (including in respect of the quality, reliability and relevancy of data and in respect of validation procedures) around the use of models to identify and measure credit risk and set limits.</p> |
| <p>Description and Conclusions EC3</p> | <p>Credit risk is one of the main issues of concern for WAEMU credit institutions. The quality of bank assets remains poor with a (gross) rate of non-performing loans of 11.8% for the entire population in December 2020 – though an improvement compared to 2019 (12.4%).</p> <p><u>Underwriting Approach</u></p> <p>Underwriting Criteria</p> <p>Mortgage loans are implicitly governed by underwriting criteria. In the prudential framework, the BCEAO has in effect made the weighting system for loans secured by residential property (35%) contingent on an LTV (loan-to-value) ratio of no more than 90% during underwriting on the one hand and a debt service coverage ratio of no more than 40% on the other.</p> <p><u>The approach to loan file appraisal by the banks is not always well-defined in the DCPEME’s audit reports. Similarly, compliance with underwriting criteria (LTV ratios, capital contributions) is not always reviewed.</u> An auditor’s report that was consulted rightly emphasized the failure to systematically consider such criteria in granting loans.</p> <p>DCPEME Procedures and Observations</p> <p><u>Approval/Validation of Credit Files</u></p> <p>DCPEME inspectors verify the existence of loans committees and observance of delegation conditions within credit institutions. For most banks, decision-making in the area of loans or investments occurs within the context of a decentralized process with delegation of powers</p> |

shared by the executive body, the specialized committees, the deliberative body, or the group, based on risk thresholds. However, only 35% of the banks state that their final decisions on granting loans/or making investments are contingent upon the systematic and mandatory opinion of their risk manager.

Rating Systems

While the banks' situation in terms of tools in the WAEMU is generally quite uneven between the large banks and subsidiaries of large groups on the one hand and banks of more modest size on the other, most banks have their own rating systems for assessing the credit quality of counterparties. The use of external systems is proscribed. The rating tools of the large groups – notably foreign ones – are closer to the best expert systems (with equivalence grids between the ratings) while those of other banks may be more basic, less integrated, and manually operated. However, the DCPME notes that the rating system is not always correlated with the classification, which leads to differences between the rating and the accounting status (sound, doubtful, restructured) of the exposures.

It should be noted that credit institutions' rating systems have not been subject to audits on how they are designed (assumptions) nor on their governance related to the use of these models and management of the risk associated with these models. In particular, it would be advisable to confirm the level of predictive performance of these tools and to introduce regular back testing by the banks.

Contractual Documentation

Article 20 of Circular 04/2017/CB stipulates that credit policies and procedures should notably include methods for monitoring documentation, covenants, contractual obligations, collateral, and other risk mitigation methods. DCPME inspectors strive to verify that the collateral backing existing loans is renewed and properly archived. However, the review of DCPME reports and auditors' reports on internal control show inadequate monitoring of contractual obligations by some banks and the existence of operational risks associated with deficiencies in the archiving and inventories of unreliable/exhaustive collateral.

Portfolio Reviews

Banks are required to send information every six months on the quality of their credit portfolios (50 largest commitments). Only the banks' most significant exposures (semi-annually), those confronting events and/or renewals as well as non-performing loans (quarterly) are subject to regular review. In contrast, according to the DCPME, the lack of regular review does not represent a decisive element in the findings identified by the inspectors even though the banks' portfolios are not always exhaustively rated. However, the mission finds upon reviewing two auditors' reports on the 50 largest commitments and following exchanges with representatives of the banking community that the review exercise is complicated by the borrowers' failures to regularly submit financial statements (see EC 4).

| | |
|--------------------------------|--|
| | <p><u>Information Systems</u></p> <p>The DCPME’s methodological guide provides for conducting investigations on the quality of the applications and information systems involved in the management of credit assets. <u>The situation is varied within the Union with the prevalence of manual systems in the large number of small banks, particularly in the area of reclassifying/provisioning and management of deviations.</u> In addition, some banks may continue to prefer committee review for decisions on reclassifying.</p> <p><u>Setting and Monitoring Limits</u></p> <p>The DCPME notes differences among banks in the WAMU in the sets of limits and the setting of limits. <u>Small banks do not always have a granular body of limits commensurate with their risk profile. In addition, they do not always have effective IT infrastructures for direct implementation of caps in the information systems and ensuring a higher level of security.</u></p> <p><u>Control Mechanisms</u></p> <p>The DCPME’s control methodology incorporates checks on the existence of a permanent – first and second level – control mechanism and periodic control governing credit activities. Particular attention is paid to the observance of the separation of functions between the commitment function and the risk monitoring function.</p> |
| EC4 | The supervisor determines that banks have policies and processes to monitor the total indebtedness of entities to which they extend credit and any risk factors that may result in default including significant unhedged foreign exchange risk. |
| Description and Results EC4 | <p>Regulatory Framework</p> <p>The CBU requires banks to have credit policies and procedures to monitor borrowers’ total indebtedness and risk factors that may result in payment defaults (cf. Art 20 Circular No. 04-2017/CB/C). To this end, banks are required to consult on this indebtedness before granting any new loan. Several regulatory texts thus prescribe procedures and policies on monitoring indebtedness within the WAMU.</p> <p>Thus, consistent with instruction No. 79-06 of April 23, 1979 on risk centralization by banks and financial institutions, such entities are required to make a monthly declaration of their risks. This information thus allows banks to monitor the total indebtedness of all the Union’s credit consumers.</p> <p>In addition, Decision No. CM/UMOA/007/06/2013 of June 28, 2013, has established credit information bureaus (CIBs) dedicated to collecting from financial institutions, public sources, and major utilities (electricity, water, and mobile telephone companies) the available data on a borrower’s credit or payment history and ultimately to reducing the information asymmetry between lenders and borrowers.</p> <p>Issues Related to Various Centers</p> <p>Access to Debtors’ Financial Information</p> |

The unavailability of accounting and financial statements from corporate clients raises difficulties for the examination of financing files and, above all, the review and renewal of credit lines. This point was mentioned by the banks during meetings. For example, the review of two auditors' reports on the 50 largest commitments from two banks showed:

- For the first, the lack of recent financial statements in 41 of 50 files.
- For the second, the absence during three consecutive years of ratios on the financial autonomy, repayment capacity, profitability, and liquidity in one third of the cases.

On-site supervision reports also mention these deficiencies.

Current Situation and Current Projects

Statistics on the CIB Monitoring Framework

| | Number of Persons in the BIC Base | | | | Number of loans reported as of July 31, 2021 | Number of institutions as of July 31, 2021 | |
|--|-----------------------------------|-------------|-------|---------------|--|--|------------------|
| | Legal Entities | Individuals | Total | Coverage Rate | | Number of supervised institutions | Public utilities |

| | NOMBRE DE PERSONNES DANS LA BASE DU BIC | | | | NOMBRE DE PRETS DECLARES AU 31 JUILLET 2021 | NOMBRE D'ETABLISSEMENTS (en production) au 31 JUILLET 2021 | |
|---------------|---|------------|------------|--------------------|---|--|-------------------|
| | Morales | Physiques | Total | Taux de couverture | | NOMBRE D'ETABLISSEMENTS ASSUJETTES | GRANDS FACTURIERS |
| | | | | | | | |
| Burkina | 18 217 | 583 080 | 601 297 | 5,2% | 1 548 258 | 28 | 0 |
| Côte d'Ivoire | 33 314 | 3 927 623 | 3 960 937 | 23,2% | 5 588 592 | 44 | 4 |
| Guinée-Bissau | 471 | 19 953 | 20 424 | 2,1% | 26 079 | 5 | 0 |
| Mali | 56 581 | 1 011 099 | 1 067 680 | 9,1% | 2 357 746 | 28 | 0 |
| Niger | 13 445 | 1 437 111 | 1 450 556 | 12,7% | 1 404 424 | 19 | 4 |
| Sénégal | 50 142 | 2 085 907 | 2 136 049 | 21,7% | 4 456 630 | 41 | 5 |
| Togo | 89 091 | 1 029 649 | 1 118 740 | 21,0% | 1 479 298 | 27 | 4 |
| UNION | 278 230 | 11 366 628 | 11 644 858 | 15,6% | 18 816 733 | 217 | 21 |

Source: WAEMU

In addition, credit institutions' downloading of information and consultation of solvency reports and/or scoring data before granting new loans is still not a widespread practice. The reporting of data submitted by the CIB to the BCEAO includes statistical data for assessing the extent to which solvency reports are used by the banks.

Various action plans in progress involve the expansion of collection from large decentralized financial systems (DFS), the standardization of collection formats, automation, and centralization of the collection process.

Regarding the balance sheet registry, several projects are under way to strengthen the reliability of financial data and develop the implementation of a regular rating exercise to promote the exercise of monetary policy (mobilization of claims) and supervision.

The center currently has 18,886 balance sheet and slightly more than 700 of them have a credit rating based on financial (four ratios) and qualitative (existence of arrears) factors. The definition of products offered to clients is still not finalized while the first rating exercise based on statistical models was meant to start in 2020.

| | |
|------------------------------------|--|
| EC5 | The supervisor requires that banks make credit decisions free of conflicts of interest and on an arm's length basis. |
| Description and Conclusions EC5 | <p>WAMU regulations impose precise obligations on supervised banks with regard to managing conflicts of interest to ensure that their decisions are consistent with market conditions. These rules are defined in Circular No. 01-2017/CB/C on governance. Article 39 of the circular presents policies in the area of conflicts of interest to be observed, <i>inter alia</i>, by governing bodies in order to avoid becoming involved in situations that could engender conflicts of interest. Article 40 also requires Board members, prior to assuming their position, and each year during their term, to submit a conflict of interest and integrity statement.</p> <p>The CBU also expects the members of governing bodies not to be in default of payment on their commitments to the bank or subject to suspension of their banking privileges in the WAMU (Article 42).</p> <p>Finally, banks are required to have a code of ethics or code of good conduct intended, on the one hand, to promote a culture of integrity and responsibility with the bank and, on the other, to preserve their reputation and that of their subsidiaries.</p> <p>Most of these requirements are subject to supervision by DCPEME inspectors in the context of investigations. Inspectors strive in particular to verify the existence of codes of ethics or good conduct. <u>DCPEME inspectors regularly detect irregularities with regard to these aspects (see also Principle 20).</u></p> |
| EC6 | The supervisor requires that the credit policy prescribes that major credit risk exposures exceeding a certain amount or percentage of the bank's capital are to be decided by the bank's Board or senior management. The same applies to credit risk exposures that are especially risky or otherwise not in line with the mainstream of the bank's activities. |
| Description and Conclusions EC6 | <p>Article 19 of the circular on risks, consistent with the provisions of the prudential framework applicable to WAMU credit institutions and finance companies, requires that large exposures and exposures not in line with the bank's customary operations are to be decided by the deliberative body.</p> <p>This checkpoint appears in the DCPEME methodology and leads to procedures in the context of on-site audits during the review of credit processes. Cases of failure to observe this requirement are also mentioned in the DCPEME reports.</p> |
| EC7 | The supervisor has full access to information in the credit and investment portfolios and to the bank officers involved in assuming, managing, controlling and reporting on credit risk. |
| Description and Conclusions EC7 | <p>The CBU may freely conduct documentary and on-site audits on a solo or consolidated basis with respect to said banks to ensure observance of the provisions applicable to them (cf. Title II of the Annex to the Convention governing the WAMU Banking Commission).</p> <p>The CBU may require banks to provide, whenever requested and with the stipulated deadlines and manner, all documents, intelligence, clarifications, and justifications necessary to the exercise of its powers. In addition, professional secrecy cannot be claimed against the</p> |

| | |
|-----------------------------------|---|
| | CBU to challenge its requests (cf. Articles 25 and 26 of the Annex to the Convention governing the WAMU Banking Commission). |
| EC8 | The supervisor requires banks to include their credit risk exposures into their stress testing programmes for risk management purposes. |
| Description and Conclusions EC8 | <p>Article 13 of the circular on risk management and paragraph 544 of the prudential framework require banks to establish rigorous and forward-looking stress testing programs on credit risks and to provide corrective measures when the results detect potential weaknesses in the financial soundness of the banks.</p> <p><u>However, stress tests are not generally used in all the banks. Sixty-six WAMU banks indicate that they do not do stress testing. In addition, according to the questionnaire submitted by the banks, only 36% of the banks questioned declare that they have regularly conducted stress test exercises, generally on a quarterly basis.</u></p> <p><u>This still insufficient use of stress test exercises reflects the heterogeneous nature of the banks in the Union in terms of quantitative skills and tools. The large banks are now very familiar with this exercise while small banks are not in a position to formalize stress tests and/or do not have the appropriate tools.</u></p> |
| Assessment of Principle 17 | Largely Compliant |
| Comments | <p>The control environment with respect to credit risk – which is one of the Union’s main risks – is quite well regulated by both the DSP and the DCPEME with consistent methodological approaches based on relatively complete questionnaires.</p> <p>The credit component is notably captured by the DCPEME by means of specific missions that include a review of procedures, commitment mechanisms, and risk monitoring, as well as review of a sample of credit files. Nonetheless, the DCPEME would benefit from setting up, from time to time, thematic missions on credit risk that could investigate certain points in greater depth (for example, examination of files, use of and compliance with underwriting standards, methodological soundness of rating systems particularly when they have not already been checked by another supervisor).</p> <p>Moreover, progress is noted in the loan approval process with more collegial operation and the use of committees. However, prior review of files by the risk manager is still not widespread in practice. In addition, the quality of credit file management is not always meticulous. More specifically, the underwriting standard for granting housing loans seems rather lax (LTV of 90%).</p> <p>With regard to the high rate of non-performing loans shown by the banks, the quality of financial and accounting data as well as information asymmetry between lenders and borrowers are significant challenges. In this regard, existing provisions on the information-sharing system through the CIBs or the rating of counterparties via the balance sheet center</p> |

| | |
|---------------------------|---|
| | <p>are still not used under completely satisfactory conditions. Various more or less advanced projects are currently under way.</p> <p>Moreover, regularly noted deficiencies in the area of information systems and credit risk management tools (credit stress testing) affect quality in the handling of operational processes, the reliability of reporting as well as the forward-looking approach in risk management. In order to alleviate these disparities and weaknesses, the BCEAO is working to draft a circular intended to specify methods for designing stress tests. In addition, some banks would like to be able to have stress test models.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Conduct thematic missions on credit to explore the underwriting approach in greater depth (definition of underwriting standards, appraisal approach, quality of scoring tools, rating systems validation process). • Utilize the statistics sent in CIB reporting on credit institutions' consultation of solvency reports for the purpose of summoning and potentially penalizing the most recalcitrant banks without awaiting the confirmation of irregularities by DCPME investigations. • Review in a more conservative sense the standard (LTV) governing the granting of housing loans. • Introduce regular credit stress tests and monitor the banks in the implementation of such tools. |
| Principle 18 | <p>Problem Assets, Provisions and Reserves⁵⁵</p> <p>The supervisor determines that banks have adequate policies and processes for the early identification and management of problem assets, and the maintenance of adequate provisions and reserves.⁵⁶</p> <p>(Reference documents: Sound credit risk assessment and valuation for loans, June 2006 and Principles for the management of credit risk, September 2000.)</p> |
| Essential Criteria | |
| EC1 | <p>Laws, regulations or the supervisor require banks to formulate policies and processes for identifying and managing problem assets. In addition, laws, regulations or the supervisor require regular review by banks of their problem assets (at an individual level or at a portfolio level for assets with homogenous characteristics) and asset classification, provisioning and write-offs.</p> |

⁵⁵ Principle 17 covers the evaluation of assets in greater detail; Principle 18 covers the management of problem assets.

⁵⁶ Reserves for the purposes of this Principle are "below the line" non-distributable appropriations of profit required by a supervisor in addition to provisions ("above the line" charges to profit).

| | |
|---------------------------------|---|
| Description and Conclusions EC1 | <p>The regulations require credit institutions to have precise policies for identifying and managing problem assets. Article 23 of the circular on risk management stipulates that credit risk management policies and processes should allow for the early detection of deteriorating claims, the prompt treatment of such claims, the maintenance of an adequate level of provisions as well as the recovery of arrears.</p> <p>Banking institutions are required to perform a comprehensive semi-annual review of their portfolio. Semi-annual reports with the results of this evaluation should be submitted to the CBU, no later than August 31 and February 28, respectively.</p> <p>Comprehensive review of the credit portfolio can be used to analyze the evolving quality of the bank's commitments as well as the profitability of its loan operations. The information provided by this review notably bears on the rating potentially given to various signatures, the level of non-performing loans, related provisions, the results of the latest review of loans, a comparison of the evolution of the overall quality of non-performing loans, and an estimate of the current or expected deterioration of credit portfolio quality. In addition, Instruction No. 026-11-2016 defines the methods for recording and evaluating past-due commitments. It allowed for aligning the treatment of non-performing loans and internationally accepted practices, particularly in the classification of non-performing loans (material exposures that are more than 90 days past due, unlikelihood to pay - UTP), restructured loans, reclassification of sound loans.</p> |
| EC2 | <p>The supervisor determines the adequacy of a bank's policies and processes for grading and classifying its assets and establishing appropriate and robust provisioning levels. The reviews supporting the supervisor's opinion may be conducted by external experts, with the supervisor reviewing the work of the external experts to determine the adequacy of the bank's policies and processes.</p> |
| Description and Conclusions EC2 | <p>Verification of banks' policies and processes in the area of asset classification and provisioning primarily occurs in the context of on-site audits. These aspects are included among the DCPME's systematic control points.</p> <p>The supervisor does not use external experts/assessors – besides the auditors – for valuation of the bank's past-due assets.</p> |
| EC3 | <p>The supervisor determines that the bank's system for classification and provisioning takes into account off-balance sheet exposures.⁵⁷</p> |
| Description and Conclusions EC3 | <p>Article 23 of the Circular on risk management explicitly means that the classification of non-performing loans and provisioning must include off-balance sheet commitments. Compliance with this requirement is subject to audit by the auditors and DCPME inspectors during their on-site investigations.</p> |

⁵⁷ It is recognised that there are two different types of off-balance sheet exposures: those that can be unilaterally cancelled by the bank (based on contractual arrangements and therefore may not be subject to provisioning), and those that cannot be unilaterally cancelled.

| EC4 | The supervisor determines that banks have appropriate policies and processes to ensure that provisions and write-offs are timely and reflect realistic repayment and recovery expectations, taking into account market and macroeconomic conditions. | | | | | | | | | | | | | | | | | | | | |
|------------------------------------|---|-----------------------|------|------|------|------|------|------|------|------|------|--|------|------|----|------|------|------|------|------|------|
| Description and Conclusions EC4 | <p>Article 24 of the circular on risk management requires banks to establish evaluation and measurement processes ensuring reliable estimates and prompt consideration of provisions to be established. Consistent with the supervisor's expectations, estimated provisions should combine both a precise analysis of the level of credit risk associated with loans and the consideration of forward-looking information, including macroeconomic factors.</p> <p>In recent years, the provisioning rate has remained broadly stable at over 60% with, however, an increase of close to five points noted in 2020.</p> <p style="text-align: center;">Provisioning Rate Trend for Banks in the Union</p> <table border="1" data-bbox="367 730 1386 814"> <thead> <tr> <th>Provisioning Rate (%)</th> <th>2012</th> <th>2013</th> <th>2014</th> <th>2015</th> <th>2016</th> <th>2017</th> <th>2018</th> <th>2019</th> <th>2020</th> </tr> </thead> <tbody> <tr> <td></td> <td>64.1</td> <td>60.9</td> <td>61</td> <td>60.1</td> <td>49.5</td> <td>61.6</td> <td>62.2</td> <td>62.8</td> <td>67.5</td> </tr> </tbody> </table> <p>Source: WAEMU</p> <p>Provisioning Rules</p> <p>The provisioning rules, mentioned in Article 16 of Directive No. 026-11-2016, are based on a lump sum. <u>However, the regulations may allow banks quite a lot of room to maneuver in their approach to provisioning.</u> Thus:</p> <ul style="list-style-type: none"> • Provisioning of direct risks to WAMU countries, government agencies other than the central governments of WAMU countries, as well as risks secured by these same economic agents, is optional. • Similarly, provisioning for private risks defined as restructured debt is optional. • Provisioning is also optional during the first two years for private doubtful or disputed loans covered by one of the guarantees provided by the prudential framework or by first mortgages. It is set at 50% at the end of the third year and at 100% as of the fourth year. <p><u>These options are such that they delay or limit the banks' provisioning efforts.</u> The optional nature of provisioning of restructured debts seems particularly inconsistent as they are not broken down into performing restructured debts and healthy restructured debts.</p> <p>With regard to risks secured by governments, the enforcement of the guarantees, in the event of the classification of the exposure to non-performing, would not pose problems according to the DSP provided they are legally secured.</p> | Provisioning Rate (%) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | | 64.1 | 60.9 | 61 | 60.1 | 49.5 | 61.6 | 62.2 | 62.8 | 67.5 |
| Provisioning Rate (%) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | | | | | | | | | | | | |
| | 64.1 | 60.9 | 61 | 60.1 | 49.5 | 61.6 | 62.2 | 62.8 | 67.5 | | | | | | | | | | | | |

| | |
|-----------------|---|
| | <p>In contrast, the provisioning rules are conservative for private claims not covered by a guarantee. These must be provisioned for at least 20% upon their transfer to doubtful debt, at least 50% three months after the transfer, and at 100% nine months after the transfer.</p> <p>Write-offs</p> <p>Bad loans as well as the write-off rules are clearly defined in Article 13. Bad loans are loans for which the supervised bank's rights as creditor are legally extinguished. Doubtful or disputed debts not recovered at the end of the fifth accounting year following the transfer to doubtful debt are also regarded as bad loans. They must be written off for their full amount.</p> <p><u>However, the introduction of this provision is not fully effective within the Union.</u> In effect, it was suspended upon adoption by the WAMU Council of Ministers of the directive on standardizing the fiscal system with regard to doubtful and disputed claims recorded by the banks. The instruction, authorizing write-off as well as a tax deduction for the amount of the provision, was only adopted in June 2020 and its incorporation in the law of the member states is still under way. To date only three member states of the Union have incorporated it in their tax code. In fact, the majority of the banks do not apply the principle of clearing irremediably compromised bad debts at the end of five years.</p> <p>Collective Provisions</p> <p>The regulations do not provide for the collective provisioning mechanism. The provisions for general banking risk have been eliminated to avoid opportunities for tax optimization. The approach for the transition to the IFRS and impacts on the provisioning of performing loans will seek to remedy this although no schedule has been set for this to date. From this perspective, the DSF has indicated that a study to gauge the status of the banks' preparation for the transition to the IFRS has been completed. Its results can be used to identify the possibilities of relief to be introduced for small banks with regard to the modeling parameters.</p> <p>DCPEME Controls</p> <p>Review of loan provisioning and write-off policies and methods is properly taken into account in the DCPEME's audit methodologies and leads to controls during specific or general investigations. Additional provisioning requirements are regularly imposed on audited banks.</p> |
| EC5 | <p>The supervisor determines that banks have appropriate policies and processes, and organisational resources for the early identification of deteriorating assets, for ongoing oversight of problem assets, and for collecting on past due obligations. For portfolios of credit exposures with homogeneous characteristics, the exposures are classified when payments are contractually in arrears for a minimum number of days (eg 30, 60, 90 days). The supervisor tests banks' treatment of assets with a view to identifying any material circumvention of the classification and provisioning standards (eg rescheduling, refinancing or reclassification of loans).</p> |
| Description and | <p>The rules for the classification and provisioning of assets are mentioned in the prudential framework and broken down in Directive No. 026-11-2016 on the recording and evaluation</p> |

| Conclusions EC5 | <p>of outstanding commitments. According to the WAMU classification, outstanding commitments include restructured debts as well as bad debts. This definition deviates from the international definitions.</p> <p>The entry into force, in early 2018, of the prudential framework and the instruction on the recording of non-performing loans did not lead to a one-off rise in the rate of non-performing loans. The rate of non-performing loans has been halved since 2005. However, this masks significant disparities within the Union.</p> <p style="text-align: center;">Change in the Rate of Non-performing Loans Between 2014 and 2020</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>2014</th> <th>2015</th> <th>2016</th> <th>2017</th> <th>2018</th> <th>2019</th> <th>2020</th> </tr> </thead> <tbody> <tr> <td>14.9</td> <td>14.4</td> <td>13.8</td> <td>13.9</td> <td>12.5</td> <td>11.8</td> <td>10.9</td> </tr> </tbody> </table> <p>Source: IMF</p> <p>Methods for Identifying Doubtful Loans</p> <p><u><i>Doubtful Loans Criteria</i></u></p> <p>The methods for classifying doubtful loans were revised in 2016. The shift in the category of doubtful loans is based on a transaction risk (existence of arrears outstanding for more than 90 days) or the existence of a counterparty risk (likely or certain risk of full or partial non-recovery—UTP). The new regulations have adopted the change from 180 to 90 days of payment arrears for identifying doubtful loans. No materiality threshold has been defined for classifying to doubtful.</p> <p>However, it should be noted that the 90-day period is kept at 180 days for exposures to WAMU countries, government agencies other than the central government of WAMU countries, but also for loans granted to SME/SMIs. This is not strictly in line with the Basel Committee standards.⁵⁸</p> <p>Article 9 of the instruction lists various events that could qualify a UTP: collective procedures for settling liabilities (judicial settlement, liquidation of assets, personal bankruptcy), management problems, disputes among major partners or shareholders. <u>In contrast, no financial or quantitative indicator is mentioned as the basis for a potential UTP.</u></p> <p><u><i>Technical Default</i></u></p> <p>The regulations do not address the concept of technical default.</p> | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 14.9 | 14.4 | 13.8 | 13.9 | 12.5 | 11.8 | 10.9 |
|--------------------|---|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | | | | | | | | | |
| 14.9 | 14.4 | 13.8 | 13.9 | 12.5 | 11.8 | 10.9 | | | | | | | | | |

⁵⁸ Basel Committee, Guidelines on the treatment of problem assets - definition of non-performing and forborne exposures.

Criteria for Leaving the Doubtful Category

Article 10 indicates that doubtful loans can again be recorded as performing loans when payments are resumed on a regular basis over a period of one year. They are recorded under a specific sub-category for two years and any failure to pay for more than 30 days entails being returned to bad loans.

Forborne Loans

Restructured forborne loans are defined in Article 7 of the instruction. They represent loans subject to renegotiation measures, consisting of concessions made to a counterparty that is experiencing or is about to experience difficulties in honoring its financial commitments.

Their definition is consistent with the usual standards although it would be useful to make a distinction between concessions related to payment and concessions unrelated to payment (changes to covenants – waivers, suspension of covenants – restructuring of guarantees).

The classification of forborne loans debt is more conservative than what is seen on the international level. The instruction actually provides for the automatic classification of forborne loans under non-performing loans even if the additional criteria for downgrading as doubtful are not met.

The observation period of twelve months upon completion of the restructuring period (the “probation period”) is consistent with the standards. Added to this is a 24-month period of being parked under a specific sub-category (“cure period”). The wording of Article 7 could imply a sort of automatic reclassification as no prior review by expert services is required. In contrast, it is provided that any new failure to pay during 30 days during this cumulative three-year period entails transferring all outstanding loan amounts to doubtful debts.

Contagion Rules

The framework seems conservative for debts unrelated to retail customers. Reclassifying a counterparty’s debt as bad debt entails an automatic reclassification of all outstanding amounts and related off-balance sheet commitments. In contrast, the principle of contagion does not apply to retail clients.

When the counterparty belongs to a group, the bank should examine “the consequences of this default at the group level and assess the need to downgrade to bad debt all debt related to the entities that form the group.” This rule is consistent with international practices.

Moratoria and Deferred Due Dates in the Context of COVID-19

To address the Covid health crisis, in the spring of 2020 the BCEAO asked credit institutions to grant clients who requested it a deferral of due dates on their loans for a period of three months, renewable once, without interest charges, fees, or late payment penalties. Targeted and time-limited, the deferral of loan payment deadlines for clients – that the banks consider

| | |
|------------|--|
| | <p>solvent – is not included in the category of non-performing loans. However, this practice was extended in October 2020. The deferred loans should be classified in a specific account under the category of healthy loans.</p> <p>Specific reporting statements were set up by the SGCB to allow the BCEAO to monitor the development of deferred deadlines authorized (three-month deferral authorized, renewable once).</p> <p>Banks were permitted to reschedule 3.1 percent of private sector loans until end-2020, of which only 6 percent (less than a fifth of a percentage point of total loans) were reclassified as nonperforming by end-September 2021.</p> <p>Banks’ Compliance with Classification Rules</p> <p><u>The banks’ implementation of Instruction No. 026-11-2016 is very gradual and requires still more significant efforts on their part. DCPEME audits quite systematically highlight anomalies in loan classification as well as additional provisioning requirements that are sometimes very significant and impact compliance with the prudential ratios.</u></p> <p><u>Regarding the classification of loans, the procedures are still not updated with regulatory developments. In addition, not all banks have systems that ensure automatic downgrading of loans.</u></p> <p><u><i>The Recovery Approach</i></u></p> <p>The conditions for recovering doubtful loans are made difficult by long judicial processing times that may be due to the workings of judicial bodies but also to the bank’s lax monitoring of guarantees.</p> <p>However, in terms of trends, the DCPEME believes that the recovery mechanisms are improving with the introduction of recovery monitoring committees and the existence of reporting. In contrast, the objectives continue to be very unambitious.</p> <p>The banks’ recovery mechanisms are the subject of a checkpoint (relevance of recovery plans, setting and meeting recovery objectives, reporting, guidelines provided by deliberative bodies on the recovery policy).</p> <p><u>No study has been conducted in this area by SGCB or BCEAO staff on the bad debt recovery rate.</u> The DERI has pointed out the problem of data and the lack of a template for collecting data on the recovery rate.</p> |
| EC6 | <p>The supervisor obtains information on a regular basis, and in relevant detail, or has full access to information concerning the classification of assets and provisioning. The supervisor requires banks to have adequate documentation to support their classification and provisioning levels.</p> |

| | |
|--|--|
| <p>Description and Conclusions EC6</p> | <p><u>Regulatory Framework</u></p> <p>Credit institutions are required, during the current year, to prepare statements according to the frequency and under the conditions prescribed by the BCEAO in accordance with Article 52 of the banking regulation law.</p> <p>They must also submit, in accordance with Article 4 of Instruction No. 003-05-2017, statements on interbank operations with credit institutions and similar institutions and operations with clients. In addition, Article 21 of Circular No. 04-2017/CB/C requires them to submit semi-annual reports on the overall review of their loan portfolios. The review should include the level of non-performing loans and related provisions.</p> <p>Finally, credit institutions are to submit, no later than April 30 N+1, an annual report on their overall risk management framework, including provisions on assets, as applicable.</p> <p><u>Reporting Statements</u></p> <p>Declarative statements are expected with respect to accounting requirements (FISEC) and prudential requirements (FODEP statements) for reporting on non-performing loans and high-risk loans. High-risk loans are loans that have not defaulted but that present a serious risk.</p> <p>Prudential statements (<i>états prudentiels</i> – EP) 9 and 10 identify bad debts on-balance sheet and off-balance sheet, respectively. Other prudential statements identify credit risk exposures by category (sovereign, business, government, in particular).</p> <p>The periodic statements complete this information with data on non-performing loans and installment loans.</p> <p><u>However, the current statements could be usefully supplemented with statements on loans moving into and out of doubtful loans, information on the breakdown of payment arrears for both doubtful and performing loans, the recording of reasons for downgrading, accurate statements on collateral as well as write-offs.</u></p> <p>It is to be noted that a periodic FISEC statements, to be submitted monthly, identifies healthy loans with past due amounts <u>but this statement is not used by the DSP.</u></p> |
| <p>EC7</p> | <p>The supervisor assesses whether the classification of the assets and the provisioning is adequate for prudential purposes. If asset classifications are inaccurate or provisions are deemed to be inadequate for prudential purposes (eg if the supervisor considers existing or anticipated deterioration in asset quality to be of concern or if the provisions do not fully reflect losses expected to be incurred), the supervisor has the power to require the bank to adjust its classifications of individual assets, increase its levels of provisioning, reserves or capital and, if necessary, impose other remedial measures.</p> |

| | |
|---------------------------------|---|
| Description and Conclusions EC7 | <p>The regulations provide that the CBU is empowered to require additional provisions in the case where provisions are inadequate for prudential purposes or do not adequately reflect foreseeable losses or for any other reason (cf. Article 25 of the circular on risk management). These provisions must be established without delay by the supervised banks pursuant to Article 5 of Circular No. 04-2017/CB/C.</p> <p>The process of estimating provisions falls primarily to the DCEPEME during on-site audits. Compliance with the classification rules and depreciation levels is subject to systematic controls during specific surveys. Capital is restated based on these depreciation amounts by the inspectors, which regularly leads to violations of the solvency ratios.</p> <p>The regulations require the immediate establishment of additional provisions sought by on-site investigation missions. Finding that this requirement was not always observed by credit institutions, which argued of favorable developments, the SGCB issued a circular letter in early 2021 reiterating this requirement. It also noted that banks may proceed later, in the context of quarterly closings, with justifiable recoveries.</p> |
| EC8 | <p>The supervisor requires banks to have appropriate mechanisms in place for regularly assessing the value of risk mitigants, including guarantees, credit derivatives and collateral. The valuation of collateral reflects the net realisable value, taking into account prevailing market conditions.</p> |
| Description and Conclusions EC8 | <p>Both the prudential framework and the circular on risks contain provisions on methods for valuing risk mitigants, collateral in particular.</p> <p>Paragraph 230 of the prudential framework indicates that in order to be taken into account under the simple approach for credit risk mitigation (CRM) purposes, collateral must be pledged at least for the duration of the exposure, be expressed in market prices, and revalued at least every six months. Article 20 of the circular establishes that credit policies must include appropriate policies allowing for evaluation at least annually of the value of property-based collateral or personal collateral received by the bank.</p> <p>In addition, after discussion with the DSF, the SGCB specified, in March 2021, via a circular letter, that while awaiting new provisions on the frequency and method for revaluation of mortgage guarantees, supervised banks were authorized to proceed with revaluation of mortgages at least every two years.</p> <p>The circular letter also stipulated that:</p> <ul style="list-style-type: none"> • Collateral should be valued by a property expert designated by the credit institution, during underwriting, renewal, or restructuring of a loan backed by a mortgage guarantee. • Periodic revaluation could be done by an independent appraiser in the division responsible for processing the credit files concerned. |

| | |
|----------------------------------|--|
| | <ul style="list-style-type: none"> • Complete documentation on the method, results, and related control should be retained and kept available to the on-site supervision missions of the CB. <p>The valuation frequencies indicated in the texts seem very demanding and these adjustments seem appropriate given a relatively tight appraisers' market in the Union.</p> <p><u>Nonetheless, it should be specified that the circular letter does not require valuation following a loan's classification as doubtful. Moreover, the regulations do not issue a guideline on the collateral valuation method. Additionally, no provision is made at this stage for a haircut on the amount of the collateral, taking into account the potential deterioration of the asset or potential transaction costs associated with its disposal. Similarly, the regulations provide no rule on the method for selecting and renewing appraisers.</u></p> <p><u>With regard to the banks' ability to comply with the regulation requirements in the area of collateral, the review of DCPEME reports shows significant weaknesses (guarantees not inventoried, lack of revaluation). In addition, the review of an auditors' report on the 50 largest exposures showed the lack of property-based collateral in 30 files and inadequate property-based collateral in eight files.</u></p> |
| EC9 | <p>Laws, regulations or the supervisor establish criteria for assets to be:</p> <p>(a) identified as a problem asset (eg a loan is identified as a problem asset when there is reason to believe that all amounts due, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement); and</p> <p>(b) reclassified as performing (eg a loan is reclassified as performing when all arrears have been cleared and the loan has been brought fully current, repayments have been made in a timely manner over a continuous repayment period and continued collection, in accordance with the contractual terms, is expected).</p> |
| Description and Conclusions EC9 | <p>The CBU has set criteria for classifying problem assets as mentioned in EC5 as well as conditions for reclassifying non-performing loans as healthy loans.</p> |
| EC10 | <p>The supervisor determines that the bank's Board obtains timely and appropriate information on the condition of the bank's asset portfolio, including classification of assets, the level of provisions and reserves and major problem assets. The information includes, at a minimum, summary results of the latest asset review process, comparative trends in the overall quality of problem assets, and measurements of existing or anticipated deterioration in asset quality and losses expected to be incurred.</p> |
| Description and Conclusions EC10 | <p>The CBU requires the deliberative body to approve a report on the nature and level of exposure to each type of risk incurred by the bank. This report should account for (i) credit facilities and guarantees collected, specifying the entity that granted the facilities and the limits of its powers, (ii) the quality of the credit portfolio and the corresponding provisions, (iii) the nature and level of the bank's exposures to concentration risk, including exposures by counterparty, by sector, and by geographic region, (iv) main operational loss events, (v) transactions with related parties, including non-performing loans and unrecoverable loans, and (vi) salient facts related to each type of risk identified in the bank's risk mapping (cf. Article 15 of Circular No. 04-2017CB/C).</p> |

| | |
|-------------------------------------|---|
| | The existence and quality of reports sent to the deliberative body as well as review of the meeting minutes are among the DCPEME's checkpoints. Review of a panel of on-site inspection reports showed that these documents were confirmed. |
| EC11 | The supervisor requires that valuation, classification and provisioning, at least for significant exposures, are conducted on an individual item basis. For this purpose, supervisors require banks to set an appropriate threshold for the purpose of identifying significant exposures and to regularly review the level of the threshold. |
| Description and Conclusions EC11 | <p>The CBU requires auditors to produce a specific report each year on compliance with the prudential regulations as well as a report on the 50 largest exposures. This report should break down for each counterparty the existence, the number, and the age of potential delinquencies, collateral, and the depreciation levels established (cf. Article 16 of Circular No. 002-2018/CB/C).</p> <p>The regulations define the concept of "large exposures" and set a declaration threshold for large exposures. According to the definition appearing in the prudential framework, large exposures "represent a client or a group of related clients the sum of whose credit risk-weighted assets amount to at least 10% of the bank's core capital (T1)." This definition is consistent with accepted standards. In addition, supervised banks are required to comply with a maximum large exposure limit. Currently set at 45%, it is to be set at 25% in 2023.</p> <p>The regulations implicitly require that the valuation, classification, and provisioning of large exposures be done on an individual basis.</p> <p>The supervisor requires banks to declare various types of information on large exposures in accordance with Instruction No. 005-08-2017, as follows:</p> <ul style="list-style-type: none"> • Identification of counterparties considered large exposures in the banking and trading books. • Exposures to counterparties as well as to individual clients within a group of related clients. • The 20 largest exposures by categories of maturities. • Declaration of the 50 largest commitments. |
| EC12 | The supervisor regularly assesses any trends and concentrations in risk and risk build-up across the banking sector in relation to banks' problem assets and takes into account any observed concentration in the risk mitigation strategies adopted by banks and the potential effect on the efficacy of the mitigant in reducing loss. The supervisor considers the adequacy of provisions and reserves at the bank and banking system level in the light of this assessment. |
| Description and Conclusions EC12 | The SG does not conduct regular studies on risk trends and concentrations as well as the build-up of risks at the banking sector level. Rather, this work is done by the DSF and would benefit from being renewed on a fixed schedule. |
| Assessment of Principle 18 | Materially Non-compliant |

| | |
|----------|--|
| Comments | <p>The regulatory framework, despite improvements made by the prudential framework and Instruction No. 026-2016, still shows weaknesses while the rate of doubtful loans is stable at about 12% although it does mask wide disparities.</p> <p>The loan declassification criteria are consistent with accepted rules. The contagion rules are unevenly conservative. Reclassifying a counterparty's loan as a doubtful loan entails automatic reclassification of all outstanding amounts and off-balance sheet commitments but this principle is not applied to retail clients.</p> <p>Writing off uncollectable loans after the sixth year is still not effective nor applied by most banks in the Union, given the member states' failure to transpose the directive – belatedly adopted by the BCEAO – to the associated tax regimes.</p> <p>The optional nature of provisioning for doubtful or disputed loans covered by a guarantee recognized by the prudential framework or a first mortgage, during the first two years, as well as the lack of collective provisioning are such that they delay or diminish the depreciation effort.</p> <p>In addition, numerous banks in the Union do not always strictly apply the instruction on the recording of non-performing loans. Internal procedures may not have been updated with these new rules while information systems allowing for automatic downgrading and provisioning of loans are still lacking in many banks. The classification and provisioning requirements sought by the DCPME inspectors upon concluding their audits are thus quite systematic and sometimes involve very sizeable amounts that may lead to violations of the solvency rules.</p> <p>The publication of a circular letter – following inquiries made to the banks – made it possible to specify, while awaiting more precise regulations, the supervisor's expectations regarding the frequency of revaluations of underlying mortgage assets as well as revaluation conditions. However, the circular letter did not remedy the lack of rules on the valuation of collateral and on the selection/renewal of appraisers. Here again, the reports reviewed highlighted a real lack of conservatism in the banks' practices (collateral that is neither inventoried nor eligible and is not revalued periodically).</p> <p>The prospects for recovery are always very weak and uncertain due to judicial practices but also to the lack of professionalism among staff within the banks. The lack of study at both the BCEAO and SGCB level should be noted.</p> <p>The reporting mechanism has been usefully strengthened but the quality of the information could still be improved. In addition, such information is not always fully utilized by the DSP.</p> <p>Nevertheless, the good quality of the DCPME inspectors' investigation should be noted, given the time allowed.</p> |
|----------|--|

| | |
|----------------------------|--|
| | <p>Recommendations:</p> <ul style="list-style-type: none"> • Complete the regulatory requirements in the area of credit risk with precise provisions on the monitoring and valuation of collateral as well as methods for calling on appraisers. • Consider the possibility of using the 90-day arrears threshold for the classification of all non-performing exposures. • Formalize guidelines on the management of non-performing loans so as to specify in greater detail than in the regulatory texts the supervisor’s expectations and requirements for the banks (governance of non-performing loans, concept of technical default, consideration of criteria for downgrading to UTP, and quantitative examples, identification of structured loans, and asset valuation methodology). • Instruct banks without automated systems for downgrading loans to promptly remedy this situation. • Reiterate the need to rapidly transpose the instruction on standardization of the tax system related to losses on doubtful and disputed loans recorded by the banks, to those member states that have still not done so. • Schedule an in-depth review of the quality of assets of banks with very deteriorated loan rates, using sampling and homogeneous research methods by type of portfolio. • Encourage banks to strengthen their amicable recovery mechanisms and require recovery indicators in risk management reports. Proceed with studies on the recovery of doubtful loans by credit institutions. • Develop cross-cutting studies on the banks’ loan portfolios and give more consideration to the results of credit stress tests in the rating of banks. |
| <p>Principle 19</p> | <p>Concentration Risk and Large Exposure Limits</p> <p>The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate concentrations of risk on a timely basis. Supervisors set prudential limits to restrict bank exposures to single counterparties or groups of connected counterparties.⁵⁹</p> <p>(Reference documents: Joint Forum Cross-sectoral review of group-wide identification and management of risk concentrations, April 2008; Sound credit risk assessment and valuation for loans, June 2006; Principles for managing credit risk, September 2000; and Measuring and controlling large credit exposures, January 1991.)</p> |

⁵⁹ Connected counterparties may include natural persons as well as a group of companies related financially or by common ownership, management or any combination thereof.

| Essential Criteria | |
|------------------------------------|---|
| EC1 | Laws, regulations or the supervisor require banks to have policies and processes that provide a comprehensive bank-wide view of significant sources of concentration risk. ⁶⁰ Exposures arising from off-balance sheet as well as on-balance sheet items and from contingent liabilities are captured. |
| Description and Conclusions EC1 | <p>The regulations require banks to understand and control concentration risk by means of documented policies and processes (Article 27 of Circular 04-2017/CB/C). In addition, banks are required to have a mechanism for identifying groups of related clients – both directly and indirectly – and to continually ensure that the standards set in the area of risk limits are observed. The regulations also provide that exposures included in the calculation of large exposures include both balance-sheet and off-balance sheet liabilities.</p> <p>Article 520 of the prudential framework also stipulates that banks must set up an internal control mechanism to identify risk concentrations, with concentration risk being defined in Article 531 of the prudential framework and capturing the different types of concentration with the exception of those related to market risk. However, Article 537 of the prudential framework indicates that the internal evaluation of capital adequacy relative to market risk should include an evaluation of concentration risk.</p> |
| EC2 | The supervisor determines that a bank's information systems identify and aggregate on a timely basis, and facilitate active management of, exposures creating risk concentrations and large exposure ⁶¹ to single counterparties or groups of connected counterparties. |
| Description and Conclusions EC2 | <p>Article 27 of the Circular on risk management requires banks to have information systems for promptly identifying and aggregating exposures leading to risk concentration as well as large exposures to single counterparties or groups of connected counterparties.</p> <p>Compliance with this requirement is subject to controls in the context of the DCPME's on-site missions. <u>In this regard, the weakness of information systems, particularly in small banks, once systematically highlighted, constitutes a real weakness in terms of compliance with this prudential requirement.</u></p> |

⁶⁰ This includes credit concentrations through exposure to: single counterparties and groups of connected counterparties both direct and indirect (such as through exposure to collateral or to credit protection provided by a single counterparty), counterparties in the same industry, economic sector or geographic region and counterparties whose financial performance is dependent on the same activity or commodity as well as off-balance sheet exposures (including guarantees and other commitments) and also market and other risk concentrations where a bank is overly exposed to particular asset classes, products, collateral, or currencies.

⁶¹ The measure of credit exposure, in the context of large exposures to single counterparties and groups of connected counterparties, should reflect the maximum possible loss from their failure (i.e., it should encompass actual claims and potential claims as well as contingent liabilities). The risk weighting concept adopted in the Basel capital standards should not be used in measuring credit exposure for this purpose as the relevant risk weights were devised as a measure of credit risk on a basket basis and their use for measuring credit concentrations could significantly underestimate potential losses (see "Measuring and controlling large credit exposures, January 1991).

| | |
|---------------------------------|--|
| EC3 | The supervisor determines that a bank's risk management policies and processes establish thresholds for acceptable concentrations of risk, reflecting the bank's risk appetite, risk profile and capital strength, which are understood by, and regularly communicated to, relevant staff. The supervisor also determines that the bank's policies and processes require all material concentrations to be regularly reviewed and reported to the bank's Board. |
| Description and Conclusions EC3 | <u>Review of several DCPME audit reports shows that the Union's banks do not have systems for monitoring large exposures. In addition, they do not set concentration limits other than those for large exposures. All these observations demonstrate a lack of maturity in the banks' consideration of this risk.</u> |
| EC4 | The supervisor regularly obtains information that enables concentrations within a bank's portfolio, including sectoral, geographical and currency exposures, to be reviewed. |
| Description and Conclusions EC4 | The Union's regulations provide various channels for reporting information to the CBU on concentrations within the banks' portfolios. The CBU may rely on: <ul style="list-style-type: none"> • The annual risk management report, which should include information on sectoral and geographic concentration. • Semi-annual reports on review of the loan portfolio. • Banks are also subject – pursuant to paragraph 464 of the prudential framework – to the duty to provide information, to the BCEAO and the CBU, on a solo, sub-consolidated, and/or consolidated basis, related to the identification of clients or groups of related clients with large exposures. They are also subject to the submission of four prudential statements (EP29 to EP32) on concentration risk with respect to clients and groups of related clients. |
| EC5 | In respect of credit exposure to single counterparties or groups of connected counterparties, laws or regulations explicitly define, or the supervisor has the power to define, a "group of connected counterparties" to reflect actual risk exposure. The supervisor may exercise discretion in applying this definition on a case-by-case basis. |
| Description and Conclusions EC5 | Article 444 of the prudential framework defines the concept of a group of connected clients as a group consisting of two or more connected individuals or legal entities, meeting at least one of the following criteria: <ul style="list-style-type: none"> • One of the clients directly or indirectly controls the other client or other clients (control relationship). • If one of the clients encounters financial difficulties, particularly financing or repayment problems, it is likely that the other client or other clients is/are exposed to financing or repayment problems (economic interdependence). <p>Articles 445 to 448 specify the criteria underlying the control relationships or economic interdependence between clients. These links are presented quite succinctly but cover the different configurations.</p> <p>Article 450 of the prudential framework specifies that when a central administration (State) has direct power over several individuals or legal entities or is directly connected to these persons, the whole consisting of the central administration and all directly or indirectly</p> |

| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|-------------------|---------------|-------|-------|---------|--------|---|-----|-----|-----|-----|-----|-------|---------|---------------|---------------|------|-------|---------|------|------|-------|-------|-------|---------|-------|-------|-------|--------|-------|
| | <p>controlled individuals or legal entities is not considered as an “exposure to a group of connected clients.”</p> <p>In accordance with the prudential framework (paragraph 453), the CBU may give a bank a special exemption from application of the large exposure limit over a well-defined period of time, during which the bank concerned must normalize its situation of non-compliance.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EC6 | <p>Laws, regulations or the supervisor set prudent and appropriate⁶² requirements to control and constrain large credit exposures to a single counterparty or a group of connected counterparties. “Exposures” for this purpose include all claims and transactions (including those giving rise to counterparty credit risk exposure), on balance sheet as well as off-balance sheet. The supervisor determines that senior management monitors these limits and that they are not exceeded on a solo or consolidated basis.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Description and Conclusions EC6 | <p>Paragraph 502 of the prudential framework requires banks to observe a large exposure limit of 25%. However, the introduction of this standard is accompanied by a transitional mechanism extending until end-2022. This period was extended by one year due to the public health crisis.</p> <p style="text-align: center;">Transitory Provisions Related to the Risk Limit Standard</p> <table border="1"> <tr> <td>Division of risks</td> <td>2018</td> <td>2019</td> <td>2020</td> <td>2021</td> <td>2022</td> </tr> <tr> <td>Maximum large risks concentration ratio</td> <td>65%</td> <td>55%</td> <td>45%</td> <td>35%</td> <td>25%</td> </tr> </table> <p>Source: WAMU</p> <p>The large exposure limit for the Union averaged 60.5% as of December 31, 2020. Only 68% of the Union’s banks – or 86 banks – met the transitory threshold of 55% as of December 31, 2020.</p> <p style="text-align: center;">Risk Limit Standard by Country</p> <table border="1"> <tr> <td>Bénin</td> <td>Burkina</td> <td>Côte d’Ivoire</td> <td>Guinée-Bissau</td> <td>Mali</td> <td>Niger</td> <td>Sénégal</td> <td>Togo</td> <td>UMOA</td> </tr> <tr> <td>63,8%</td> <td>50,9%</td> <td>46,3%</td> <td>-506,4%</td> <td>61,9%</td> <td>67,8%</td> <td>67,1%</td> <td>177,9%</td> <td>60,5%</td> </tr> </table> <p>Source: CBU report (2020)</p> <p><u>With regard to the target large exposure limit of 25%, only 27 banks were in a position to reach it as of 12/31/2020 or 21.4% of supervised banks.</u></p> | Division of risks | 2018 | 2019 | 2020 | 2021 | 2022 | Maximum large risks concentration ratio | 65% | 55% | 45% | 35% | 25% | Bénin | Burkina | Côte d’Ivoire | Guinée-Bissau | Mali | Niger | Sénégal | Togo | UMOA | 63,8% | 50,9% | 46,3% | -506,4% | 61,9% | 67,8% | 67,1% | 177,9% | 60,5% |
| Division of risks | 2018 | 2019 | 2020 | 2021 | 2022 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Maximum large risks concentration ratio | 65% | 55% | 45% | 35% | 25% | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bénin | Burkina | Côte d’Ivoire | Guinée-Bissau | Mali | Niger | Sénégal | Togo | UMOA | | | | | | | | | | | | | | | | | | | | | | | |
| 63,8% | 50,9% | 46,3% | -506,4% | 61,9% | 67,8% | 67,1% | 177,9% | 60,5% | | | | | | | | | | | | | | | | | | | | | | | |
| EC7 | <p>The supervisor requires banks to include the impact of significant risk concentrations into their stress testing programmes for risk management purposes.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Description and | <p>The CBU expects banks to ensure that their stress testing programs take into account all significant risks to which they are exposed. The impact of concentration risks is thus implicitly</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

⁶² Such requirements should, at least for internationally active banks, reflect the applicable Basel standards. As of September 2012, a new Basel standard on large exposures is still under consideration

| | |
|---|---|
| Conclusions EC7 | <p>included. This requirement is mentioned in Article 13 of the circular on risk management. The requirement to conduct rigorous and forward-looking stress testing is also presented in paragraph 544 of the prudential framework.</p> <p>However, this requirement is not observed by a large number of banks. As noted earlier, the lack of SGCB support and specialized resources within the banks are explanatory factors.</p> <p>In contrast, the DSF's stress tests seek to incorporate concentration risk in the modeling exercises.</p> |
| Additional Criteria | |
| AC1 | <p>In respect of credit risk exposure to single counterparties or groups of connected In respect of credit exposure to single counterparties or groups of connected counterparties, banks are required to adhere to the following:</p> <p>(a) ten per cent or more of a bank's capital is defined as a large exposure; and</p> <p>(b) twenty-five per cent of a bank's capital is the limit for an individual large exposure to a private sector non-bank counterparty or a group of connected counterparties.</p> <p>Minor deviations from these limits may be acceptable, especially if explicitly temporary or related to very small or specialised banks.</p> |
| Description and Conclusions CA1 | <p>As indicated above, the threshold for large exposures is set at 10% of core capital while the limit of exposure to a private counterparty or group of connected counterparties has been set at 25% with an implementation date postponed to 2023.</p> <p>Deviations from the transitional standard involve more than 30% of banks and are persistent.</p> |
| Assessment of Principle 19 | Materially Non-compliant |
| Comments | <p>A tight market and credit institutions' preferences for large companies with reliable financial statements produces in fact a structural concentration of commitments within the Union, along with secondary effects linked to the vulnerability of these counterparties to fluctuations in raw materials. In this regard, several reports indicate the absence of active portfolio diversification strategies.</p> <p>In this context, the gradual lowering of the large exposure limit with a target of 25% by 2023, after a one-year postponement following the health crisis, represents a considerable advance in regulatory terms but also a real challenge for credit institutions. Thus, as of 12/31/2020, only 27 banks – or slightly more than 20% of the total – adhered to this target ratio while the transitional ratio of 55% was only achieved by 68% of the banks.</p> <p>More than the ability of the Union's banks to comply with the ceilings, this is a matter of the lack of maturity on the part of numerous banks with regard to concentration risk. Review of several DCPME audit reports shows that the Union's banks do not always have large</p> |

| | |
|---------------------|---|
| | <p>exposures monitoring systems. In addition, the limits systems do not consider concentration limits, other than those for large exposures.</p> <p>The weakness of all information systems represents another obstacle to identifying related clients. In this regard, DCPME investigations could benefit from greater depth on this point.</p> <p>All in all, the pace of convergence toward the large exposure limit of 25% seems ambitious. The introduction of strengthened support measures as well as increased core capital will be necessary to promote the banks' compliance with this requirement.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Require the banks to introduce large exposures identification and monitoring systems incorporating formalized policies and processes as well as to deploy appropriate tools. • From the perspective of the implementation of the large exposure limit of 25%, encourage banks to utilize syndicated loans or additional guarantees and to strengthen their capital. • Provide actions plans for the banks, as needed, using Pillar 2 measures for the banks that would not be in a position to achieve the ratio by the deadline. Conduct investigations on the banks' identification procedures for connected groups. Establish indicators to monitor the diversification of the banks' clients. • Regularly conduct banking studies on Union banks' exposures to systematic counterparties and/or those most vulnerable to fluctuations in raw materials. |
| Principle 20 | <p>Transactions with Related Parties</p> <p>In order to prevent abuses arising in transactions with related parties⁶³ and to address the risk of conflict of interest, the supervisor requires banks to enter into any transactions with related parties⁶⁴ on an arm's length basis; to monitor these transactions; to take appropriate steps to control or mitigate the risks; and to write off exposures to related parties in accordance with standard policies and processes.</p> |

⁶³ Related parties can include, among other things, the bank's subsidiaries, affiliates, and any party (including their subsidiaries, affiliates and special purpose entities) that the bank exerts control over or that exerts control over the bank, the bank's major shareholders, Board members, senior management and key staff, their direct and related interests, and their close family members as well as corresponding persons in affiliated companies.

⁶⁴ Related party transactions include on-balance sheet and off-balance sheet credit exposures and claims, as well as, dealings such as service contracts, asset purchases and sales, construction contracts, lease agreements, derivative transactions, borrowings, and write-offs. The term transaction should be interpreted broadly to incorporate not only transactions that are entered into with related parties but also situations in which an unrelated party (with whom a bank has an existing exposure) subsequently becomes a related party.

| | |
|---------------------------------|--|
| | (Reference document: Principles for the management of credit risk, September 2000.) |
| Essential Criteria | |
| EC1 | Laws or regulations provide, or the supervisor has the power to prescribe, a comprehensive definition of “related parties”. This considers the parties identified in the footnote to the Principle. The supervisor may exercise discretion in applying this definition on a case by case basis. |
| Description and Conclusions EC1 | <p>The concept of related parties is explicitly defined in Circulars Nos. 01/2017/CB/C on governance and 04-2017/CB/C on risk management (Article 3 in both cases). Related parties are presented there as individuals or legal entities directly or indirectly connected to banks. Article 3 then identifies the different categories of related parties:</p> <ul style="list-style-type: none"> • (i) Parent company of a bank and any entity over which it exercises exclusive control, joint control, or significant influence. • (ii) Any entity over which the bank exercises exclusive control, joint control, or significant influence. • (iii) An individual who exercises exclusive control, joint control, or significant influence over the bank (iii). • (iv) An individual or legal entity holding at least 10% of the voting rights within the bank. • (v) The bank’s directors and officers. • (vi) Private companies in which individuals indicated in items iii), iv), and v) above perform executive, management, or governing functions or hold more than 25% of share capital. • (vii) Individuals having close family ties with the individuals indicated in items iii), iv), and v) above. <p>It should be noted that the various types of control are well defined. In addition, the concept of close family tie is defined in Article 3 of Circular No. 01/2017/CB and does not call for comment.</p> <p>A close family tie is “when someone is the ancestor of another person, including by adoption, or when both have a common ancestor in the first or second degree. Married or common-law couples, including their children, are also taken into account.”</p> <p>No exemption from these regulatory requirements is provided.</p> |
| EC2 | Laws, regulations or the supervisor require that transactions with related parties are not undertaken on more favourable terms (eg in credit assessment, tenor, interest rates, fees, |

| | |
|---------------------------------|--|
| | amortisation schedules, requirement for collateral) than corresponding transactions with non-related counterparties. ⁶⁵ |
| Description and Conclusions EC2 | <p>Article 3 of the circular on risk management lists the different types of transactions with related parties (service contracts, asset purchases and sales, construction contracts, lease agreements, derivatives transactions, borrowings, and write-offs). It also indicates that transactions include exposures and loans appearing on- and off-balance sheet. This definition seems consistent with international texts on the subject.</p> <p>In addition, Article 26 of the circular on risk management governs transactions with related parties, particularly in terms of conflicts of interest. Thus, it mentions that “transactions with related parties should not be accompanied by more favorable terms than the corresponding transactions with unrelated parties, in terms of credit assessment, contract terms, interest rate, fees, repayment, and collateral required. An exception may be made for preferential conditions that are part of the bank’s overall staff compensation policy, such as credit at preferred rates.”</p> |
| EC3 | The supervisor requires that transactions with related parties and the write-off of related-party exposures exceeding specified amounts or otherwise posing special risks are subject to prior approval by the bank’s Board. The supervisor requires that Board members with conflicts of interest are excluded from the approval process of granting and managing related party transactions. |
| Description and Conclusions EC3 | <p>Article 26 of the circular on risk management sets rules for the approval and validation of transactions with related parties and explicitly provides that the granting and write-off of loans with related parties are subject to prior approval from the deliberative body. In addition, this same article indicates that “members of the deliberative body with conflicts of interest must be excluded from the approval process.”</p> <p>A provision in the banking law also states that any loan or guarantee granted by a bank to its directors, its major shareholders, or partners, or to private companies in which the aforementioned individuals exercise executive, administrative, or governing functions hold more than a quarter of the share capital must be unanimously approved by the bank’s Board of Directors, regardless of the amount. These loans must also be noted in the auditors’ annual report to the meeting of shareholders.</p> |
| EC4 | The supervisor determines that banks have policies and processes to prevent persons benefiting from the transaction and/or persons related to such a person from being part of the process of granting and managing the transaction. |
| Description and Conclusions EC4 | Article 26 of the circular on risk management strictly governs the rules for committing to transactions with related parties. The CBU expects its supervised entities to have procedures to prevent the beneficiaries of a transaction and those related to them from participating in the process of granting and managing the transaction. Banks are also required to ensure |

⁶⁵ An exception may be appropriate for beneficial terms that are part of overall remuneration packages (eg staff receiving credit at favourable rates).

| | |
|---------------------------------|---|
| | <p>monitoring of these risks and to report on them through a credit review process or an independent audit.</p> <p>DCPEME methodology provides specific checkpoints on adhering to these procedures and in particular the existence of procedures for identifying related parties and specific monitoring of their transactions as well as compliance with regulatory ratios in terms of exposures.</p> <p>It should also be added that, pursuant to Article 438 of the OHADA uniform act on regulated agreements, banks have the duty to send their auditors all information, contracts, and transactions involving related parties. For their part, the auditors are to complete, pursuant to Article 440 of the uniform act, a certain number of procedures on transactions with related parties, particularly to identify the potentially irregular nature of some agreements. <u>The review of two auditors' reports showed that investigations on the manifestly irregular nature of agreements are not really apparent.</u> However, one auditor emphasized that some agreements had not been submitted to him.</p> <p>DCPEME inspectors are also able to meet with auditors in the event unidentified related parties are detected during the investigation.</p> |
| EC5 | <p>Laws or regulations set, or the supervisor has the power to set on a general or case by case basis, limits for exposures to related parties, to deduct such exposures from capital when assessing capital adequacy, or to require collateralisation of such exposures. When limits are set on aggregate exposures to related parties, those are at least as strict as those for single counterparties or groups of connected counterparties.</p> |
| Description and Conclusions EC5 | <p>Various provisions of the Union's regulations govern ceilings on exposures to related parties, particularly item 2.4 of the prudential provision related to the regulation of loans to major shareholders, managers, staff, and auditors.</p> <p>Thus, paragraph 493 of the prudential framework states that banks are "required to notify the BCEAO and the CBU of any support to a single manager, shareholders, or staff participating in its management, administration, governance, controls, or operations amounting to at least 5% of its effective capital."</p> <p>Additionally, paragraph 491 requires that individuals or legal entities each of which holds directly or indirectly 10% or more of the voting rights within a bank or bank-like financial institution are subject to this provision.</p> <p>The same prohibition applies to loans granted to private companies in which the aforementioned persons exercise management, administrative, or governing functions or hold more than 25% of share capital.</p> <p>In addition, paragraph 490 stipulates that the total loan amount (including signature commitments) that may be granted to individuals participating in management, administration, governance, control, or operations should not exceed 20% of effective share capital. It also notes that each loan must be accompanied by collateral covering the total</p> |

| | |
|---------------------------------|--|
| | <p>exposure. <u>In this regard, more than 14% of banks (or a total of 17) did not comply with this cap as of 12/31/020 (compared to 11% in 2019).</u></p> <p>Finally, any amount exceeding the set limit applicable to major shareholders, managers, and staff is required to be deducted in full from the bank's core capital (cf. paragraph 28 of the prudential framework).</p> <p>Expanding the concept of related parties compared to the old regulations and taking all related parties into account in the calculation of these thresholds has managed to push banks into violation. This is particularly true for credit institutions that have significant exposures to their sister subsidiaries and record numerous intra-group transactions.</p> <p>The standards set in the area of exposure ceilings on related parties are subject to monitoring by the DSP through EPs 38 and 39.</p> <p>The DCPEME has indicated that anomalies were already detected in the context of on-site investigations with contracts set up by banks in order to transfer commitments to related parties to other banking institutions in order to ensure compliance with the regulatory thresholds.</p> |
| EC6 | <p>The supervisor determines that banks have policies and processes to identify individual exposures to and transactions with related parties as well as the total amount of exposures, and to monitor and report on them through an independent credit review or audit process. The supervisor determines that exceptions to policies, processes and limits are reported to the appropriate level of the bank's senior management and, if necessary, to the Board, for timely action. The supervisor also determines that senior management monitors related party transactions on an ongoing basis, and that the Board also provides oversight of these transactions.</p> |
| Description and Conclusions EC6 | <p>The DCPEME control methodology on credit risk provides for verifying the existence, within the banks, of policies and processes relating to the identification, management, and control of exposures with related parties.</p> <p><u>DCPEME inspectors find frequent irregularities with regard to compliance with these requirements on related parties (lack of processes on transactions with related parties, failure to report exposures to related parties in excess of 5%).</u></p> |
| EC7 | <p>The supervisor obtains and reviews information on aggregate exposures to related parties.</p> |
| Description and Conclusions EC7 | <p>Banks are required to submit on a semi-annual basis two EPs reporting on exposures to major shareholders, managers, staff, auditors, and other related parties:</p> <ul style="list-style-type: none"> • EP 38 shows the level of loans granted to major shareholders, managers, staff, auditors, and all of the bank's other related parties. • EP 39 identifies the major shareholders, managers, staff members, and other related parties benefitting from a significant loan. The standard requires banks to notify the |

| | |
|-----------------------------------|---|
| | CBU and the BCEAO of all lending to an individual manager, shareholder, and staff member participating in their governance, control, or operations totaling at least 5% of their effective capital. |
| Assessment of Principle 20 | Largely Compliant |
| Comments | <p>The regulatory framework on related parties seems satisfactory with precise definitions and in line with the required standards, limits governing these transactions, and a reporting mechanism. However, it is still not strictly implemented by the banks, as evidenced by regular observations made by DCPEME inspectors in their reports. The share of banks failing to adhere to the ceiling set by regulation (ratio of 20% of capital) has increased by three points in 2020 to reach 14%.</p> <p>Recommendation:</p> <ul style="list-style-type: none"> Remind auditors of the requirement to conduct in-depth investigations on all information, contracts, and transactions involving related parties and in particular to verify the normal nature of agreements signed with related parties. |
| Principle 21 | Country and Transfer Risks |
| | The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate country risk ⁶⁶ and transfer risk ⁶⁷ in their international lending and investment activities on a timely basis. (Reference document: <i>Management of banks' international lending</i> , March 1982.) |
| Essential Criteria | |
| EC1 | The supervisor determines that a bank's policies and processes give due regard to the identification, measurement, evaluation, monitoring, reporting and control or mitigation of country risk and transfer risk. The supervisor also determines that the processes are consistent with the risk profile, systemic importance and risk appetite of the bank, take into account market and macroeconomic conditions and provide a comprehensive bank-wide view of country and transfer risk exposure. Exposures (including, where relevant, intra-group exposures) are identified, monitored and managed on a regional and an individual country basis (in addition to the end borrower/end-counterparty basis). Banks are required to monitor and evaluate developments in country risk and in transfer risk and apply appropriate countermeasures. |

⁶⁶ Country risk is the risk of exposure to loss caused by events in a foreign country. The concept is broader than sovereign risk as all forms of lending or investment activity whether to/with individuals, corporates, banks or governments are covered.

⁶⁷ Transfer risk is the risk that a borrower will not be able to convert local currency into foreign exchange and so will be unable to make debt service payments in foreign currency. The risk normally arises from exchange restrictions imposed by the government in the borrower's country. (Reference document: IMF paper on External Debt Statistics – Guide for compilers and users, 2003).

| | |
|------------------------------------|---|
| Description and Conclusions EC1 | <p>It should be specified in advance that country risk and transfer risk do not represent significant risks at the Union level despite increased internationalization of certain banking groups. Nonetheless, the Union's lawmakers had to set minimum requirements in order to ensure that these risks are managed by credit institutions.</p> <p>Country risk and transfer risk are defined in Article 3 of Circular No. 04/2017/CB/C on risk management. Requirements related to these risks are presented in Article 56 of the circular on risk management. It states that country risk and transfer risk exposures must be monitored, managed, and mitigated on the basis of formalized policies and processes. More specifically, with regard to country risk, banks are expected to ensure monitoring by borrower or counterparty. Exposures including intra-group transactions, as applicable, must be identified, monitored, and managed by region and by country.</p> <p>Article 15 of the circular also specifies that banks are required to develop risk mapping including salient facts related to each type of risk. This should be forwarded to the deliberative body.</p> |
| EC2 | <p>The supervisor determines that banks' strategies, policies and processes for the management of country and transfer risks have been approved by the banks' Boards and that the Boards oversee management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the banks' overall risk management process.</p> |
| Description and Conclusions EC2 | <p><u>DCPEME inspectors do not generally conduct investigations on a priority basis in the context of audits. The investigation reports do not make note of this subject.</u></p> <p><u>Similarly, the DCP's control methodology contains only a single paragraph on the coverage of country risks and the resulting investigations.</u></p> |
| EC3 | <p>The supervisor determines that banks have information systems, risk management systems and internal control systems that accurately aggregate, monitor and report country exposures on a timely basis; and ensure adherence to established country exposure limits.</p> |
| Description and Conclusions EC3 | <p>This point is not subject to specific procedures on the part of the DCPEME. The audit reports consulted contain no developments on the subject.</p> |
| EC4 | <p>There is supervisory oversight of the setting of appropriate provisions against country risk and transfer risk. There are different international practices that are all acceptable as long as they lead to risk-based results. These include:</p> <p>(a) The supervisor (or some other official authority) decides on appropriate minimum provisioning by regularly setting fixed percentages for exposures to each country taking into account prevailing conditions. The supervisor reviews minimum provisioning levels where appropriate.</p> <p>(b) The supervisor (or some other official authority) regularly sets percentage ranges for each country, taking into account prevailing conditions and the banks may decide, within these</p> |

| | |
|-----------------------------------|--|
| | <p>ranges, which provisioning to apply for the individual exposures. The supervisor reviews percentage ranges for provisioning purposes where appropriate.</p> <p>(c) The bank itself (or some other body such as the national bankers association) sets percentages or guidelines or even decides for each individual loan on the appropriate provisioning. The adequacy of the provisioning will then be judged by the external auditor and/or by the supervisor.</p> |
| Description and Conclusions EC4 | <p>Instruction No. 026-11-2016 on loan classification does not include any provision on provisioning with regard to country risk and transfer risk. The preceding Instruction 94-05 contained a provision on country risk provisioning. It stipulated that interest not paid for more than three months and related to country risk should be subject to full provisioning.</p> <p>This provision was not incorporated in the revised BCA due to reservations about general provisioning mechanisms and the risk of smoothing of results.</p> |
| EC5 | The supervisor requires banks to include appropriate scenarios into their stress testing programmes to reflect country and transfer risk analysis for risk management purposes. |
| Description and Conclusions EC5 | The CBU does not directly require that stress testing programs include scenarios reflecting country risk and transfer risk analysis. Paragraph 13 of Circular No. 04/207/CB/C on stress testing indicates that programs should include all significant risks to which the bank is exposed. By construction, the consideration of country risk in stress tests is not clearly required. In practice, this type of risk is not incorporated on a priority basis in stress testing exercises modeled by the Union's top banks. |
| EC6 | The supervisor regularly obtains and reviews sufficient information on a timely basis on the country risk and transfer risk of banks. The supervisor also has the power to obtain additional information, as needed (eg in crisis situations). |
| Description and Conclusions EC6 | <p>Information on the management of country risk and transfer risk is primarily transmitted through submission of the annual risk management report in accordance with Article 16 of Circular No. 04/2017/CB/C.</p> <p>In this regard, it should be specified that a standard reporting template is being developed by the DSP to remedy reported information disparities among the Union's credit institutions.</p> <p>Information may also be analyzed through submissions of prudential statements or banks' reports, particularly from groups or finance companies (intra-group transactions by country, for example, breakdown of risks by region).</p> |
| Assessment of Principle 21 | Materially Non-compliant |
| Comments | The exposure to country risk and transfer risk is weak within the Union and basically involves cross-border groups although the SGCB does not have a very precise view of this. Incidentally, the monitoring of country risk and transfer risk is not really covered in the SGCB's methodological tools and does not lead to off-site or on-site supervision. In addition, on the subject of risk, a review of some annual reports submitted showed that the reports did not contain information on these risk factors. |

| | |
|---------------------------------|--|
| | <p>In regulatory terms, prescriptions on the monitoring of this risk are noted in the circular on risks but in quite summary fashion.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Establish mapping of banks potentially exposed to country risk and transfer risk and gather information on provisions established to manage these risks, as needed. • Include in the future risk management template a heading for these risks. |
| Principle 22 | <p>Market Risk.</p> <p>The supervisor determines that banks have an adequate market risk management process that takes into account their risk appetite, risk profile, and market and macroeconomic conditions and the risk of a significant deterioration in market liquidity. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate market risks on a timely basis.</p> <p>(Reference documents: Revisions to the Basel II market risk framework, February 2011; Interpretive issues with respect to the revisions to the market risk framework, February 2011; Guidelines for computing capital for incremental risk in the trading book, July 2009; Supervisory guidance for assessing banks' financial instrument fair value practices, April 2009; and Amendment to the Capital Accord to incorporate market risks, January 2005.)</p> |
| Essential Criteria | |
| EC1 | <p>Laws, regulations or the supervisor require banks to have appropriate market risk management processes that provide a comprehensive bank-wide view of market risk exposure. The supervisor determines that these processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank; take into account market and macroeconomic conditions and the risk of a significant deterioration in market liquidity; and clearly articulate the roles and responsibilities for identification, measuring, monitoring and control of market risk.</p> |
| Description and Conclusions EC1 | <p>The circular on risk management requires a bank:</p> <ul style="list-style-type: none"> • To ensure the implementation of strategies, policies, and processes that provide a comprehensive, bank-wide view of its exposures to each type of risk, including market risk. These policies and processes should reflect the development of the bank's degree of risk appetite, its risk profile, as well as market conditions and the macroeconomic environment (Article 8). • To accurately and exhaustively understand the different types of market risk to which it is or could be exposed and to implement market risk management policies and processes that take into account the risk of a significant deterioration of market liquidity (Article 42). <p>As regards risk governance, including market risk, the prudential framework (paragraphs 536-537) and the circular on risk management (Articles 4, 5, and 6) require that risk management roles and responsibilities be clearly defined, both at the level of the deliberative and executive bodies and that of the risk management function. In addition, the bank should take measures to ensure that the back-office services in charge of handling administrative</p> |

| | |
|--|--|
| | <p>and accounting operations, the client service or front office functions, and market monitoring or middle office functions are provided by separate structures (Article 42).</p> <p>The SGCB ensures, in the context of its on-site missions, the performance of the responsibilities of the deliberative body, the risks committee, and the executive body with regard to market risk management. In this respect, the controls notably cover review of:</p> <ul style="list-style-type: none"> • Market risk policies and processes to ensure that their content is consistent with regulatory provisions. • The operational monitoring system. • Methods for calculating capital requirements in terms of market risk. <p>In contrast, on-site supervision has not carried out subject-matter or specific controls on market risks. The controls described above are carried out in the context of more general investigations on risk governance and management. Thus, it does not make market risk specific recommendations in the conclusions to its missions.</p> <p>In conducting its controls, on-site supervision has audit procedures related to the market risk management process, the control functions, and governance.</p> |
| EC2 | <p>The supervisor determines that banks' strategies, policies and processes for the management of market risk have been approved by the banks' Boards and that the Boards oversee management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the banks' overall risk management process.</p> |
| <p>Description and conclusions EC2</p> | <p>The prudential framework (paragraph 519) requires the deliberative body to approve and regularly review the strategies and policies governing the assumption, management, monitoring, and mitigation of risks, including market risk.</p> <p>The circular on governance (Articles 7, 8, 18, and 22) requires the deliberative body to adequately supervise the activities carried out by the bank's executive body. In this regard, it should particularly ensure that the executive body acts in accordance with the strategies and policies that it has adopted. The deliberative body is assisted by the Risks Committee, which should specifically:</p> <ul style="list-style-type: none"> • Ensure that the executive body establishes procedures to promote the effective implementation of strategies and policies by the relevant units of the bank. • Ensure that the executive body takes the steps necessary to oversee and control all significant risks in accordance with the risk strategies and risk appetite that have been approved. • Require the executive body to submit a report at least every six months on the significant risks to which the bank is exposed, the current status of the risk culture, the risk appetite's degree of use, namely the management of risk limits, when these limits have been exceeded, and mitigation measures introduced. <p>Based on examination of the bank's market risk management strategies, as well as review of the reports submitted to the deliberative body and the meeting minutes, the SGCB indicates that it reviews whether:</p> |

| | |
|---------------------------------|--|
| | <ul style="list-style-type: none"> • The bank's risk management policies are approved by the deliberative body. • The deliberative body supervises the implementation of the strategies and policies that it approves. <p>Like on-site supervision, off-site oversight does not carry out specific controls on market risk and, moreover, this risk is not incorporated in the rating process. It supervises this activity indirectly through general audits conducted on risk governance and management. Off-site oversight does not have procedures or a control methodology with respect to market risk. The oversight manager has in the financial statement indications on the trading book but, as there is no dashboard or tabulation table of the financial statements, he has no warning indicator to draw his attention to banks with more significant market activity.</p> <p>The lack of assigned rating is justified by the low level of this risk. At end-December 2020, the trading book represents 0.43% of the banking sector's total balance sheet. However, some banks have more significant market activity that for the top bank could reach up to 28% of the total balance sheet.</p> |
| EC3 | <p>The supervisor determines that the bank's policies and processes establish an appropriate and properly controlled market risk environment including:</p> <p>(a) effective information systems for accurate and timely identification, aggregation, monitoring and reporting of market risk exposure to the bank's Board and senior management;</p> <p>(b) appropriate market risk limits consistent with the bank's risk appetite, risk profile and capital strength, and with the management's ability to manage market risk and which are understood by, and regularly communicated to, relevant staff;</p> <p>(c) exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank's senior management or Board, where necessary;</p> <p>(d) effective controls around the use of models to identify and measure market risk, and set limits; and</p> <p>(e) sound policies and processes for allocation of exposures to the trading book.</p> |
| Description and Conclusions EC3 | <p>The circular on risk management requires the deliberative body to ensure the existence within the bank of an effective information system to ensure the availability of suitable, reliable, integrated, and aggregated data on risks, including market risk. Thus, this information system should guarantee the timely transmission to the governing bodies of all relevant information useful for their decision-making. In addition, the executive body should ensure that the deliberative body has sufficient information on the policy it carries out in the area of market activities, particularly with regard to products used and losses realized (Articles 12 and 42).</p> <p>Regarding limits, the deliberative body should ensure that these limits are established in a consistent way, according to the bank's degree of risk appetite, its risk profile, and its capital strength. It should also ensure the correct adoption of these limits by relevant staff and regular communication within the bank (Article 11). In addition, limits are set on trading book positions and compliance with them is also monitored (paragraph 331 of prudential framework). The executive body is also to report to the deliberative body through its risks committee, at least once every six months, on the degree of use of risk appetite, namely the</p> |

| | |
|------------|--|
| | <p>management of risk limits, when these limits are exceeded, and mitigation measures put in place (Article 22).</p> <p>The bank is required to have a mechanism for identifying and managing instances when the limits are exceeded, including a procedure for reporting these to the appropriate hierarchical level, normalization, monitoring thereof, and penalties in the event the limits are continuously exceeded. It should clearly define the process to be followed to diligently submit items for review and authorization by the bodies so empowered, in the event of exceptions to established, policies, procedures, and limits (Article 11).</p> <p>With regard to internal models for market risk, the regulatory framework in effect in the WAMU transposes the standard approaches and does not require a bank to use an internal model to identify and measure market risks or set limits. In contrast, when there is no market price available for evaluating the trading book, the bank is authorized to use an internal model subject to compliance with certain conditions defined in the prudential framework (paragraphs 339 and 340):</p> <ul style="list-style-type: none"> • Model based on appropriate assumptions that should be reviewed and tested by properly qualified third parties, independent of the development process. • Model developed or validated by independent units of the trading room. • Formal procedures governing control of changes. • Secure copy of the model. • Risk management unit's knowledge of the weaknesses of the models being used. • Periodic review of the model intended to determine the quality of its performance. <p>The bank should have adequate systems and controls to provide prudent and reliable estimates for purposes of evaluating the trading book (paragraph 335).</p> <p>The deliberative body should ensure that the bank has clear policies and processes to define the positions to be included in its trading book and those to be excluded for purposes of calculating the capital requirements. Compliance with these policies and processes should be properly documented and submitted to periodic internal control (paragraph 329 of prudential framework). These policies and processes should allow for accurate delimitation of the boundary between the trading book and the banking book (Article 43 of the circular on risk management).</p> <p>SGCB verifies these regulatory requirements in the context of a more general review of the bank's risk management strategies, policies, processes, and limits as well as review of the reports submitted to the deliberative body and its meeting minutes (and the Risks Committee's minutes). However, it does not verify the valuation models used by the banks.</p> |
| EC4 | <p>The supervisor determines that there are systems and controls to ensure that banks' marked-to-market positions are revalued frequently. The supervisor also determines that all transactions are captured on a timely basis and that the valuation process uses consistent and prudent practices, and reliable market data verified by a function independent of the relevant risk-taking business units (or, in the absence of market prices, internal or industry-accepted models). To the extent that the bank relies on modelling for the purposes of</p> |

| | |
|--|--|
| | <p>valuation, the bank is required to ensure that the model is validated by a function independent of the relevant risk-taking businesses units. The supervisor requires banks to establish and maintain policies and processes for considering valuation adjustments for positions that otherwise cannot be prudently valued, including concentrated, less liquid, and stale positions.</p> |
| <p>Description and Conclusions EC4</p> | <p>The prudential framework requires trading book positions to be accurately revalued frequently and actively managed. To this end, positions should be marked to market at least once a day or by reference to a model the parameters of which are reviewed daily (paragraphs 328 and 331).</p> <p>Each bank's valuation mechanism should include sufficient systems and controls to provide the deliberative body and the CBU with prudent and reliable estimates (paragraph 335)</p> <p>When the bank uses market prices, these prices must come from independent sources (stock prices, screen prices, prices quoted by several independent brokers) and the more prudent valuation between the buying price and the selling price should be used (paragraphs 337 and 338).</p> <p>As for valuation with reference to a model, implementation requires the bank to comply with different conditions (paragraph 340) and particularly that the model be developed or validated by independent trading room units.</p> <p>Regardless of the method used, the bank is required to proceed with independent periodic verification of the market prices, or the assumptions of the models used for valuation purposes. This verification should be done by an independent trading room unit, at least once a month or more frequently according to the nature of the market operations (paragraph 341).</p> <p>The bank is also required to make adjustments when the sources of prices to be used for valuation purposes are not available or are subjective (paragraph 342). This lack of market data is frequent in the WAMU, considering the limited development of the financial markets. In addition, the bank is required to set up procedures to assess the advisability of establishing a valuation reserve for the less liquid positions, taking into consideration liquidation prices of concentrated and/or stale positions (paragraphs 345 and 346). In addition, in the context of internal evaluation of capital adequacy in terms of market risk, banks should evaluate concentration risk and illiquid positions in market turbulence scenarios (paragraph 537).</p> <p>Moreover, the bank should have a transactions monitoring system (Article 44 of the circular on risk management) in order to:</p> <ul style="list-style-type: none"> • Record exchange transactions, commodities transactions, and trading book transactions on a daily basis. • Measure risks daily arising from trading book positions, in accordance with the prudential framework. • Distinguish transactions on the bank's behalf from those for third parties. |

| | |
|------------------------------------|--|
| | The SGCB verifies that trading book management policies and processes are validated by the deliberative body and examines the internal control mechanisms. In contrast, it does not exercise control over trading book valuation methods. |
| EC5 | The supervisor determines that banks hold appropriate levels of capital against unexpected losses and make appropriate valuation adjustments for uncertainties in determining the fair value of assets and liabilities. |
| Description and Conclusions EC5 | <p>The bank is thus required to comply with the capital requirements set by the prudential framework. In this regard, it should:</p> <ul style="list-style-type: none"> • Establish minimum capital in terms of market risk calculated according to the standard approach (paragraphs 348 to 443). • In accordance with Pillar 2 of the prudential framework, have internal capital sufficient to cover significant market risks not subject to capital requirements under Pillar 1 (Article 42 of the circular on risk management), particularly concentration list and the risk of illiquid positions in market turbulence scenarios (paragraphs 516 to 537 of the prudential framework). • Take stress testing results into account when setting internal capital targets (paragraph 545 of the prudential framework). <p>In practice, the stress testing requirements are only adhered to by a minority of banks (cf. Principle 15). In this area as for the ICAAP (cf. Principle 16), the regulatory texts specifying the CBU's expectations are still not published and the control methodologies are still not in place.</p> <p>With regard to correcting valuations, banks are required to set up or keep in force processes for adjusting valuations of positions exposed to market risk or establishing reserves for the uncertainty of these valuations. Consequently, when the bank uses third-party valuations or values its positions with reference to a model, it should examine the need for such adjustments/reserves (paragraphs 341 and 344 of the prudential framework).</p> <p>The SGCB checks the calculation of minimum capital requirements with respect to market risk.</p> |
| EC6 | The supervisor requires banks to include market risk exposure into their stress testing programmes for risk management purposes. |
| Description and Conclusions EC6 | <p>The circular on risk management requires the deliberative body to ensure that the bank uses rigorous and forward-looking stress testing programs including all significant risks to which the bank is exposed, including market risk. These programs should also provide for corrective measures when stress testing results detect potential weaknesses that could have a negative impact on the bank's financial soundness. In this regard, the bank should do stress testing to regularly evaluate the risk it incurs in the event of sharp variations in market or market segment parameters (Articles 13 and 42 of the circular).</p> <p>These exercises should detect events that could harm the bank and provide the deliberative and executive bodies with a good understanding of the risks and their interactions under stress conditions. The results should be taken into account in the internal process for evaluating capital adequacy (paragraphs 544 and 545 of prudential framework).</p> |

| | |
|-----------------------------------|--|
| | <p>The SGCB verifies that stress testing programs take market risk into account when it is significant. However, the stress test exercises conducted by the banks do not systematically lead to extensive investigations (methodology, choice of variables, validation of guidelines) on the part of SGCB teams, from the DSP as well as the DCPME, including for groups (cf. Principle 15).</p> |
| Assessment of Principle 22 | Largely Compliant |
| Comments | <p>The limited weight of trading portfolios, which represent on average 0.43% of the total balance sheet as of end-December 2020 is evidence of most banks' limited exposure to market risk. In the banking survey conducted in the context of the FSAP, most banks indicate that the degree of exposure to market risk is marginal. Only 18 banks report non-zero portfolios. However, certain banks have more significant market activity with trading portfolios than may amount to 28% of the total balance sheet. Moreover, these activities could develop in future.</p> <p>The regulatory framework was expanded in 2017 with the definition of rules on market risk that are more detailed than in the past and that reflect different BCP criteria. A parallel capital requirement was introduced with respect to market risks.</p> <p>The market risk controls are still not developed. Market risk, which is not incorporated in the rating, is not subject to specific monitoring at the level of off-site supervision. In addition, the supervision manager has no warning indicator enabling him to flag banks that have more significant market activity. On-site supervision does not carry out topical verification and this risk is not included in the terms of reference for specific missions. Thus, to date no recommendations have been made by the supervisor with regard to market risk management. While market risk is not covered as such, the governance controls or the risk management mechanism nonetheless allow for verifying the existence of a strategy, procedures, limits, separation of function principles, and independent control functions.</p> <p>The establishment of rules related to market risk management and the introduction of capital requirements with regard to this risk represent notable progress. Despite the still limited nature of this risk, it now appears necessary to better integrate its monitoring in the different control tools and procedures in order to identify and verify banks that are developing a market activity.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Further integrate market risk in the control process for off-site supervision (mandatory heading in the internal control report template with a description of the types of market activity and control products, procedures, and methodology, warning indicator in case of growth in the trading book) so as to be in a position to detect market risks, map them, and oversee banks with growing trading books or that have new financial market products; and |

| | |
|------------------------------------|---|
| | <ul style="list-style-type: none"> Expedite more in-depth controls, particularly on trading book valuation models, for banks with significant market activity. |
| Principle 23 | <p>Interest Rate Risk in the Banking Book</p> <p>The supervisor determines that banks have adequate systems to identify, measure, evaluate, monitor, report and control or mitigate interest rate risk⁶⁸ in the banking book on a timely basis. These systems take into account the bank's risk appetite, risk profile and market and macroeconomic conditions.</p> <p>(Reference document: Principles for the management and supervision of interest rate risk, July 2004.)</p> |
| Essential Criteria | |
| EC1 | Laws, regulations or the supervisor require banks to have an appropriate interest rate risk strategy and interest rate risk management framework that provides a comprehensive bank-wide view of interest rate risk. This includes policies and processes to identify, measure, evaluate, monitor, report and control or mitigate material sources of interest rate risk. The supervisor determines that the bank's strategy, policies and processes are consistent with the risk appetite, risk profile and systemic importance of the bank, take into account market and macroeconomic conditions, and are regularly reviewed and appropriately adjusted, where necessary, with the bank's changing risk profile and market developments. |
| Description and Conclusions EC1 | <p>The circular on risk management requires (Article 7 and 8) the bank to have a risk management framework based in particular on documented strategies, policies, and processes making it possible:</p> <ul style="list-style-type: none"> To have a comprehensive, bank-wide view of exposures by each type of risk. To identify, measure, evaluate, monitor, report, and control or mitigate all the bank's risks. Reflect changes in the bank's risk appetite and risk profile as well as market conditions and the macroeconomic environment. <p>The types of risks to be covered include overall interest rate risk in the banking book (Articles 3 and 54).</p> |
| EC2 | The supervisor determines that a bank's strategy, policies and processes for the management of interest rate risk have been approved, and are regularly reviewed, by the bank's Board. The supervisor also determines that senior management ensures that the strategy, policies and processes are developed and implemented effectively. |
| Description and Conclusions EC2 | <p>The prudential framework (paragraphs 519 and 538) requires the deliberative body to approve and regularly review the strategies and policies governing the assumption, management, monitoring and mitigation of risks, including interest rate risk in the banking book (Article 3 (aa) of the circular on risk management).</p> <p>The circular on governance requires the deliberative body or the risks committee to ensure that the executive body establishes processes to promote the effective implementation of</p> |

⁶⁸ Wherever "interest rate risk" is used in this Principle the term refers to interest rate risk in the banking book. Interest rate risk in the trading book is covered under Principle 22.

| | |
|---|---|
| | <p>strategies and policies by the bank's relevant units (Article 22).</p> <p>The SGCB verifies the implementation of these regulatory provisions in the context of more general controls with regard to the governance and management of all risks.</p> |
| EC3 | <p>The supervisor determines that banks' policies and processes establish an appropriate and properly controlled interest rate risk environment including:</p> <p>(a) comprehensive and appropriate interest rate risk measurement systems.</p> <p>(b) regular review, and independent (internal or external) validation, of any models used by the functions tasked with managing interest rate risk (including review of key model assumptions).</p> <p>(c) appropriate limits, approved by the banks' Boards and senior management, that reflect the banks' risk appetite, risk profile and capital strength, and are understood by, and regularly communicated to, relevant staff.</p> <p>(d) effective exception tracking and reporting processes which ensure prompt action at the appropriate level of the banks' senior management or Boards where necessary.</p> <p>(e) effective information systems for accurate and timely identification, aggregation, monitoring and reporting of interest rate risk exposure to the banks' Boards and senior management.</p> |
| <p>Description and Conclusions</p> <p>EC3</p> | <p>a) The circular on risk management requires policies and processes to include comprehensive and appropriate mechanisms for measuring interest rate risk in the banking book (Article 55).</p> <p>b) It requires regular review and independent internal or external validation of the models used by the functions tasked with managing this risk, including review of the models' key assumptions (Article 55).</p> <p>c) Regarding limits, the deliberative body should ensure that they are established consistently in accordance with the bank's risk appetite, risk profile, and capital strength. It should also ensure correct adoption of these limits by the relevant staff and regular communication within the bank (Article 11).</p> <p>d) The bank is required to have a mechanism to identify and manage instances where the limits are exceeded, including a process for communicating those instances to the appropriate hierarchical level, for monitoring normalization, and for imposing penalties in cases where exceeding the limits is persistent. It should define a procedure to be followed to diligently submit for review and authorization by competent bodies cases of exceptions to established policies, processes, and limits (Article 11).</p> <p>e) The bank should have a mechanism for the governance of data on risks, an architecture for data related to risk, and an IT infrastructure intended, in particular, to guarantee timely</p> |

| | |
|---------------------------------|---|
| | <p>transmission to the governing body of all relevant information useful for their decision-making (Article 12).</p> <p>The SGCB indicates that interest rate risk in the banking bank is limited because fixed rates apply to most loans and banks' financing and corresponds to maturity mismatches between banks' investment and their resources. The SGCB indicates that it has formulated recommendations to the banks with regard to this particular risk.</p> <p>Off-site Supervision</p> <p>Off-site supervision has information in internal control reports and the minutes from the banks' Boards and Risk Committees. However, in the absence of a standard internal control report template, the information furnished by the banks is not always comparable or sufficient. In addition, there is no periodic quantitative reporting on interest rate risk.</p> <p>Interest rate risk in the banking book is not incorporated in the rating process because the SGBC deems the level of this risk to be low in the banking sector. Moreover, there are no procedures ensuring a minimum review of this risk by the supervision manager to identify, for example, the banks that would have material exposure to interest rate risk in the banking book. In terms of off-site supervision, there is no methodology for control of this risk.</p> <p>On-site Supervision</p> <p>There is no topical control on the management of interest rate risk. In contrast, controls are carried out in the context of specific missions when a liquidity stress situation exists. The controls carried out on liquidity risk management can also be used to verify certain organizational aspects such as the existence of an assets-liabilities committee or the setting of limits. The inspectors do not have a methodology for controlling this risk.</p> |
| EC4 | The supervisor requires banks to include appropriate scenarios into their stress testing programmes to measure their vulnerability to loss under adverse interest rate movements. |
| Description and Conclusions EC4 | The circular on risk management requires banks, in the context of their stress testing programs, to take into account all material risks to which the bank is exposed (Article 13). However, the regulations do not include more specific requirements, particularly the scenario of adverse interest rate movements. |
| Additional Criteria | |
| AC1 | The supervisor obtains from banks the results of their internal interest rate risk measurement systems, expressed in terms of the threat to economic value, including using a standardised interest rate shock on the banking book. |
| Description and Conclusions AC1 | <p>The circular on internal control requires banks to send a semi-annual report on internal control (Article 26) and an annual report on the overall risk management mechanism (Article 16). However, the regulatory texts do not specify the nature of the information to be provided on the stress tests. The introduction of an internal control report template and more precise requirements on the stress tests should make it possible to fill these gaps (cf. Principle 15).</p> <p>In addition, to monitor the banks' exposure to interest rate risk in the banking book, the supervisor does not have quantitative reporting on this risk.</p> |

| | |
|-----------------------------------|---|
| CA2 | The supervisor assesses whether the internal capital measurement systems of banks adequately capture interest rate risk in the banking book. |
| Description and Conclusions CA2 | <p>The prudential framework requires banks to establish an internal process to evaluate the adequacy of their capital, including internal evaluation of interest rate risk in the banking book. The process of evaluating this risk should cover all the bank's important interest rate positions and take into account all relevant data (paragraphs 513, 516, and 538).</p> <p>However, it still lacks the implementing text on the template allowing banks to send information on their internal capital evaluation process. The SGCB still does not exercise control over the banks' ICAAP.</p> |
| Assessment of Principle 23 | Materially Non-compliant |
| Comments | <p>The circular on risk management incorporates interest rate risk in the banking book. Thus, there are regulatory requirements to establish appropriate systems for managing this risk. However, the circular does not specify that the stress testing exercise should include rate variation scenarios. The circular on stress testing should fill this gap.</p> <p>The SGCB indicates that with most fixed rate loans and financing, interest rate risk on the banking portfolio corresponds to maturity mismatches between applications and resources and seems limited. Exposures do not seem significant due to the short maturity of private loans. Nonetheless, the increasing share of government securities portfolios changes this datum. In effect, these portfolios have relatively long maturities compared to the banks' resources, which exposes them to reduced intermediation margins if interest rates increase.</p> <p>This risk is not incorporated in the banks' rating system. To monitor this risk, the SGCB uses the risks reports sent by the banks, which furnish heterogeneous information. In addition, on-site supervision carries out controls on the mechanisms governing this risk during the controls done on liquidity risk management. The supervision teams verify the existence of an assets-liabilities committee and a system of limits.</p> <p>The absence of quantitative reporting and precise requirements on the information to be provided by the banks on the interest rate risk management framework and stress tests does not ensure that the SGBC has sufficient information on this subject. Moreover, there is no procedure or control methodology for this risk at the level of both off-site and on-site supervision.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Make credit institutions subject to quantitative reporting on the exposure to interest rate risk. • Specify the information expected from banks on the management of interest rate risk and stress testing. |

| | |
|------------------------------------|--|
| | <ul style="list-style-type: none"> Establish control procedures and methodologies for this risk at the level of off-site supervision and on-site supervision and incorporate this risk in the overall assessment of each bank's risk profile. Supplement the stress testing requirements by requiring the incorporation of interest rate scenarios. |
| Principle 24 | <p>Liquidity Risk</p> <p>The supervisor sets prudent and appropriate liquidity requirements (which can include either quantitative or qualitative requirements or both) for banks that reflect the liquidity needs of the bank. The supervisor determines that banks have a strategy that enables prudent management of liquidity risk and compliance with liquidity requirements. The strategy takes into account the bank's risk profile as well as market and macroeconomic conditions and includes prudent policies and processes, consistent with the bank's risk appetite, to identify, measure, evaluate, monitor, report and control or mitigate liquidity risk over an appropriate set of time horizons. At least for internationally active banks, liquidity requirements are not lower than the applicable Basel standards.</p> <p>(Reference documents: Basel III: International framework for liquidity risk measurement, standards and monitoring, December 2010 and Principles for Sound Liquidity Risk Management and Supervision, September 2008.)</p> |
| Essential Criteria | |
| EC1 | Laws, regulations or the supervisor require banks to consistently observe prescribed liquidity requirements including thresholds by reference to which a bank is subject to supervisory action. At least for internationally active banks, the prescribed requirements are not lower than, and the supervisor uses a range of liquidity monitoring tools no less extensive than, those prescribed in the applicable Basel standards. |
| Description and Conclusions EC1 | <p>Regulatory Liquidity Requirements</p> <p><u>Quantitative Standards</u></p> <p>The WAMU prudential framework transposes the minimum liquidity requirements defined in the Basel III framework, i.e., the short-term liquidity ratio, the structural liquidity ratio, and the liquidity monitoring tools (paragraphs 577 to 586 of the prudential framework). The methods for implementing these ratios are being defined.</p> <p>In the meantime, banks are subject to compliance with the two liquidity standards in effect prior to transposition of the Basel II/III rules in the Union. These standards differ from the Basel standards in terms of time horizon, components, and requirement levels and seem less conservative:</p> <ul style="list-style-type: none"> The first ratio is the liquidity ratio. It represents the relationship between the numerator, assets that are available and realizable or can be mobilized in the short term (maximum of three months) and the denominator, short-term liabilities or signature commitments to be honored at any moment. The standard to be met is a minimum of 75%. The second ratio is the ratio of coverage for medium and long-term assets by stable resources, which requires coverage of at least 50% for fixed assets by stable resources. |

| | |
|--|---|
| | <p>This standard seeks to prevent excessive transformation of a credit institution's short-term resources into medium- or long-term assets.</p> <p>Failure to comply with these standards exposes the bank to corrective measures and regulatory penalties. These ratios are applied solely on an individual basis and are subject to monthly or quarterly reporting (for financial institutions and the transformation ratio).</p> <p>Other than the regulatory ratios, there are no liquidity risk monitoring tools equal to those defined by the Basel committee (contractual maturity mismatch, concentration of funding, available unencumbered assets, etc.).</p> <p>To establish the Basel ratio, an impact study was conducted in June 2019 of 90 banks on a solo basis and eight banks on a consolidated basis. This in-depth study demonstrated the difficulty that more than half of the banks encounter in seeking to comply with the liquidity coverage ratio (LCR) despite an average LCR above 100%. The banks that have trouble meeting the new standard are small in size. The study proposes that the new ratios take effect in 2024 with a transitional mechanism and some adaptations to take the local context into account. It is to be noted that this schedule has still not been definitely adopted. Moreover, the interviews conducted with the banks showed that they were awaiting information from the regulator on introduction of the new Basel tools.</p> <p><u>Qualitative Standards</u></p> <p>The circular on risk management requires a bank to establish a liquidity management mechanism enabling it to maintain a liquidity level sufficient to deal with crisis periods (Article 45). This mechanism should include, in particular (Articles 46 to 52):</p> <ul style="list-style-type: none"> • Liquidity indicators enabling it to identify, measure, manage, and monitor funding situations. • Appropriate policies and processes for liquidity risk management, approved by the deliberative body. • Funding strategies as well as policies enabling it to measure and continuously monitor its funding needs as well as to ensure management of its funding risk. • A framework for specific analysis and monitoring of its funding needs when it is engaged in significant transaction volumes in foreign currencies or has significant exposure in a particular currency. • A framework for managing, within acceptable limits, the level of encumbered assets appearing on its balance sheet. • A funding strategy ensuring effective diversification of funding sources and funding methods. • A framework for active management of risks associated with intraday liquidity positions. <p>In addition, the circular on governance requires the deliberative body to continuously ensure the adequacy of liquidity levels in terms of the bank's risk profile. The risk committee should,</p> |
|--|---|

| | |
|-----------------|--|
| | <p>for this purpose, have a good knowledge of the nature and extent of the risks incurred by the bank, the interrelationships among these different risks, as well as the capital and liquidity levels required to cover these exposures (Articles 7 and 22).</p> <p>Audits of Compliance with Liquidity Requirements</p> <p>The documents analyzed by the supervisor as controls on the management of liquidity risk are as follows: the bank's risk management strategies, processes and limits, reports on internal control and risk management, as well as Board and Risks Committee meeting minutes.</p> <p><u>Off-site Supervision</u></p> <p>The SGCB reviews the bank's compliance with liquidity standards and the liquidity risk management framework.</p> <p>In the context of rating, liquidity assessment is based, in quantitative terms, on the two regulatory ratios (80%) as well as the deposits/loans ratio (20% weight). The SGCB indicates that this ratio can be used to monitor the bank's transformation. Evaluation of the liquidity risk management framework is also evaluated based on a questionnaire that includes 15 questions. The final rating of the operational risk profile can be adjusted, as appropriate, by an expert's judgment.</p> <p><u>On-site Audits</u></p> <p>The on-site audit has an audit procedure related to the process for evaluating the liquidity risk management framework. There have been no topical audits on this subject since the entry into effect of the circular on risk management in 2018. In contrast, this topic is frequently included in the terms of reference for specific missions. Thus, 14 banks were subject to audits in this area in 2020, six of which are systemic. Recommendations are formulated by the supervisor, particularly regarding contingency funding plans. The survey of banks conducted in the context of the FSAP confirms that liquidity risk management appears among the supervisor's customary recommendations.</p> <p><u>Level of the Banks' Liquidity Ratios</u></p> <p>As of December 31, 2020, 108 credit institutions, concentrating 85.9% of assets and 90.5% of weighted risks, met this requirement with a sectoral ratio of 105.8%. Banks not in compliance are generally small in size. The SGCB indicates that it requires banks to establish an action plan when the liquidity ratio is not met. It also mentions that recurring violations involve banks that are additionally in violation of solvency (cf. Principles 11 and 16). For the other banks, this would involve one-time violations.</p> |
| EC2 | The prescribed liquidity requirements reflect the liquidity risk profile of banks (including on- and off-balance sheet risks) in the context of the markets and macroeconomic conditions in which they operate. |
| Description and | The liquidity standards in effect incorporate on- and off-balance sheet risks. They allow for short-term liquidity monitoring on the one hand and transformation risk on the other. However, these ratios, which are different in terms of requirements and composition from |

| | |
|--|---|
| <p>Conclusions EC2</p> | <p>the international standards, do not fully reflect the banks' liquidity risk. In particular, the current liquidity ratio does not permit the measurement of high-quality liquid assets. It has not been defined according to a stress test scenario and its time horizon seems too long (three months). Moreover, the two ratios are only applied on a solo basis and thus do not measure risks on a consolidated basis. Besides these two ratios, there are no other quantitative reports to be submitted to the SGCB with which to determine, for example, the bank's funding concentration.</p> <p>The new Basel III liquidity ratios (LCR and NSFR) now being introduced better reflect the bank's liquidity profile:</p> <ul style="list-style-type: none"> • Under the new short-term liquidity ratio (LCR), the bank will be required to hold a level of high-quality liquid assets at least equal to net cash outflows for 30 calendar days. It will have to include on- and off-balance sheet items in inflows and outflows to calculate the net cash outflow in the stress scenario case. Different maximum inflow and minimum withdrawal rates are applied to reflect the stress assumptions. • The long-term liquidity ratio requirement (NSFR) also encompasses all on- and off-balance sheet items, which are subject to different weighting of required stable funding (RSF) and available stable funding (ASF). This ratio meant to limit transformation requires that the amount of available stable funding be at least equal to the amount of stable funding required. <p>The circular on risk management requires that strategies, policies, and processes be dynamic, so as to reflect the changing degree of the bank's risk appetite, its risk profile, as well as market conditions and the macroeconomic environment (Article 8). In addition, the prudential framework requires that banks assess the adequacy of their capital as against their risk profile as well as the liquidity of the markets in which they operate (paragraph 540).</p> <p>The SGCB verifies the following during off-site or on-site supervision of the banks' compliance with the above-mentioned circular:</p> <ul style="list-style-type: none"> • That the bank's policies and processes cover liquidity risk management and reflect the changing degree of the bank's risk appetite, its risk profile, as well as market conditions and macroeconomic conditions; and • That the bank has established an internal reporting mechanism enabling the deliberative body to continuously ensure the adequacy of the liquidity level in terms of the bank's risk profile. |
| <p>EC3</p> | <p>The supervisor determines that banks have a robust liquidity management framework that requires the banks to maintain sufficient liquidity to withstand a range of stress events, and includes appropriate policies and processes for managing liquidity risk that have been approved by the banks' Boards. The supervisor also determines that these policies and processes provide a comprehensive bank-wide view of liquidity risk and are consistent with the banks' risk profile and systemic importance.</p> |
| <p>Description and conclusions EC3</p> | <p>The circular on risk management requires the deliberative body to ensure that the bank has a liquidity management framework enabling it to maintain sufficient liquidity to withstand periods of crisis. This framework should include appropriate policies and processes for managing liquidity risk that are approved by the deliberative body (Article 45).</p> |

| | |
|------------------------------------|--|
| | <p>Like other risks to which the bank is exposed, the deliberative body should ensure the implementation of strategies, policies, and processes providing a comprehensive, bank-wide view of the bank's exposure to liquidity risk (Article 8). Finally, the circular on governance requires the bank to continuously ensure the adequacy of the liquidity level to the bank's risk profile (Article 7).</p> <p>The SGCB verifies the following points during off-site and on-site supervision:</p> <ul style="list-style-type: none"> • The existence of policies and processes for managing liquidity risk consistent with the regulatory provisions. • Approval by the deliberative body of the overall risk management framework, which specifically includes strategies, policies, and processes, the risk appetite, and liquidity limits. • The availability of sufficient liquidity to allow the bank to fulfill its obligations in normal periods and periods of crisis. • Whether the strategies, policies, and processes are able to provide an overall view of the exposure to liquidity risk. <p>The questionnaire used in the context of SNEC rating captures these different points of analysis. Deficiencies detected affect the bank's rating.</p> |
| EC4 | <p>The supervisor determines that banks' liquidity strategy, policies and processes establish an appropriate and properly controlled liquidity risk environment including:</p> <p>(a) clear articulation of an overall liquidity risk appetite that is appropriate for the banks' business and their role in the financial system and that is approved by the banks' Boards;</p> <p>(b) sound day-to-day, and where appropriate intraday, liquidity risk management practices;</p> <p>(c) effective information systems to enable active identification, aggregation, monitoring and control of liquidity risk exposures and funding needs (including active management of collateral positions) bank-wide;</p> <p>(d) adequate oversight by the banks' Boards in ensuring that management effectively implements policies and processes for the management of liquidity risk in a manner consistent with the banks' liquidity risk appetite; and</p> <p>(e) regular review by the banks' Boards (at least annually) and appropriate adjustment of the banks' strategy, policies and processes for the management of liquidity risk in the light of the banks' changing risk profile and external developments in the markets and macroeconomic conditions in which they operate.</p> |
| Description and Conclusions EC4 | <p>The circular on risk management (Article 47) requires the deliberative body to ensure that the bank's policies and processes in the area of liquidity include:</p> <ul style="list-style-type: none"> • A clear formulation of the degree of liquidity risk appetite, approved by the deliberative body. This level of risk appetite should take the bank's activities and its role in the financial system into account. |

| | |
|------------|---|
| | <ul style="list-style-type: none"> • The definition of sound day-to-day and, where appropriate, intraday liquidity risk management practices. • A process of adequate oversight by the deliberative body enabling it to ensure that the executive body effectively implements the liquidity risk management policies and processes in a manner consistent with the bank's liquidity risk appetite. <p>The circular also requires the bank to have an effective information system enabling it to ensure the availability of suitable, reliable, integrated, and aggregated data on risks, including liquidity risk. This information system should thus ensure the timely transmission to the governing bodies of all relevant information useful for decision-making on liquidity (Article 12).</p> <p>The circular on governance requires annual review by the Risks Committee of the risk management policies and processes (Article 22).</p> <p>Also, in the area of reporting, a report on the nature and level of exposure to each type of risk incurred by the bank (including liquidity risk) as well as its liquidity needs should be submitted to the deliberative body at least once every six months. The bank is also required to regularly re-examine its funding strategies as well as policies and processes enabling it to continuously measure and monitor its funding needs as well as ensure the management of its funding risk (Articles 15 and 48).</p> <p>The SGCB verifies the following points during its audits:</p> <ul style="list-style-type: none"> • The formalization of liquidity risk management policies and processes as well as the content of these provisions. • The existence and work of the assets-liabilities committee, although there are no regulatory provisions regarding this committee. • Whether the bank has established an intraday liquidity management framework in compliance with the regulatory conditions for responding to its payment and settlement obligations. • The existence of an effective information system for forward-looking identification, aggregation, monitoring, and control of liquidity risk. • Whether the deliberative body receives timely information on the bank's level of exposure to liquidity risk and the adequacy of its liquidity level in terms of the risk profile. • Whether the deliberative body ensures that the executive body effectively implements the liquidity risk management policies and processes, consistent with the liquidity risk appetite of the bank, approved by it. |
| EC5 | The supervisor requires banks to establish, and regularly review, funding strategies and policies and processes for the ongoing measurement and monitoring of funding |

| | |
|---------------------------------|--|
| | <p>requirements and the effective management of funding risk. The policies and processes include consideration of how other risks (eg credit, market, operational and reputation risk) may impact the bank's overall liquidity strategy, and include:</p> <p>(a) an analysis of funding requirements under alternative scenarios;</p> <p>(b) the maintenance of a cushion of high quality, unencumbered, liquid assets that can be used, without impediment, to obtain funding in times of stress;</p> <p>(c) diversification in the sources (including counterparties, instruments, currencies and markets) and tenor of funding, and regular review of concentration limits;</p> <p>(d) regular efforts to establish and maintain relationships with liability holders; and</p> <p>(e) regular assessment of the capacity to sell assets.</p> |
| Description and Conclusions EC5 | <p>The circular on risk management requires banks to establish and regularly re-examine their funding strategies as well as policies and processes enabling them to continuously measure and monitor their funding requirements and ensure the management of their funding risk. These policies and processes should particularly take into account the impact of other risks, such as credit, market, operational, and reputational risk, on the banks' overall liquidity strategy (Article 48). In addition, these policies and processes must include:</p> <ul style="list-style-type: none"> • The process for analyzing funding needs under different scenarios. • The mechanism for maintaining a range of high quality, liquid, unencumbered assets that can be used, without hindrance, to obtain resources in times of stress. • The diversification of funding sources by type of counterparties, instruments, currencies, and markets. • Efforts to establish and maintain relationships with liability holders. • Regular evaluation of the capacity to sell assets. <p>In addition, the bank is required to oversee and actively control its exposures to liquidity risk as well its funding requirements both for each legal entity in the group, business line, and currency, and for the group as a whole, taking into account legal and operational items capable of impeding liquidity transfers.</p> <p>The SGCB indicates that it verifies these different regulatory provisions during off-site and on-site supervision. Nonetheless, it is noted that several of the checkpoints do not appear in the questionnaire on liquidity included in the SNEC rating tool: the process for analyzing funding requirements under different scenarios, the mechanism maintaining a range of high quality, liquid assets, and regular assessment of the capacity to sell assets. In addition, according to the inspection reports sent to the mission, the supervisor does not carry out investigations on the liquidity monitoring tools, the methodologies and assumptions used by the bank. In addition, these points are not developed in the on-site supervision methodology.</p> |

| | |
|---------------------------------|---|
| | <p>Furthermore, there is still no periodic reporting of quantitative data on high quality, liquid assets or funding concentration. The survey conducted in the context of the FSAP shows that the sector is exposed to this funding concentration risk: the five largest depositors represent an average of 31% of total deposits, reaching 95% in certain banks.</p> |
| EC6 | <p>The supervisor determines that banks have robust liquidity contingency funding plans to handle liquidity problems. The supervisor determines that the bank's contingency funding plan is formally articulated, adequately documented and sets out the bank's strategy for addressing liquidity shortfalls in a range of stress environments without placing reliance on lender of last resort support. The supervisor also determines that the bank's contingency funding plan establishes clear lines of responsibility, includes clear communication plans (including communication with the supervisor) and is regularly tested and updated to ensure it is operationally robust. The supervisor assesses whether, in the light of the bank's risk profile and systemic importance, the bank's contingency funding plan is feasible and requires the bank to address any deficiencies.</p> |
| Description and Conclusions EC6 | <p>The circular on risk management requires the deliberative body to ensure that the bank has a contingency funding plan clearly presenting its strategies for resolving liquidity shortfalls in emergencies. The contingency funding plan should explain the banks' strategy for resolving liquidity shortfalls in a series of stress scenarios without having recourse to the support of the BCEAO or the government (Article 53). This plan should in particular:</p> <ul style="list-style-type: none"> • Describe the policies to be applied in various stress environments. • Clearly define the chain of responsibilities incumbent on concerned parties. • Establish precise processes for triggering these policies and alerting the higher level in the chain of command. • Be regularly tested and updated to ensure it remains fully operational. • Provide clear communication plans, including with the Banking Commission. • Be regularly tested and updated to confirm that it is operationally sound. <p>In addition, as the contingency liquidity plan is a component of any bank's risk management mechanism, the bank should adapt the plan to its size, structure, nature, and the complexity of its activities as well as its risk profile and, as appropriate, the group to which it belongs. It should also report on the status of this mechanism, including the contingency funding plan, in the annual report it sends to the CBU (Articles 7 and 16). The contingency liquidity function plan is a component of the banks' preventive recovery plan that seeks to identify measures that can be taken at the initiative of the bank, particularly in the event of liquidity shortfalls or insufficient capital that could lead to a significant deterioration in the bank's financial condition. Following assessment of the recovery plan, the CBU may require amendment, when it feels that the document has inadequacies or that there are obstacles to its implementation (Articles 8 of the circular on the recovery plan). As of now, only SIBs, finance companies, and parent company credit institutions have begun to submit their plans to the CBU. Non-systemic banks should submit their plan in January 2022 and the other institutional categories in July 2023.</p> <p>The SGCB reviews the contingency funding and preventive recovery plans. It verifies that the bank has a contingency funding plan approved by the deliberative body and that it complies</p> |

| | |
|---------------------------------|--|
| | <p>with the different regulatory requirements. Recommendations are frequently made to the banks in this area.</p> <p>The banking survey conducted in the context of the FSAP shows that when faced with a sudden liquidity crisis and assuming that the bank would not have guarantees eligible for the regular liquidity provision operations of the BCEAO, 80% of the banks would resort to unsecured interbank loans, 8% would resort to freezing loans and investigation, and 2% would ration withdrawals of client deposits.</p> |
| EC7 | <p>The supervisor requires banks to include a variety of short-term and protracted bank-specific and market-wide liquidity stress scenarios (individually and in combination), using conservative and regularly reviewed assumptions, into their stress testing programmes for risk management purposes. The supervisor determines that the results of the stress tests are used by the bank to adjust its liquidity risk management strategies, policies and positions and to develop effective contingency funding plans.</p> |
| Description and Conclusions EC7 | <p>The circular on risk management requires the deliberative body to ensure that the bank does rigorous, forward-looking stress testing that includes severe but plausible adverse scenarios as well as all the material risks to which the bank is exposed, including liquidity risk. In addition, the stress testing programs should provide corrective measures when the stress testing results detect potential weaknesses that could have a negative impact on the bank's financial strength (Article 13).</p> <p>These programs also concern the contingency funding plan that the bank is required to develop. In effect, the bank should regularly test and update this plan to ensure that it remains fully operational. This plan should describe the bank's strategy for resolving liquidity shortfalls in a series of stress scenarios without resorting to the support of the BCEAO or the government. In this regard, the contingency funding plan should incorporate the results of the stress tests (Article 53).</p> <p>The stress testing requirements do not indicate that the liquidity stress scenarios should be short- and long-term, bank-specific and system-wide (and any combination thereof). The upcoming introduction of a circular specifying the requirements in terms of stress testing should fill in this gap.</p> <p>The SGCB verifies that the stress testing programs:</p> <ul style="list-style-type: none"> • As well as the stress testing methodology are validated by the deliberative body. • Take liquidity risk into account. • Detail corrective measures when the results of the exercises detect weaknesses that could have a negative impact on the bank's financial strength. • Are well documented. <p>The banking survey conducted in the context of the FSAP indicates that 74% of the banks conduct stress tests on the bank's liquidity, and 44% do so regularly. Most include assumptions on the rates of withdrawal and/or non-renewal of the different sources of</p> |

| | |
|------------------------------------|---|
| | funding. Eighteen banks use the same assumptions as for the short-term liquidity ratio and 57 banks use bank-specific assumptions. |
| EC8 | The supervisor identifies those banks carrying out significant foreign currency liquidity transformation. Where a bank's foreign currency business is significant, or the bank has significant exposure in a given currency, the supervisor requires the bank to undertake separate analysis of its strategy and monitor its liquidity needs separately for each such significant currency. This includes the use of stress testing to determine the appropriateness of mismatches in that currency and, where appropriate, the setting and regular review of limits on the size of its cash flow mismatches for foreign currencies in aggregate and for each significant currency individually. In such cases, the supervisor also monitors the bank's liquidity needs in each significant currency, and evaluates the bank's ability to transfer liquidity from one currency to another across jurisdictions and legal entities. |
| Description and Conclusions EC8 | <p>The circular on risk management requires that when a bank carries out significant volumes of transactions in foreign currencies or when it has significant exposures in a particular currency, that bank should undertake separate analysis of its strategy and monitor its liquidity needs for each currency deemed significant. The bank may, in particular, use stress testing to determine the degree of mismatch involving this currency and, if necessary, set and regularly re-examine the limits on mismatches in its foreign currency cash flow, on an aggregate basis and separately for each significant currency (Article 49).</p> <p>In addition, the bank should monitor and actively control its liquidity risk exposures and its funding requirements with respect to each legal entity in the group, line of business, and currency and for the group as a whole, taking into account legal, regulatory, and operational factors that could be an impediment to liquidity transfers (Article 48).</p> <p>During its audits, the SGCB verifies that the bank:</p> <ul style="list-style-type: none"> • Proceeds with a separate analysis of its strategy and monitoring of its liquidity requirements for each of the currencies in which it carries out a significant volume of transactions or holds a significant exposure. • Uses stress testing to determine the degree of mismatches with regard to a significant exposure in a particular currency. <p>However, there is no periodic quantitative reporting sent to the supervisor on the liquidity requirements in each significant currency.</p> <p>Capital controls and more precisely the regulations on the external financial relations of WAMU member states considerably limit the exposures that the banks may assume in foreign currencies.</p> |
| Additional Criterion | |
| AC1 | The supervisor determines that banks' levels of encumbered balance-sheet assets are managed within acceptable limits to mitigate the risks posed by excessive levels of encumbrance in terms of the impact on the banks' cost of funding and the implications for |

| | |
|-----------------------------------|--|
| | the sustainability of their long-term liquidity position. The supervisor requires banks to commit to adequate disclosure and to set appropriate limits to mitigate identified risks. |
| Description and Conclusions CA1 | <p>The circular on risk management requires the deliberative body to ensure that the levels of encumbered assets appearing on the bank's balance sheet are managed within acceptable limits to mitigate the risks resulting from an excessive level of encumbrance in terms of the impact on the banks' cost of funding and the sustainability of their long-term liquidity position. In this regard, the bank should maintain a range of high quality unencumbered liquid assets (Article 48). In addition, the bank is required to provide sufficient information on this subject and to set appropriate limits to mitigate the risks detected (Article 50).</p> <p>The SGCB indicates that it verifies whether banks have established a framework for limits applicable to encumbered assets appearing on the balance sheet, so as to mitigate the risks resulting from an excessive level of encumbrance. However, there is no periodic reporting sent to the supervisor on available unencumbered assets.</p> |
| Assessment of Principle 24 | Largely Compliant |
| Comments | <p>The banks are currently subject to a short-term liquidity ratio and a transformation ratio that are not applied on a consolidated basis, and their calculation methods differ from the Basel standard, and also include minimal requirements below 100%. The current liquidity ratio is not based on stress testing and its time horizon of three months seems too long to properly reflect the liquidity risk.</p> <p>The implementation of the Basel III liquidity standards is, however, underway. The prudential framework has already introduced the quantitative standards (LCR and NSFR) and the Basel III monitoring tools, without detailing them precisely. An impact study conducted in 2019 defined implementation proposals, but these have not been validated. The banks met by the mission are calling for greater transparency regarding the schedule for implementing the new ratio. For the LCR, the plan is to authorize taking WAMU government-owned securities into account in HQLA (level 1). This treatment, which is found in other countries, is debatable in the WAMU where the secondary market for government-owned securities is shallow. To facilitate implementation of the reform and considering the limited level of assets meeting the HQLA requirements, the ability to include in level 1 HQLA assets all of the Central Bank's reserves, including the required reserve, should be analyzed. This assumes that BCEAO policies authorize withdrawals on these reserves during times of stress.</p> <p>Certain banks, most often small banks representing about 14% of the banking system's assets at end-December 2020, do not comply with the current liquidity ratios. The SGCB indicates that it requires that an action plan be established when the liquidity ratio is not met. Some of these violations would be one-time violations. Cases of sustained violations often correspond to banks that also have other vulnerabilities (cf. Principles 11 and 16).</p> |

The regulatory framework on liquidity risk management published in 2017 seems complete and consistent with the Basel core principles, with the exception of certain requirements related to stress tests (“stress tests on short- and long-term liquidity both bank-specific and system-wide and any combination of these options”).

Control of liquidity risk management is frequently included in the terms of reference for on-site supervision missions that have a methodology for control of this risk. Recommendations are formulated for the banks in this area. In contrast, there has been no topical control (focused on this risk and common to several banks) since release of the circular (cf. Principle 15). In addition, investigations on the liquidity monitoring tools, methodologies, and the assumptions used by the banks are not sufficiently developed. These checkpoints are also not specified in the on-site supervision methodology.

The tools available to off-site supervision could be improved, as the questionnaire allows for assigning a rating to the risk management framework that does not cover certain important points of analysis (e.g., the process for analyzing funding needs according to different scenarios, the framework for maintaining a range of high-quality liquid assets, regular assessment of the capacity to sell assets). In addition, current reporting to the supervisor on liquidity seems incomplete compared to international standards that besides LCR and NSFR include monitoring tools (mismatches of contractual maturities, concentration of funding, available unencumbered assets, etc.).

Recommendations:

- Introduce LCR/NSFR reporting and certain Basel II monitoring tools for liquidity; in particular, make credit institutions subject to quantitative reporting on the remaining maturity mismatches between assets and liabilities, without waiting on the entry into force of minimal LCR/NSFR requirements.
- Study the possibility of introducing haircuts on government securities based on the degree of liquidity on the secondary market and the member state’s sovereign risk, providing transitory provisions as needed to introduce this more conservative measure or at a minimum provide a uniform haircut for government securities in the WAMU.
- Analyze at the BCEAO level the possibility of including all Central Bank reserves, including the mandatory reserve, in HQLA level 1 of the LCR.
- Finalize the schedule for introducing LCR/NSFR and inform the banks.
- Complete the questionnaire on liquidity risk management used for rating and revise the quantitative indicators used, taking into account the new Basel III ratios and monitoring tools.

| | |
|---------------------------------|---|
| | <ul style="list-style-type: none"> • Strengthen the controls carried out on the liquidity monitoring tools used by the banks and develop the on-site supervision methodology; and • Complete the requirements on stress testing, indicating that the stress scenarios on liquidity should be short- and long-term, bank-specific and system-wide (or any combination of these options). |
| Principle 25 | <p>Operational Risk</p> <p>The supervisor determines that banks have an adequate operational risk management framework that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk⁶⁹ on a timely basis.</p> <p>(Reference documents: <i>Principles for the Sound Management of Operational Risk</i>, June 2011; <i>Recognising the risk-mitigating impact of insurance in operational risk modelling</i>, October 2010; <i>High-level principles for business continuity</i>, August 2006; and <i>Joint Forum Outsourcing in financial services</i>, February 2005.)</p> |
| Essential Criteria | |
| EC1 | <p>Law, regulations or the supervisor require banks to have appropriate operational risk management strategies, policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk. The supervisor determines that the bank's strategy, policies and processes are consistent with the bank's risk profile, systemic importance, risk appetite and capital strength, take into account market and macroeconomic conditions, and address all major aspects of operational risk prevalent in the businesses of the bank on a bank-wide basis (including periods when operational risk could increase).</p> |
| Description and Conclusions EC1 | <p>The circular on risk management requires banks to adopt, based on the principle of proportionality, a risk management framework incorporating operational risk and including strategies, policies, and processes (Article 8), mapping of different risks (Article 9), a risk culture (Article 10), risk appetite, management of limits (Article 11), an information system (Article 12), stress testing programs (Article 13), reporting to the deliberative body (Article 15) and reporting to the Banking Commission (Article 16).</p> <p>Ensuring consistency in the identification, evaluation, and setting of operational risk management objectives on a bank-wide basis requires categorization of operational loss events or operational incidents according to seven classes (Article 28):</p> <ul style="list-style-type: none"> • Internal fraud. • External fraud. |

⁶⁹ The Committee has defined operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk.

| | |
|------------|--|
| | <ul style="list-style-type: none"> • Employment and workplace safety practices. • Practices with regard to clients, products, and commercial activity. • Damage done to physical assets. • Business interruptions and system failures. • Execution of operations, delivery and process management. <p><u>Audit of Compliance with Operational Risk Management Requirements</u></p> <p>The documents analyzed by the supervisor for controls on operational risk management are as follows: the bank’s risk management policies and processes, semi-annual reports on internal control, annual reports on risk management, and Board minutes.</p> <p><u>Off-site Supervision</u></p> <p>In the context of the annual rating of banks, the assessment of operational risk is based, quantitatively, on the arithmetic average of two quantitative indicators, net banking income and the number of branches. The risk management framework is also assessed based on a questionnaire including 32 closed questions on two topics: operational risk management and business continuity. The final rating of the operational risk profile may be adjusted, as appropriate, by an expert’s judgment.</p> <p><u>On-site Supervision</u></p> <p>On-site supervision has an audit procedure related to the process of:</p> <ul style="list-style-type: none"> • Evaluation of the operational risk management framework. • Review of the risk management framework for risk associated with the use of information systems or information and communication technologies. <p>Operational risk is not subject to topical supervision except for the information systems that were checked during introduction of the revised BCA. On the other hand, this topic is frequently included in the terms of reference for specific missions. Controls lead to recommendations related to inadequacies found, for example, the lack of risk mapping validation by the Board, deficiencies in the tool used to compile losses associated with operational risks, the lack of a continuity plan, or weaknesses in terms of IT security.</p> <p>In terms of resources, on-site supervision has two inspectors with Information Systems Audit and Control Association (ISACA) certifications. There are plans to improve skills in this area. As of now, there is no team specializing in information system controls. The supervisor does not use external auditors specializing in information systems. However, it does ask the BCEAO for computer scientists.</p> |
| EC2 | The supervisor requires banks’ strategies, policies and processes for the management of operational risk (including the banks’ risk appetite for operational risk) to be approved and |

| | |
|---------------------------------|---|
| | regularly reviewed by the banks' Boards. The supervisor also requires that the Board oversees management in ensuring that these policies and processes are implemented effectively. |
| Description and Conclusions EC2 | <p>The prudential framework (paragraph 519) and the circular on governance (Article 7) require with regard to operational risk as for the other risks that the deliberative body approve the bank's overall strategy, all policies in this area, its risk appetite, and the bank's risk limits.</p> <p>The circular on governance (Article 8) also requires the Board:</p> <ul style="list-style-type: none"> • To supervise the management of the bank's activities carried out by the executive body and ensure that the latter acts in accordance with the strategy and policies it has defined and approved. • To hold regular meetings with the executive body on the bank's situation, particularly to gather information and explanations that can clarify its judgment. <p>The Risk Committee (Article 22), which should be established by the deliberative body and report to it twice a year, serves as the liaison between the deliberative body and the executive body. It is charged with analyzing in depth subjects that deal with risk in order to clarify decisions made by the deliberative body. Specifically, the Risk Committee's tasks on the subject of operational risk management include, <i>inter alia</i>:</p> <ul style="list-style-type: none"> • To ensure the establishment of an integrated risk management framework consistent with the requirements indicated in the circular on risk management. • To participate in developing the bank's risk management strategies and to review them annually. • To ensure the establishment of a healthy risk management culture at the bank level. <p>Based on minutes from the deliberative body, the SGCB reviews internal control reports as well as the risk management report, that processes are updated by the deliberative body and effectively adhered to by the executive body.</p> |
| EC3 | The supervisor determines that the approved strategy and significant policies and processes for the management of operational risk are implemented effectively by management and fully integrated into the bank's overall risk management process. |
| Description and Conclusions EC3 | <p>The circular on governance requires the bank's senior management to continuously ensure compliance with internal policies as well as legal and regulatory requirements governing the bank's businesses, but also that it ensures the implementation of the risks strategy approved by the deliberative body (Article 27).</p> <p>In addition, the prudential framework (paragraph 314) requires, when the bank applies the standard approach for calculating capital requirements in terms of operational risk, that the management processes and the system for assessing operational risk of supervised banks is subject to validation and independent periodic verification, which should cover the activities of the units and the operational risk management function.</p> |

| | |
|--|---|
| | <p>The SGCB reviews, particularly through use of the report on internal control and the report on risk management, as well as during on-site supervision, that approved strategy, policies, and significant processes for the management of operational risk are effectively applied by management and fully integrated in the bank's overall risk management process.</p> |
| EC4 | <p>The supervisor reviews the quality and comprehensiveness of the bank's disaster recovery and business continuity plans to assess their feasibility in scenarios of severe business disruption which might plausibly affect the bank. In so doing, the supervisor determines that the bank is able to operate as a going concern and minimise losses, including those that may arise from disturbances to payment and settlement systems, in the event of severe business disruption.</p> |
| <p>Description and Conclusions EC4</p> | <p>The circular on risk management requires banks to establish emergency and business continuity plans to guarantee uninterrupted operations and limit losses in the event of severe business disruption, i.e., an incident that could damage or make the bank's facilities, technological and telecommunications infrastructures inaccessible and lead to significant financial losses as well as pandemics or other natural disasters (Article 39).</p> <p>Banks should, in particular, designate someone responsible for the plan, establish a credit and business continuity management committee, define the principal business continuity roles, ensure that critical human resources are identified, and inform staff (Article 39).</p> <p>In addition, the regulations define essential components of the continuity plan (Article 40) and provide that all banks should do impact analyses and tests on the effectiveness of their emergency and business continuity plans at least once a year (Article 41).</p> <p>The SGCB reviews the quality and comprehensiveness of the bank's disaster recovery and business continuity plans. It verifies the different points in the aforementioned regulations and that the business continuity plan is subject to periodic verification by the internal audit function. In the context of rating, the questionnaire used to evaluate operational risk management includes seven questions on business continuity within the bank. On-site supervision reviewed this point in 14 banks in 2020. The supervisor has not yet reviewed all the continuity plans of systemic banks.</p> |
| EC5 | <p>The supervisor determines that banks have established appropriate information technology policies and processes to identify, assess, monitor and manage technology risks. The supervisor also determines that banks have appropriate and sound information technology infrastructure to meet their current and projected business requirements (under normal circumstances and in periods of stress), which ensures data and system integrity, security and availability and supports integrated and comprehensive risk management.</p> |
| <p>Description and Conclusions EC5</p> | <p>The circular on risk management (Article 12) requires banks to have a governance framework for risk data, a risk-related data architecture, and an information technology infrastructure.</p> <p>The circular on internal control (Article 12) requires that the information and communication channels established within the bank must allow all staff members to have the information they need to perform the control activities assigned to them. To this end, information</p> |

| | |
|------------------------------------|--|
| | <p>systems should cover all the bank's significant business on the one hand and guarantee the quality of accounting, prudential, operational, or compliance-related data and information on the other.</p> <p>Prescriptions in the area of information system security are not specified by means of guidelines, for example (cf. Principle 15).</p> <p>The SGCB ensures:</p> <ul style="list-style-type: none"> • Based on review of the business plan or strategic plan and any substantiating document, that the bank has an IT master plan that formalizes and details the information systems strategy based on its strategy and the needs of the business services. • Based on reviewing Board minutes, that the deliberative body has approved the IT master plan. • Based on a sample of user accounts with limited access rights, that the bank has established restrictions on access, for each profile or security category detailed in the responsibility matrices. • That the bank has established a policy or process, approved by the deliberative body, for managing risks associated with the use of information and communication technologies in order to identify threats, vulnerabilities, and weaknesses in order to evaluate the frequency and consequences of their occurrence. • Based on a sample of IT project files involving significant changes, internal committee reports, and control functions reports, that an IT risk management process is implemented in the context of all major changes in the information system. <p>In the survey conducted with the banking sector, the banks declare that 81% of their institutions have a "core system" type IT system that allows them to produce complete accounting statements at the end of each accounting day (109 answered yes, compared to 25 that answered no, for a total of 134 responses).</p> |
| EC6 | <p>The supervisor determines that banks have appropriate and effective information systems to:</p> <p>(a) monitor operational risk;</p> <p>(b) compile and analyse operational risk data; and</p> <p>(c) facilitate appropriate reporting mechanisms at the banks' Boards, senior management and business line levels that support proactive management of operational risk.</p> |
| Description and Conclusions EC6 | <p>The circular on risk management requires the establishment of an information system (Article12):</p> <ul style="list-style-type: none"> • Providing capabilities for aggregating risk data and reporting risks at the organizational level. |

| | |
|------------------------------------|--|
| | <ul style="list-style-type: none"> • That is tailored, under normal circumstances and in periods of stress, to measure and evaluate the size, composition, and quality of exposure to risk at the bank level and for all types of risks, products, and counterparties. • Ensuring the availability, quality, reliability, and integrity of the data. • Guaranteeing the timely transmission to the governing bodies of all relevant information useful for their decision-making. <p>The bank should collect data related to operational loss events (Article 28) according to the seven categories defined (cf. Criterion 1).</p> |
| EC7 | The supervisor requires that banks have appropriate reporting mechanisms to keep the supervisor apprised of developments affecting operational risk at banks in their jurisdictions. |
| Description and Conclusions EC7 | <p>The circular on risk management requires banks to send no later than April 30 an annual report on the risk management framework validated previously by the deliberative body (Article 33). In addition, the circular on internal control requires (Article 14) the person responsible for the internal audit function to report significant internal control deficiencies to the governing bodies and the CBU without delay.</p> <p>On a semi-annual basis, supervised banks should send in their properly completed prudential statement. This periodic statement allows the supervisor to monitor the situation with regard to capital requirements and the collection of losses related to operational risk.</p> <p>The SGCB verifies during off- and on-site supervision that appropriate reporting mechanisms are established to keep informed regarding events that could influence the bank's operational risk.</p> |
| EC8 | <p>The supervisor determines that banks have established appropriate policies and processes to assess, manage and monitor outsourced activities. The outsourcing risk management programme covers:</p> <ul style="list-style-type: none"> (a) conducting appropriate due diligence for selecting potential service providers; (b) structuring the outsourcing arrangement; (c) managing and monitoring the risks associated with the outsourcing arrangement; (d) ensuring an effective control environment; and (e) establishing viable contingency planning. Outsourcing policies and processes require the bank to have comprehensive contracts and/or service level agreements with a clear allocation of responsibilities between the outsourcing provider and the bank. |
| Description and Conclusions EC8 | <p>The circular on risk management governs outsourcing activities (Article 33 to 38). The use of outsourcing does not relieve the bank's governing bodies of their obligations:</p> <ul style="list-style-type: none"> • With regard to contracts' compliance with legal and regulatory requirements applicable to outsourced activities. |

| | |
|-----------------------------|---|
| | <ul style="list-style-type: none"> • Vis-à-vis all parties involved, particularly clients, auditors, and monetary and control authorities. <p>Outsourcing does not change the conditions for exercising authorization. Thus, the deliberative body should:</p> <ul style="list-style-type: none"> • Review, at least twice a year, the complete list of outsourcing contracts. • Absorb the reports sent to it by the executive body on the performance of said contracts. <p>On the subject of managing risks associated with outsourcing, banks are also required:</p> <ul style="list-style-type: none"> • To prepare solid service contracts submitted for a legal opinion prior to any approval by the deliberative body. • To have policies and processes that define outsourcing methods and allow the bank to identify the risks associated with outsourcing. • To have internal capabilities for monitoring the contract. • To have a contingency and continuity plan for outsourced activities. • To ensure adequate monitoring of outsourced activities. • To produce, in the internal control report, a summary of the result of controls carried out in connection with outsourced activities. • To have a favorable opinion from the CBU and proceed with due diligence before signing the contract; and • To ensure that all physical and electronic data are available in the WAMU despite outsourcing. <p>Additional provisions are established for outsourcing contracts reached with the parent company or sister subsidiary, particularly with regard to monitoring the performance of intra-group contracts in the risk management report.</p> <p>The SGCB verifies these different regulatory requirements based on the Board's minutes, a sample of files (feasibility study, legal consultation) and reports on control functions. Controls are carried out in the context of on-site supervision. In addition, this topic is covered in the rating, through off-site supervision including 12 questions on outsourced services.</p> |
| Additional Criterion | |
| AC1 | The supervisor regularly identifies any common points of exposure to operational risk or potential vulnerability (eg outsourcing of key operations by many banks to a common service provider or disruption to outsourcing providers of payment and settlement activities). |

| | |
|-----------------------------------|---|
| Description and Conclusions CA1 | <p>Review of common points of exposure to operational risk is still not done by the supervisor. The base for global collection of losses associated with operational risks of different banks, which is being set up, should allow for the introduction of this analysis.</p> <p>Operational risk is seen as a significant risk by the banks as shown in the survey conducted with the banking sector in the context of the FSAP. The main operational risk indicated by the banks during interviews conducted by the mission is cyber risk. The SGCB confirms that there have been losses tied to cyber-attacks, particularly by the takeover of IT systems managing prepaid bank cards.</p> <p>Cybersecurity is part of the BCEAO's strategic priorities. For banking supervision, there are plans to establish a regulatory framework with requirements in the area of cybersecurity and to strengthen the controls in this area (cf. Principle 15). There are also plans to create a regional platform on cybersecurity at the financial sector level.</p> <p>In effect, in 2021 the BCEAO launched a program to evaluate cybersecurity in the WAEMU financial sector in partnership with the World Bank and the University of Tel Aviv (interdisciplinary cyber research center). The objective is to perform a sectoral evaluation on the current cybersecurity capabilities of the financial sector in the WAEMU in order to improve cyber-resilience in the short- and long-term, particularly by improving the regulatory framework and supervision of the financial sector in this area.</p> |
| Assessment of Principle 25 | Compliant |
| Comments | <p>The framework governing operational risk has been significantly strengthened with the introduction of quantitative requirements in the context of the solvency ratio and the introduction of more developed qualitative rules. The regulatory framework, revised in 2017 and in force since July 1, 2018, seems quite complete. New requirements were introduced, particularly for collection of losses, the business continuity plan, outsourced services, and the management of new products.</p> <p>Operational risk is rated by off-site supervision based on a detailed questionnaire. Control of operational risk management is often included in the terms of reference for on-site supervision, which has a methodology for control of this risk. On the other hand, there has been no topical control (focused on this risk and common to several banks) since the introduction of the circular (cf. Principle 15). Regarding the controls in the area of information systems, the SGCB has some capabilities in this area, but there is no unit dedicated to these very specific controls nor are external consultants used.</p> <p>The SGCB notes the efforts made by the banks to establish operational risk management frameworks. There are still some deficiencies considering the relative newness of certain requirements, particularly for collection of losses associated with operational risks and business continuity plans.</p> <p>Operational risk is seen as a significant risk by the banks as shown by the survey conducted on the banking sector in the context of the FSAP. The principal operational risk indicated by</p> |

| | |
|---------------------------|---|
| | <p>the banks during the interviews conducted by the mission is cyber risk. Some actions are being considered by the BCEAO in this area, particularly with the definition of more precise regulatory requirements for the management of cyber risk. Generally speaking, the current prescriptions in the area of information security need to be described in greater detail, by means of guidelines (cf. Principle 15), for example.</p> <p>The supervisor does not review the banking sector's common points of exposure to operational risk. The base for global collection of losses associated with operational risks in different banks, which is being set up, should make it possible to introduce this analysis.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Strengthen the supervisor's capabilities in the area of information systems with the formation of a team dedicated to on-site supervision of information systems and the use of external consultants. • Develop cross-cutting analyses of operational risk to identify common points of vulnerability. |
| Principle 26 | <p>Internal Control and Audit</p> <p>The supervisor determines that banks have adequate internal control frameworks to establish and maintain a properly controlled operating environment for the conduct of their business taking into account their risk profile. These include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding the bank's assets; and appropriate independent⁷⁰ internal audit and compliance functions to test adherence to these controls as well as applicable laws and regulations.</p> <p>(Reference documents: The internal audit function in banks, June 2012; Enhancements to the Basel II framework, July 2009; Compliance and the compliance function in banks, April 2005; and Framework for internal control systems in banking organisations, September 1998.)</p> |
| Essential Criteria | |
| EC1 | <p>Laws, regulations or the supervisor require banks to have internal control frameworks that are adequate to establish a properly controlled operating environment for the conduct of their business, taking into account their risk profile. These controls are the responsibility of the bank's Board and/or senior management and deal with organisational structure, accounting policies and processes, checks and balances, and the safeguarding of assets and investments (including measures for the prevention and early detection and reporting of</p> |

⁷⁰ In assessing independence, supervisors give due regard to the control systems designed to avoid conflicts of interest in the performance measurement of staff in the compliance, control and internal audit functions. For example, the remuneration of such staff should be determined independently of the business lines that they oversee.

| | |
|--|--|
| | <p>misuse such as fraud, embezzlement, unauthorised trading and computer intrusion). More specifically, these controls address:</p> <p>(a) organisational structure: definitions of duties and responsibilities, including clear delegation of authority (eg clear loan approval limits), decision-making policies and processes, separation of critical functions (eg business origination, payments, reconciliation, risk management, accounting, audit and compliance);</p> <p>(b) accounting policies and processes: reconciliation of accounts, control lists, information for management;</p> <p>(c) checks and balances (or “four eyes principle”): segregation of duties, cross-checking, dual control of assets, double signatures; and</p> <p>(d) safeguarding assets and investments: including physical control and computer access.</p> |
| <p>Description and Conclusions EC1</p> | <p>The banks’ internal control frameworks were reviewed when Circular No. 03/2017/CB/C was disseminated. Its structure revolves around four main aspects: the responsibilities of participants, the components of internal control (control environment, risk assessment, control activities, information and communication, monitoring of control activities), the internal audit function, relations between the supervisor and the various parties involved in the controls (governance bodies, internal audit functions, auditors).</p> <p>a) In terms of organization, the circular requires the executive body to clearly define and maintain the control structures, reporting lines and well as the powers and responsibilities of those involved in internal control. This includes establishing explicit delegations of authority in the area of limits. Article 9 of the circular states that “the deliberative body should ensure the establishment of an adequate control environment, which constitutes the framework and structure necessary for achieving the objectives of the internal control system.”</p> <p>The Lines of Defense Principle</p> <p>The CBU also requires banks to ensure that control activities are monitored at different levels based on the three lines of defense or risk management model as detailed in Article 13 of the circular and guarantees strict separation of functions. In this configuration:</p> <ul style="list-style-type: none"> • The operational units, which represent the first line of defense, are responsible for exercising ongoing, first-level control over the daily operations they carry out. • The second line of defense, which includes the support and control functions (particularly risk management, internal control, compliance, finance, information systems, and legal affairs), independent of the first line of defense, exercises ongoing, second-level control seeking to ensure on a regular basis that the existing first-level controls exist, are effective, and properly conducted. • The third line of defense, represented by the internal audit function, assesses on a fully independent basis the effectiveness of the control processes established by the first and second lines of defense and provides assurance regarding these processes. This function, independent of the first two lines of defense, is dedicated to performing periodic controls over all components of the internal control system. |

| | |
|--|--|
| | <p>The prescriptions with regard to lines of defense were established following analysis of the different control structures existing in the Union and sought to propose a model compatible with all of them. Article 13 of the circular states that the bank should ensure strict coordination of the different lines of defense in order to be sure that the internal control system works effectively.</p> <p>The circular also helps to <u>harmonize the policies of groups with regard to organization of the internal audit function</u> and in particular to structure the hierarchical and functional relationships between audit, the deliberative bodies, and the group's subsidiaries/heads. The 2017 circular thus requires the banks to have a locally based internal audit function and audit team for the subsidiaries of large groups.</p> <p>Reviews of the responses from the Union's banks to the IMF banking survey show that the three lines of defense system is cited as one of the truly strong points indicated by the banks. Except for banks in three countries, this mechanism is now prevalent within banks in the Union.</p> <p>a) The 2017 circulars did not have headings for accounting organization and related tasks. The heading for internal control requires only that the internal control system established by the supervised banks guarantee good quality accounting and financial information in accordance with Article 12 of the circular. To this end, banks should "ensure the existence of an audit trail and compliance with the provisions of the applicable accounting standards."</p> <p>b) Article 11 of Circular 03/2017/CB on control activities includes clear provisions on the need to regulate activities with controls that are adequate and incorporated in the daily functions of all staff. Similarly, appropriate separation of functions is prescribed in order to avoid the assignment of conflicting responsibilities.</p> <p>c) The safeguarding of assets and investments is not explicitly mentioned in the circulars. However, Circular No. 01/2017/CB makes repeated reference to the concept of sound governance. It addition, it refers to the due diligence obligation of Board members "consisting of making decisions and acting wisely and prudently in matters involving the bank. The due diligence obligation refers to the prudence with which a Board member would manage his own affairs."</p> <p>In contrast, the obligations related to physical protection of sites and computer access and investments appear in the circulars on risk and internal control.</p> <p>DSP and DCPEME Controls</p> <p>DSP tasks are based on the internal control reports, the on-site supervision reports to complete the questionnaire on internal control. This contains a list of 34 questions and facilitates comprehension of all aspects related to internal control operations.</p> <p>DCPEME audits are intended to review the organization of the control functions, implementation of the separation of functions principle, the breakdown of appropriate controls. With regard to the control function for accounting tasks, the DCPEME inspectors ensure the existence of ongoing accounting control, incorporating two levels of control. They verify that the second level accounting control is independent of operations and does audits of the accounts analysis and justification system.</p> |
|--|--|

| | |
|---------------------------------|--|
| | <p>Quality of Internal Control Reports</p> <p>Banks are required to send the CBU a semi-annual report on internal control as of June 30 and December 31, prepared by the person responsible for the internal audit function and approved by the deliberative body.</p> <p><u>Review of the two examples of the internal control reports indicated an uneven level of maturity in the presentation and comprehension of the three lines of defense control framework. Similarly, the quantity of information contained in the reports seemed very variable.</u></p> |
| EC2 | The supervisor determines that there is an appropriate balance in the skills and resources of the back office, control functions and operational management relative to the business origination units. The supervisor also determines that the staff of the back office and control functions have sufficient expertise and authority within the organisation (and, where appropriate, in the case of control functions, sufficient access to the bank's Board) to be an effective check and balance to the business origination units. |
| Description and Conclusions EC2 | <p>The DCPEME's on-site investigations include audits of the back-office functions, particularly back-office credit in the context of review of the administrative management of loans. The audits focus in particular on observance of the separation of tasks (input and validation functions kept separate), the introduction of the four eyes principle as well as personnel evaluations. Taking account of back-office staff expertise and authority does not appear in the checkpoints.</p> <p>Back-office operations may also lead to controls – particularly on the security of transfers – but less systematically.</p> <p>The DCPEME inspectors observe that automation of processes is quite complete in the back office of large groups, with the use of automated management systems for flows in the credit segment. <u>Automation is much less advanced in the medium-sized banks</u> although the pandemic has helped to accelerate digitization and the elimination of certain manual procedures.</p> |
| EC3 | The supervisor determines that banks have an adequately staffed, permanent and independent compliance function ⁷¹ that assists senior management in managing effectively the compliance risks faced by the bank. The supervisor determines that staff within the compliance function are suitably trained, have relevant experience and have sufficient authority within the bank to perform their role effectively. The supervisor determines that the bank's Board exercises oversight of the management of the compliance function. |
| Description and Conclusions EC3 | Article 5 of Circular No. 05-2017/CB/C on compliance requires that the executive body establish a permanent compliance function to ensure the performance of activities consistent with regulatory provisions. Article 9 also provides that the bank should have sufficient staff to |

⁷¹ The term "compliance function" does not necessarily denote an organisational unit. Compliance staff may reside in operating business units or local subsidiaries and report up to operating business line management or local management, provided such staff also have a reporting line through to the head of compliance who should be independent from business lines.

| | |
|-----------------|--|
| | <p>perform their duties and are suited to the bank's size, the complexity of its activities as well as its risk profile and, as appropriate, that of the group to which it belongs.</p> <p>Compliance Units' Reporting Lines</p> <p>AML-CFT control units may report to the compliance function or the risks management function depending on the size of the bank. This is also explained by the regulatory framework. SIBs are required to have a dedicated compliance function while non-systemic banks are able to assign these responsibilities to the risks management function or to off-site supervision.</p> <p>Staff and Expertise</p> <p><u>According to the questionnaire completed by the banks, nearly all the banks (92%) indicate having a permanent and independent compliance function reporting to the Board. However, only one out of two indicate having assigned sufficient staff to this function and there are sometimes significant disparities between countries (21% for Niger compared to 73% for Benin, for example).</u></p> <p>The DCPEME's observations on the staff and expertise of the banks' compliance structures confirm the <u>existence of great disparities according to the banks. Banks generally do not have sufficient staff to cover the expanse of their network and all their activities.</u></p> <p><u>The DCPEME's investigations could be more thorough with regard to how the compliance function exercises its authority vis-à-vis the operational business areas and how it manages to assert its point of view to executive management.</u></p> <p>Reports on the Compliance Function Submitted by the Banks</p> <p>The supervisor receives semi-annual compliance reports. Review of a tabulation table of nine compliance reports showed that:</p> <ul style="list-style-type: none"> • Submission deadlines are not always met. • <u>The quality of the information sent by the banks varies significantly and the information is sometimes very brief, leading the SGCB to send reminders regarding the supervisor's expectations.</u> |
| EC4 | <p>The supervisor determines that banks have an independent, permanent and effective internal audit function⁷² charged with:</p> <p>(a) assessing whether existing policies, processes and internal controls (including risk management, compliance and corporate governance processes) are effective, appropriate and remain sufficient for the bank's business; and</p> <p>(b) ensuring that policies and processes are complied with.</p> |
| Description and | <p>The DCPEME's audit methodology provides good coverage of aspects related to internal audit. The checkpoints include verifying the existence of control processes and frameworks designed to assess the sturdiness of operational processes and the effectiveness of first- and</p> |

⁷² The term "internal audit function" does not necessarily denote an organisational unit. Some countries allow small banks to implement a system of independent reviews, eg conducted by external experts, of key internal controls as an alternative.

| | |
|--|---|
| <p>Conclusions EC4</p> | <p>second-line control. In particular, the DCPEME’s inspectors work to audit the framework for exercise of the internal audit function, particularly the existence of an audit chart defining the audit tasks and the organization of links to the audit committee. This chart should be validated by the Board.</p> <p><u>According to the questionnaire completed by the banks, the formalization of an audit chart is considered an important factor for improving their framework although this exercise does not yet extend to all the banks.</u></p> <p>The DSP and DCPEME believe banks have undertaken numerous actions to strengthen their control environment and break down the regulatory obligations appearing in the circular. Deficiencies are still detected in the context of on-site investigations but to a lesser extent. At the same time, the supervisor has made efforts to clarify matters and provide support to the banks, particularly in the context of tours, in order to communicate its expectations regarding adoption of the circular.</p> |
| <p>EC5</p> | <p>The supervisor determines that the internal audit function:</p> <p>(a) has sufficient resources, and staff that are suitably trained and have relevant experience to understand and evaluate the business they are auditing;</p> <p>(b) has appropriate independence with reporting lines to the bank’s Board or to an audit committee of the Board, and has status within the bank to ensure that senior management reacts to and acts upon its recommendations;</p> <p>(c) is kept informed in a timely manner of any material changes made to the bank’s risk management strategy, policies or processes;</p> <p>(d) has full access to and communication with any member of staff as well as full access to records, files or data of the bank and its affiliates, whenever relevant to the performance of its duties;</p> <p>(e) employs a methodology that identifies the material risks run by the bank;</p> <p>(f) prepares an audit plan, which is reviewed regularly, based on its own risk assessment and allocates its resources accordingly; and</p> <p>(g) has the authority to assess any outsourced functions.</p> |
| <p>Description and Conclusions EC5</p> | <p>a) Resources</p> <p>The CBU expects the internal audit function to have sufficient means to implement its audit plan and regularly evaluate the policies and processes established within the financial function, including the availability and reliability of the data sources used (cf. Article 19 of Circular No. 03-2017/CB/C).</p> <p>Analysis of the (human and technical) resources allocated to the internal audit function are among the DCPEME’s systematic checkpoints. <u>On-site investigations show that audit staff size still remains insufficient</u> although according to the DCPEME the issue of the banks’ internal audit staff is not among the main weaknesses detected in the area of internal control.</p> |

| |
|--|
| <p>b) Conditions of independence</p> <p>Article 4 of Circular No. 03/2017/CB states that the deliberative body should ensure that the internal audit function has suitable resources for performing its tasks on a fully independent basis. In effect, the DCPEME’s inspectors verify that the internal audit function benefits from a position and reporting lines appropriate to the exercise of its independence. In the large majority of cases, the on-site surveys confirm reporting lines from the internal audit function to the audit committee as well as to senior management of the bank and/or the parent company.</p> <p>The circular on governance requires that the appointment, transfer, or dismissal of the person responsible for the internal audit function and the internal auditors must be submitted to the prior approval of the deliberative body, at the duly justified suggestion of the audit committee. These decisions must be brought to the attention of the CB.</p> <p>The DCPEME also ensures that the bank’s audit function has freedom of action to undertake its tasks without hindrance. The DCPEME verifies that internal audit does not engage in incompatible activities, particularly operational functions.</p> <p>c) Transmission of information on strategy, projects, and operational changes</p> <p>Article 5 of the circular provides that the executive body informs the internal audit function, in time, of any new developments, initiatives, projects, products, and operational changes.</p> <p>d) Access to data and staff</p> <p>Article 15 of the circular stipulates that the internal audit function should enjoy full access to all physical and electronic data necessary to accomplish its task.</p> <p>The DCPEME verifies the frequency of the internal audit function’s reporting to the audit committee. The regulations require reporting at least twice a year. In practice, the lines of communication are clearly much closer.</p> <p>e) Control methodologies</p> <p>The DCPEME assesses the quality and consistency of the control methodologies and processes of the banks’ internal audit services. The methodologies may be more or less sophisticated depending on the size of the banks. For example, the SIBs – unlike the small banks – tend to systematically assess the criticality of the observations and to prioritize the recommendations by setting implementation deadlines. In particular, <u>the setting of implementation deadlines for the recommendations is far from being widespread among small banks.</u></p> <p>f) The audit program and follow-up of recommendations</p> <p>The regulations require the internal audit function to define an audit plan based on a strict assessment of the risks inherent to all the bank’s activities and entities (Cf. Article 20 of Circular No. 03-2017/CB/C).</p> <p>The inspectors systematically evaluate the bank’s audit plans and checks in particular that the plan is subject to approval by the Board or the parent company in the case of groups. It also verifies that the audit cycle covers all risks, taking into account the vulnerabilities detected by</p> |
|--|

| | |
|-----------------------------------|---|
| | <p>risk mapping. It should be noted that internal audit services within the Union generally rely on the group's mapping and do not develop parallel mapping tools. In addition, the DCPEME inspectors review the status of progress made on the recommendations, which also provides an assessment of management's action with regard to deficiencies detected by internal audit and measures senior management's support of the internal audit function.</p> <p>The tools for follow-up of the recommendations may also vary according to the bank. The SIBs may use software for follow-up while the smaller banks use Excel files.</p> <p><u>The quality of internal audit reports is still uneven in the Union between large and small banks</u> – according to the DCPEME – although the latter tend to capitalize on ad hoc use of external audit and consulting firms – particularly in the context of technical missions – to strengthen their audit approach and qualitatively improve the content of deliverables (depth of investigations, formalization).</p> <p>g) Control of outsourced activities</p> <p>Article 19 of the circular requires the scope of intervention of the internal audit function to cover each of the bank's entities and activities, including outsourced activities.</p> <p>The regulations require audit clauses allowing the supervisor to verify third-party deliveries. In practice, to date no procedure has been conducted on providers. Finally, the regulations forbid the outsourcing of all internal audit activities.</p> <p>Article 4 of Circular 03/2017/CB on internal control requires that banks order an external quality assurance review of their internal audit function at least every five years. This requirement is still not implemented by all banks and leads to regular observations by the DCPEME.</p> |
| Assessment of Principle 26 | Largely Compliant |
| Comments | <p>The regulatory framework on internal control and compliance functions was significantly improved with the publication of various circulars in 2017. Nonetheless, implementation of the procedures is gradual, and the ambitiousness of the new prescriptions could accentuate the disparities among banks. Insufficient staff deployed in all the control functions is also a major challenge, calling for strong corrective measures from the supervisor.</p> <p>The quality of the reports submitted by supervised banks in response to various circulars is very uneven and also shows a certain lack of maturity among small banks with regard to regulatory concepts. The lack of a report template provided by the supervisor does not facilitate consistency among the submissions while some banks need strengthened support.</p> <p>In addition, it appears that assessment of the operation of internal control rests to a great extent on the DCPEME's audits. In this regard, it would be useful for the DSP to organize working meetings with the banks' internal control (second and third line of defense: risk management, off-site supervision, audit) and compliance teams to more regularly gain an understanding of their operation and organization and be more directly informed of deficiencies detected and progress made on the recommendations.</p> |

| | |
|------------------------------------|---|
| | <p>Recommendations:</p> <ul style="list-style-type: none"> • Finalize as soon as possible the templates for returning information on the organization and tasks of the control and compliance functions. • Make it general practice for the DSP to conduct up-close interviews with the banks' control functions. • Take strong corrective measures against banks that have under-staffed control functions and/or have not implemented the three lines of defense principle. |
| Principle 27 | <p>Financial Reporting and External Audit</p> <p>The supervisor determines that banks and banking groups maintain adequate and reliable records, prepare financial statements in accordance with accounting policies and practices that are widely accepted internationally and annually publish information that fairly reflects their financial condition and performance and bears an independent external auditor's opinion. The supervisor also determines that banks and parent companies of banking groups have adequate governance and oversight of the external audit function.</p> <p>(Reference documents: <i>Supervisory guidance for assessing bank' financial instruments fair value practices</i>, April 2009; <i>External audit quality and banking supervision</i>, December 2008; and <i>The relationship between banking supervisors and banks' external auditors</i>, January 2002.)</p> |
| Essential Criteria | |
| EC1 | The supervisor ⁷³ holds the bank's Board and management responsible for ensuring that financial statements are prepared in accordance with accounting policies and practices that are widely accepted internationally and that these are supported by recordkeeping systems in order to produce adequate and reliable data. |
| Description and Conclusions EC1 | <p>Responsibility of the Deliberative Body</p> <p>The instruction published in 2016 on the preparation and publication of solo and consolidated financial statements makes financial statements the responsibility of corporate bodies (Article 2). According to the 2017 circular on governance, the deliberative body adopts the annual financial statements, in accordance with regulatory requirements on the subject (Article 7).</p> <p>Accounting Standards in Effect</p> <p>The BCA, in force in the WAMU, was revised in November 2016 by decision of the BCEAO Governor. It took effect in 2018. A new structuring of the financial statements was introduced, notably with the introduction of semi-annual statements. The objective was to ensure convergence with common law applicable to commercial companies and begin the transition to the IFRS standards, particularly in terms of the conceptual framework. The IFRS 9 standard has still not been taken into account in the chart of accounts. Nonetheless, since 2019 listed, companies are required to apply the IFRS standards.</p> |

⁷³ In this Essential Criterion, the supervisor is not necessarily limited to the banking supervisor. The responsibility for ensuring that financial statements are prepared in accordance with accounting policies and practices may also be vested with securities and market supervisors.

| | |
|---------------------------------|---|
| | <p>Discussions are ongoing to determine methods for the transition to all the IFRS standards, including IFRS 9, and for all banks in the banking sector. A questionnaire to assess the level of the banks' preparation was sent to them in 2021. Use of the survey results will facilitate a better assessment of the preconditions and help needed to define a transition period for the sector's move to the IFRS. The option being considered is simultaneous application on a solo and consolidated basis, following the benchmark of other countries in the Union such as Nigeria. The introduction of IFRS 9 would have a major impact on the activity of banks operating within the Union since currently there are no requirements on the provisioning of performing loans, with a collective provision, for example.</p> <p>Audits Conducted</p> <p>The SGCB proceeds:</p> <ul style="list-style-type: none"> • With reconciliation between items in the position statement and balances in accounts linked to each item, based on the balance sheet as of the verified accounting close date. • With appropriate normalization (balance correction and/or additional depreciation), upon the bank's request for justification of balance differences, as necessary, based on the discrepancies statement arising from this reconciliation. • With appropriate accounting corrections, based on statements of abnormal debit and/or credit balances. <p>To conduct its audits, on-site supervision has an audit procedure related to the process:</p> <ul style="list-style-type: none"> • For verifying the composition and operation of a bank's deliberative body and special committees. • For verifying the quality and operation of a bank's executive body as well as those of the management committees. • Review of the accounts. <p>Accounting controls are conducted by on-site supervision when this point is included in the terms of reference for specific missions. This may be the case, for example, when off-site oversight detects significant amounts in suspense accounts. In additions, controls were conducted when the new chart of accounts was introduced. They are also systematically done for newly licensed banks.</p> |
| EC2 | The supervisor holds the bank's Board and management responsible for ensuring that the financial statements issued annually to the public bear an independent external auditor's opinion as a result of an audit conducted in accordance with internationally accepted auditing practices and standards. |
| Description and Conclusions EC2 | The circular published in 2018 on the conditions for the auditor's performance specifically requires financial statements to be accompanied by an auditor's opinion on their consistency, accuracy, and fair presentation upon conclusion of a review conducted on the |

| | |
|---------------------------------|--|
| | <p>basis of applicable standards in effect (Article 12). The instruction on banks and the publication of solo and consolidated financial statements, published in 2016, requires:</p> <ul style="list-style-type: none"> • The annual statements including the balance sheet, off-balance, profit and loss statement, and attached notes to be approved by the general shareholders meeting (Article 4) and communicated to the CBU prior to June 30 with the auditors' reports (Article 6). • The financial statements to be sent to the CBU at the end of the first six months of the year, within a period of two months, with an auditors' report on the accuracy of the information provided (Article 8). <p>The SGCB verifies the implementation of this regulatory provision. On-site supervision has an audit procedure on controls "conducted by auditors, other audit firms, the tax administration, and the parent company in particular."</p> |
| EC3 | <p>The supervisor determines that banks use valuation practices consistent with accounting standards widely accepted internationally. The supervisor also determines that the framework, structure and processes for fair value estimation are subject to independent verification and validation, and that banks document any significant differences between the valuations used for financial reporting purposes and for regulatory purposes.</p> |
| Description and Conclusions EC3 | <p>Two asset valuation rules are provided by the WAMU bank accounting framework: fair value and historical cost (section 2 of the revised BCA annex). Unlike the IFRS standards, the revised BCA restricted application of fair value to two types of operations: trading securities and transactions in foreign currencies. Thus, historical cost remains the principal method for valuation of balance-sheet, off-balance sheet, and profit and loss statement items in the BCA.</p> <p>Regarding fair value, its determination is based on three different approaches:</p> <ul style="list-style-type: none"> • Market approach: this is a valuation technique based on prices and other relevant information generated by identical or comparable market transactions. • Income approach: valuation techniques used to convert future amounts into a single discounted amount. Fair value is thus determined based on values corresponding to current market expectations with regard to these future amounts. • Cost approach: this reflects the amount that would currently be needed to replace an asset's service capability. <p>The instruction published in 2016 on accounting and valuation of securities belonging to credit institutions requires the banks to use valuation techniques commonly used by market participants to value securities, if these techniques have been shown to produce reliable estimates of prices obtained in real market transactions (Article 9).</p> <p>On the prudential level, the methodologies for evaluating the prices of instruments are to be governed by the prudential framework (paragraphs 337 to 342). In particular, an independent valuation of prices must be conducted in addition to the daily market price valuation or valuation with reference to a model (paragraph 341). This consists of periodically verifying</p> |

| | |
|------------------------------------|---|
| | <p>the accuracy of market prices or the assumptions of the models. While daily evaluation can be done by traders, verification must be done by a unit independent of the trading room, at least once a month (or more frequently depending on the nature of the market transactions).</p> <p>The SGCB does not have much information on portfolios valued at fair value and the valuation models used. Nonetheless, it indicates that it checks that verifications independent of the trading room are conducted (cf. Principle 22).</p> |
| EC4 | Laws or regulations set, or the supervisor has the power to establish the scope of external audits of banks and the standards to be followed in performing such audits. These require the use of a risk and materiality based approach in planning and performing the external audit. |
| Description and Conclusions EC4 | <p>The circular published in 2018 on conditions of the auditor's conduct requires that auditors submit each year, through the intermediary of the supervised banks, a copy of their mission letter specifying, in particular, the extent of the work to be done as well as the human resources they plan to mobilize for the purpose, accompanied by a time budget and its distribution by participant (Article 18).</p> <p>Title IV of the circular also defines the auditors' tasks: review of the financial statements (Article 12), verification that adjustments required by the CBU are taken into account (Article 13). Title V also specifies reports on the financial statements and specific reports that must be produced by the auditors regarding internal control, prudential regulation, and the 50 largest risks (cf. Criterion 5).</p> <p>Article 12 indicates that the auditors issue an opinion on the accounts in accordance with applicable standards on the subject. They also proceed with audits as provided in particular by the OHADA uniform act on commercial companies and economic interest groups. The regulations published in 2017 on the standardization of accounting and audit professionals' practices in the OHADA member states specifies the professional standards to be observed by professionals conducting an audit. These are the International Standards on Auditing (ISA) published by the International Federation of Accountants (IFAC).</p> <p>The circular on governance (Article 21) provides that the audit committee, which assists the deliberative body in the area of financial information, should in particular:</p> <ul style="list-style-type: none"> • Supervise, review, and approve the bank's internal and external audit programs. • Review and approve the scope and frequency of internal and external audits. <p>The SGCB verifies in the context of the annual rating of a bank and its on-site controls that the auditors' annual mission letter has been sent by the bank. It also verifies that the audit committee exercises its powers and that a report is sent to the deliberative body.</p> |
| EC5 | Supervisory guidelines or local auditing standards determine that audits cover areas such as the loan portfolio, loan loss provisions, non-performing assets, asset valuations, trading and other securities activities, derivatives, asset securitisations, consolidation of and other |

| | |
|---------------------------------|---|
| | involvement with off-balance sheet vehicles and the adequacy of internal controls over financial reporting. |
| Description and Conclusions EC5 | <p>The circular on conditions for the auditor's conduct requires that in the context of their review of the financial statements on a solo or consolidated basis, the auditors:</p> <ul style="list-style-type: none"> • Proceed to assess the quality of the internal control system, particularly the operations of corporate bodies, the risk management framework of supervised banks as well as compliance with the prudential regulations (Article 12) • Assess the reliability, integrity, and security of the accounting and financial information processing system. In this context, they assess the methods and rules for valuation of the components of the financial statements and the data produced by supervised banks (Article 12). • Produce a specific report each year on compliance with the prudential regulations as well as a report on the evaluation of the 50 largest risks (Article 16), with a breakdown for each counterparty of: <ul style="list-style-type: none"> ○ The existence of classification agreements. ○ The number and age of possible delinquencies. ○ Collateral. ○ The level of depreciation provisions. <p>The SGCB proceeds to review the legal and regulatory reports to assess their quality, accuracy, and compliance of their content with the regulatory requirements. The auditors provide the various reports expected. Reservations regarding the accounts are not frequent.</p> <p>Nonetheless, the mission's review of some reports evaluating the internal control mechanisms and the 50 largest commitments certified by auditors highlight disparities in their content.</p> |
| EC6 | The supervisor has the power to reject and rescind the appointment of an external auditor who is deemed to have inadequate expertise or independence, or is not subject to or does not adhere to established professional standards. |
| Description and Conclusions EC6 | <p>The banking law requires accounts to be certified as regular and accurate by one or more auditors chosen from a list of auditors approved by the Court of Appeals or any other authorized body (Article 51).</p> <p>In addition, the circular on the conditions of practice for auditors specifies (Article 4) that auditors should be recorded in the table of the National Order of Accounting Experts and Chartered Accountants (ONECCA). It states (Article 5) that banks should appoint two auditors and two alternates. A single auditor is required for small banks that are not publicly traded.</p> <p>During the interviews held with certain auditors, it was mentioned that in practice and to limit risks associated with the presence of two auditors, the work done by the other auditor is</p> |

| | |
|---------------------------------|--|
| | <p>reviewed. At-risk areas are covered by both auditors and rotating cycles are planned so that the two auditors do not deal with the same topics every year.</p> <p>This circular (Article 9) and the Annex to the Convention (Article 39) require that supervised banks submit the appointment of their auditors as well as renewal of their assignments to the CBU for approval, before they begin to perform their tasks. The approval file includes the minutes from the general meeting appointing the auditors, a note with the individuals' company or resumé, a certificate of entry in the ONECCA table, and a commitment from the auditors with regard to incompatibilities, the lack of doubtful or disputed claims in the bank, and conflicts of interest.</p> <p>The auditor's approval may be withdrawn by the CBU for reasons it deems appropriate, particularly in the case of removal from the ONECCA table or suspension from that order, serious violations of banking regulations, deficiencies found in tasks, or the performance of activities that are incompatible or could affect the independence expected of the auditor. Withdrawal of approval may entail prohibition on performing an auditor's functions within any supervised bank in the WAMU, for a limited or unlimited period (Article 11).</p> <p>Incompatibilities are defined for the auditor's function: provisional Board member of the bank, business provider activities, advisory functions for the bank, or participation in its capital (Article 8).</p> <p>The legal office is responsible for approving auditors. In practice, no auditor has ever been denied approval. On the other hand, there has already been a withdrawal of approval. Auditors include international firms and domestic firms, but the SGCB makes no note of different skills in the two categories. It emphasizes that the profession is regulated and that qualifications are required upon entering the profession.</p> <p>The SGCB verifies during on-site supervision the regularity of auditors' appointment approvals and that they are not subject to any incompatibility that could cast doubt on their independence. From the same perspective, the SGCB verifies that outstanding amounts available to auditors in the bank are healthy. On-site supervision has a control guide for this. It is to be noted that controlling the regularity of approvals seems redundant to the extent that approvals are granted by the SGCB.</p> |
| EC7 | The supervisor determines that banks rotate their external auditors (either the firm or individuals within the firm) from time to time. |
| Description and Conclusions EC7 | The circular on the conditions of practice for auditors does not authorize renewal of the assignment, the duration of which is three years (banking law), when the auditor acts individually and has completed two consecutive assignments. When an accounting firm is involved, renewal beyond two consecutive assignments may occur once, providing the signatory partner is changed. Beyond these consecutive assignments, any appointment may only occur upon expiration of a period of three years (Article 7). |
| EC8 | The supervisor meets periodically with external audit firms to discuss issues of common interest relating to bank operations. |

| | |
|---------------------------------|---|
| Description and Conclusions EC8 | <p>The circular on the conditions of practice for auditors requires (Article 20):</p> <ul style="list-style-type: none"> • Periodic or ad hoc meetings between the auditors and the CBU. • During on-site supervision, auditors are required to participate in working sessions and to provide all documents or information requested. <p>Thus, the CBU expects auditors to convey concerns of mutual interest for purposes of review during the CBU's annual meetings with the banking profession and external audit firms. It has organized five of these meetings since 2015. The most recent was held in November 2020 and brought together 138 auditors. The discussions covered the reforms under way: revision of the transitional period of the prudential framework, the obligations of SIBs, the preventive recovery plan template, auditors' views regarding application of the regulatory reforms. On-site supervision frequently meets with the auditors during missions. In contrast, meetings with off-site supervision are more infrequent when managers are accompanied by auditors.</p> |
| EC9 | <p>The supervisor requires the external auditor, directly or through the bank, to report to the supervisor matters of material significance, for example, failure to comply with the licensing criteria or breaches of banking or other laws, significant deficiencies and control weaknesses in the bank's financial reporting process or other matters that they believe are likely to be of material significance to the functions of the supervisor. Laws or regulations provide that auditors who make any such reports in good faith cannot be held liable for breach of a duty of confidentiality.</p> |
| Description and Conclusions EC9 | <p>The circular on conditions for the practice of auditors requires:</p> <ul style="list-style-type: none"> • Reporting to the CBU on criminal offenses or actions such that would compromise a bank's continuity. Thus, regulatory provisions expressly state that auditors cannot be held liable for such disclosures. This is a new requirement (Article 19). • When it seems to them that their opinion will be unfavorable or qualified with reservations, or they are unable to express an opinion, the auditors should inform the CBU without delay, through a detailed report (Article 15). • Relations between the auditors and the CBU are maintained by communicating written information (Article 20). <p>In practice, for the moment there is no reporting of criminal offenses under Article 19. In contrast, there has already been a referral for action such that would compromise business continuity. This bank has been put under close surveillance.</p> |
| Additional Criterion | |
| AC1 | The supervisor has the power to access external auditors' working papers, where necessary. |
| Description and Conclusions AC1 | The circular on the conditions of practice for auditors requires that auditors submit to the CBU all required documents, particularly their working files containing all supporting documentation on procedures carried out as well as, when applicable, the statement of inaccuracies, irregularities, and violations found (Article 18). |

| | |
|-----------------------------------|---|
| Assessment of Principle 27 | Largely Compliant |
| Comments | <p>The BCA was revised in 2016 to make it more consistent with common law applicable to companies and to initiate a transition to the IFRS standards. The concept of fair value was introduced for certain asset classes, but historical cost remains the main rule for asset valuation. The IFRS 9 standard is still not introduced. Work is in progress for the application of all IFRS standards to the banking sector. The impact of the IFRS 9 standard should be significant in terms of provisioning and the data needed for its implementation could be a major challenge for small banks.</p> <p>Accounting controls were conducted within the banks when the BCA was revised and are systematically conducted for newly licensed banks. On-site supervision has an updated control guide for this purpose. The SGCB also relies on the work of the auditors.</p> <p>The regulatory framework governing the appointment and work of auditors was notably strengthened with the circular published in 2018. Appointments are approved by the CBU, which when doing so checks on membership in the order of accounting experts, on skills, and incompatibilities. There are also requirements on the rotation of auditors.</p> <p>The supervisor has assigned responsibilities to the auditor that extend beyond the accuracy of the accounts to include review of internal control, prudential regulations, and the 50 largest risks. The standards to be followed by auditors are also specified. Nonetheless, the mission's review of some reports evaluating the provisions on internal control and the 50 largest commitments, as formalized by the auditors, highlight disparities in their content.</p> <p>Regular meetings are organized with the profession as a whole. Meetings take place with auditors during on-site supervision to review the banks' individual situations. In contrast, the contacts are less frequent during off-site supervision.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Continue the convergence with international accounting standards. • Schedule meetings between off-site supervision and auditors without the presence of managers to discuss the individual situation of a bank when vulnerabilities are detected. • Establish more precise guidelines for auditors' reports in order to promote more homogeneous content and set up templates for tabulating these reports. • Eliminate checks done by on-site supervision in the area of approval of auditors when these points have already been checked by the legal office of the SGCB in order to avoid redundant controls. Limit controls to developments in the situation of auditors in terms of quality of their work, skills, and independence; and • Strengthen the level of the SGCB's information on portfolios valued at fair value. |

| | |
|------------------------------------|--|
| Principle 28 | <p>Disclosure and Transparency</p> <p>The supervisor determines that banks and banking groups regularly publish information on a consolidated and, where appropriate, solo basis that is easily accessible and fairly reflects their financial condition, performance, risk exposures, risk management strategies, and corporate governance policies and processes.</p> <p>(Reference documents: <i>Pillar 3 disclosure requirements for remuneration</i>, July 2011; <i>Enhancements to the Basel II framework</i>, July 2009; <i>Basel II: International measurement of capital measurement and capital standards</i>, June 2006; and <i>Enhancing bank transparency</i>, September 1998.)</p> |
| Essential Criteria | |
| EC1 | Laws, regulations, or the supervisor require periodic public disclosures ⁷⁴ of information by banks on a consolidated and, where appropriate, a solo basis that adequately reflect the bank's true financial condition and performance, and adhere to standards promoting comparability, relevance, reliability, and timeliness of the information disclosed. |
| Description and Conclusions EC1 | <p>The circular on governance requires shareholders, depositors, investors, and other participants to have all relevant and useful information allowing them to evaluate the effectiveness with which the governing bodies administer and manage the bank (Article 47).</p> <p>Title XII of the prudential framework requires banks to publish information on the risk management framework, prudential consolidation, the definition of capital, capital and liquidity requirements, leverage, and the compensation policy.</p> <p>Regarding risks, the prudential framework indicates that the bank should publish a general description of its objectives and policies in the area of risk management for each category of risk to which it is exposed. This information covers the risk governance framework as well as the strategies and processes put in place to manage risks (paragraph 569). It should also report information on solvency ratio risks (paragraph 574). However, the framework does not specify the information to be provided on each risk (e.g., on credit risk, amounts of non-performing exposures, restructured amounts, amount of provisions, age of arrears, collateral, sector and geographic distribution of credit exposures, etc.) In general terms, the formats of the tables describing in detail the information expected and that can be used to guide banks on implementing Pillar 3 have not yet been published. Similarly, the information to be disclosed on governance has not been specified as yet.</p> <p>A directive should detail the disclosure requirements and how to apply them. The draft is completed but not yet checked. It has not been communicated to the banks yet although presentations have been made. The date for its publication is not yet determined.</p> |

⁷⁴ For the purposes of this Essential Criterion, the disclosure requirement may be found in applicable accounting, stock exchange listing, or other similar rules instead of or in addition to directives issued by the supervisor.

| | |
|------------|--|
| | <p>The Pillar 3 requirement covering financial disclosure is applied on a consolidated basis and on a solo basis for banks that do not belong to a group.</p> <p>The prudential framework defines the five guiding principles for Basel 3 financial disclosures: clarity, comprehensiveness, relevancy, consistency, and comparability. It also provides exceptions for sensitive, confidential, or insignificant information. However, the BCEAO directive should still specify the conditions for applying the provisions related to sensitive, confidential, or insignificant information. The CBU may also require that these provisions be extended on a solo basis to the subsidiaries of finance companies or parent credit institutions.</p> <p>The bank is required to send a Pillar 3 report with regard to the information to be disclosed (Article 557). This report may be an annex or separate part of the financial report. The bank should also publish on its website the Pillar 3 reports for the last five years. The BCEAO instruction should specify the report model to be used.</p> <p>Banks should also publish the financial statements, i.e., the balance sheet, off-balance sheet, the profit and loss statement, and the attached notes in accordance with the revised BCA and the instruction published in 2016 on the preparation and publication of solo and consolidated financial statements. The solo and consolidated financial statements should be published in the Official Journal of the country concerned (Articles 9 and 13 of the instruction). Publication in the official journal should specify how the Board’s management report and the semi-annual activity report are made available to the public. In practice, these documents can be consulted on a bank’s website or are made available for consultation at the bank’s headquarters, as some banks do not have a website.</p> <p>According to the BCA, the notes attached to the financial statements intended for the public include all information facilitating a fair assessment of the bank’s financial condition, risks, and the results of its operations (Article 48). These 27 notes concern, <i>inter alia</i>, accounting rules and methods applied, advances to customers, changes in capital, the distribution of capital and voting rights, the breakdown of applications and resources according to remaining life, changes in income and other important items, financing and guarantee commitments, foreign currency operations, securities and collateral given/received as guarantees, the cost of risk, managers’ compensation and benefits, loans, advances, and guarantees granted to managers, transactions with related parties, the network, as well as staff, wage earners, and outside personnel.</p> <p>This financial information should be relevant, accurate, comparable, verifiable, and comprehensible (Article 14 of the Annex to the decision establishing the revised BCA).</p> <p>The SGCB indicates that it ensures that the financial statements have been published in the Official Journal.</p> |
| EC2 | The supervisor determines that the required disclosures include both qualitative and quantitative information on a bank’s financial position, risk management strategies and |

| | |
|---------------------------------|---|
| | practices, risk exposures, aggregate exposures to related parties, transactions with related parties, accounting policies, and basic business, management, governance, and remuneration. The scope and content of information provided and the level of disaggregation and detail is commensurate with the risk profile and systemic importance of the bank. |
| Description and Conclusions EC2 | <p>The regulatory framework defines requirements in terms of accounting disclosures and broad principles with regard to the prudential plan covering qualitative and quantitative data. However, the instruction providing greater detail on the information to be disclosed and the methods for implementing Pillar 3 has not been published as yet. This point is analyzed in Criterion 1.</p> <p>The prudential information to be disseminated should take into account the size of the bank or the group to which it belongs, its systemic importance, its nature, and the complexity of its activities, its structure, and its risk profile (paragraph 553 of the prudential framework).</p> <p>The SGCB does not conduct off-site and on-site supervision regarding the banks' compliance with the Pillar 3 requirements defined in the prudential framework.</p> |
| EC3 | Laws, regulations, or the supervisor require banks to disclose all material entities in the group structure. |
| Description and Conclusions EC3 | <p>The prudential framework requires banks subject to supervision on a consolidated basis to disclose relevant information regarding differences in the scopes of accounting consolidation and prudential consolidation. Disclosure also covers information on subsidiaries, particularly their capital as well as any significant obstacles related to the transfer of their capital or prompt repayment of liabilities between the parent company and the subsidiaries (paragraph 570).</p> <p>In addition, note 4.24 attached to the financial statements (page 49 of the guide for implementing the revised BCA) should cover information related to operations with entities controlled directly or indirectly by the bank (subsidiaries, joint ventures).</p> |
| EC4 | The supervisor or another government agency effectively reviews and enforces compliance with disclosure standards. |
| Description and Conclusions EC4 | <p>The supervisor requires banks to send it the Pillar 3 report, financial statements, and all reports, documents, and other items, as well as all information needed for the performance of its functions (cf. Art. 25 of the Annex to the Convention governing the CBU; paragraph 557 of the prudential framework).</p> <p>In addition, the supervisor collaborates with the auditors, whose tasks include assessing banks' compliance with the regulations, particularly prudential regulations, including disclosure requirements. The SGCB indicates that auditors are not subject to observations regarding quality of information disclosed in the context of Pillar 3.</p> <p>For its part, the SGCB still doesn't do on-site or off-site supervision of the banks' compliance with the Pillar 3 requirements in the prudential framework.</p> |

| | |
|-----------------------------------|---|
| EC5 | The supervisor or other relevant bodies regularly publishes information on the banking system in aggregate to facilitate public understanding of the banking system and the exercise of market discipline. Such information includes aggregate data on balance sheet indicators and statistical parameters that reflect the principal aspects of banks' operations (balance sheet structure, capital ratios, income earning capacity, and risk profiles). |
| Description and Conclusions EC5 | <p>Each year the CBU publishes a report that includes information on the banking system and the activities it carries out during the course of the year. The CBU's 2020 report was published in July 2021 and reflected its efforts to reach publication at the end of the first half of the year. This information covers the business environment of supervised banks (economic and financial environment and institutional and regulatory framework), the activity of supervised banks (banking sector, microfinance, and EMIs), supervision of the sector, and crisis resolution, as well as cooperation and training actions. This report is available on the BCEAO website under "Publications." It also publishes the balance sheets and profit and loss statements of banks and financial institutions for each reporting period.</p> <p>All these publications include aggregate data on balance sheet indicators and statistical parameters reflecting the principal aspects of banks' operations (balance sheet structure, capital ratios, income earning capacity, and risk profile).</p> |
| Additional Criterion | |
| AC1 | The disclosure requirements imposed promote disclosure of information that will help in understanding a bank's risk exposures during a financial reporting period, for example, on average exposures or turnover during the reporting period. |
| Description and Conclusions CA1 | <p>The CBU expects the financial disclosure requirements stated in the prudential framework and based on Basel III to promote the disclosure of information allowing users to understand the banks' exposures, taking into account the five guiding principles of disclosure (cf. Criterion 1). The draft instruction specifies that banks should supplement the quantitative information provided with qualitative information explaining at a minimum any material change found from one report to the next.</p> <p>Besides these prudential requirements, the purpose of financial statements intended for publication is to provide useful data on credit institutions' financial condition and changes as well as on their performance.</p> |
| Assessment of Principle 28 | Materially Non-compliant |
| Comments | <p>Adoption of the prudential framework in 2016 made it possible to introduce Pillar 3 requirements on a consolidated or solo basis. However, the methods for financial disclosure are not specified. In effect, the instruction defining the template for the disclosure of information and describing the prudential framework has not been published yet. It is completed but has not been validated and disclosed to the banks and its implementation date is not defined.</p> <p>In practice, review of banks' annual reports in the WAMU indicated that the Pillar 3 requirements of the Basel standard were far from being observed. In addition, some banks do not disclose any information on their financial condition on their website, or do not have a website.</p> |

| | |
|---------------------------------|--|
| | <p>Finally, the SGCB does not exercise control regarding the quality of supervised banks' financial disclosure.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Ensure rapid entry into force of the methods for implementing the Pillar 3 requirements of the prudential framework in order to make it operational. • Establish controls regarding the banks' observance of the Pillar 3 requirements. • Extend the obligation to disclose on the website now in existence for Pillar 3 to all financial disclosure requirements (financial statements, annual reports). |
| Principle 29 | <p>Abuse of Financial Services</p> <p>The supervisor determines that banks have adequate policies and processes, including strict customer due diligence (CDD) rules to promote high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities.⁷⁵</p> <p>(Reference documents: <i>FATF Recommendations</i>, February 2012; <i>Consolidated KYC risk management</i>, October 2004; <i>Shell banks and booking offices</i>, January 2003; <i>Customer due diligence for banks</i>, October 2001).</p> |
| Essential Criteria | |
| EC1 | Laws or regulations establish the duties, responsibilities, and powers of the supervisor related to the supervision of banks' internal controls and enforcement of the relevant laws and regulations regarding criminal activities. |
| Description and Conclusions EC1 | <p>Regulatory Powers in the Area of AML-CFT</p> <p>Enactment of the regulatory framework governing AML-CFT is the responsibility of the BCEAO, which submits the texts to be adopted to the Council of Ministers of Finance.</p> <p>The regulatory framework includes the uniform act, an instruction, two regulations (Regulation No. 14/2002/CM/UEMOA of September 19, 2002, on freezing funds and other financial resources in the context of combating the financing of terrorism in the WAEMU member states and Regulation No. 09/2010/CM/UEMOA of October 1, 2010, on external financial relations of the WAEMU member states), and instructions. The directive was transposed in the legal systems of the member states. The instructions are intended to specify the provisions of the law.</p> |

⁷⁵ The Committee is aware that, in some jurisdictions, other authorities, such as a financial intelligence unit (FIA), rather than a banking supervisor, may have primary responsibility for assessing compliance with laws and regulations regarding criminal activities in banks, such as fraud, money laundering, and the financing of terrorism. Thus, in the context of this Principle, "the supervisor" might refer to such other authorities, in particular in Essential Criteria 7, 8, and 10. In such jurisdictions, the banking supervisor cooperates with such authorities to achieve adherence with the criteria mentioned in this Principle.

In addition, decrees and implementing orders on the uniform act have been issued by national authorities.

Transposition of the law in the domestic legal order of the member states has not been analyzed by the BCEAO and CBU to identify any discrepancies. Nonetheless, the BCEAO has indicated that the Union's treaty required the member states to submit any amendment with regard to the text of the uniform act to the Council of Ministers of the Union.

Article 86 of the Uniform Act with regard to AML-CFT presents the duties, responsibilities, and powers of regulatory and supervisory authorities. In particular, the supervisor of financial institutions is required to:

- Issue instructions, guidelines, or recommendations to help financial institutions meet their obligations in the area of AML/CFT.
- Cooperate, exchange information with other competent authorities, and provide its assistance in inquiries, prosecutions, or proceedings related to AML/CFT.
- Define in consultation with the National Financial Intelligence Processing Units (FIUs) the standards or criteria applicable to suspicious transaction reports that take into account other existing or future national and international standards.
- Ensure that financial institutions and their foreign branches as well as foreign subsidiaries in which they hold a majority share adopt and enforce measures consistent with the provisions of this act to the extent permitted by domestic laws and regulations.
- Report, without delay, to the FIU any information regarding suspicious transactions or suspicious events that could be connected to ML/FT.
- Provide rapid and effective cooperation to bodies exercising similar functions in other member states or other third-party states, including sharing information.
- Maintain statistics regarding the measures adopted and the penalties imposed.

Article 11 of Instruction No. 007-09-2017 on methods whereby financial institutions implement the uniform act on AML/CFT in the WAMU member states provides for on-site supervision of the internal framework for prevention by the supervisors.

Observations Regarding the Provisions of Laws and Regulations

Responsibilities and Provisions in the Area of Enacting the Freezing of Assets

The provisions governing the freezing of assets are defined in Article 100 et seq. of the 2015 Uniform Act and by Regulation 14/2002 on the freezing of assets.

In particular, Article 9, paragraph 2, of Regulation No. 14/2002/CM/UEMOA stipulates that the Chair of the Council of Ministers is authorized, at the suggestion of the Governor of the BCEAO, to amend or add to the list of persons, entities, or bodies whose funds should be

| |
|---|
| <p>frozen, in accordance with a decision of the United Nations Security Council or Sanctions Committee. Precautionary measures, taken by the Chairman of the Council of Ministers, are submitted for approval at the next Council of Ministers meeting. The BCEAO does not have the authority to issue any lists other than those of the United Nations (U.N.). <u>However, the lists are not available on the BCEAO website.</u> The BCEAO no longer coordinates the work of the member states in the issuance of lists although there are delays in establishing administrative structures dedicated to these subjects.</p> <p>It is the responsibility of the member states to pick up and disseminate the lists adopted by the Council of Ministers. They may issue their own lists. <u>However, the national committees responsible for preparing and disseminating the lists are not yet operational in a certain number of states.</u></p> <p><u>In addition, it appears that the provisions on freezing assets are cursory and do not ensure – given the lack of guidelines – comprehensive supervision of supervised banks on the technical operational level.</u></p> <p><i><u>Obligations Related to Preventive Measures in Arms-length Relationships</u></i></p> <p><u>The obligations provided under Article 21 do not seem sufficiently precise (see FATF Recommendation 10 and risk approach).</u> It indicates only that credit institutions “should take specific measures sufficient to prevent money laundering and the financing of terrorism.”</p> <p>Article 40 of the uniform act on additional due diligence measures provides that additional measures should be taken with regard to a client or his/her representative who does not appear for purposes of identification. <u>However, these due diligence measures are not mentioned.</u> In practice, the SGCB believes that accounts opened remotely are still not very widespread in the Union’s banks and primarily involve EMIs wherein transactions are subject to greater controls, particularly in terms of limits.</p> <p><i><u>Obligations Related to the Identification of Casual Customers</u></i></p> <p>The thresholds established for procedures identifying casual customers seem very high (ten million CFA francs or more than 15,000 euros). The BCEAO has indicated that this threshold took account of the specific characteristics of the Union and heavy use of cash.</p> <p><i><u>Easing of Vigilance with Regard to Certain Products</u></i></p> <p>The legal framework (Articles 18, 46, and 47 of the uniform act in particular) provides for the easing of vigilance obligations indicated in Articles 18 and 19 for certain products/activities, provided there are no suspicions of money laundering or terrorism financing. Article 47 identifies them. They include the following in particular:</p> <ul style="list-style-type: none"> • Electronic money meant to be used solely for the purchase of goods or services. However, once a request for repayment involves a unit amount or total amount of at least 600,000 CFA francs during the course of the same calendar year, the individuals |
|---|

| | |
|------------|--|
| | <p>mentioned in Article 5 of this law are required to observe the obligations provided under Articles 18 and 19.</p> <ul style="list-style-type: none"> • Consumer credit operations, provided they do not exceed 2,600.000 CFA francs and provided that repayment of the credit is affected exclusively through an account opened in the name of the client with a financial institution established in a member state. • Insurance contracts the details of which are specified by a CIMA Regulation. <p>The relaxation of requirements is due to the authorities' desire to foster financial inclusion.</p> <p><u>Proportionality of Measures and Policies for Identifying and Managing ML/FT Risks</u></p> <p>Two articles of the Law (11 and 90) indicate that the policy and procedures for assessing ML/FT should be in proportion to the nature and the size of the banks as well as the volume of their business. Article 11 of the Uniform Law in effect allows financial institutions to provide "appropriate measures to identify and assess the ML/FT risks to which they are exposed" (...) "in proportion to the nature and the size (...) as well as the volume of their business." <u>This gives supervised banks the singular ability to diminish the effectiveness of the AML/CFT framework in the Union:</u></p> <ul style="list-style-type: none"> • This leads, <i>de jure</i>, to a breach of equality among the banks based on their nature, their size, and the volume of their business. • This breach of equality is not justified in terms of the assessment of the risks of money laundering and the financing of terrorism which should nevertheless constitute "the essential foundation for the allocation of resources within the AML/CFT system." (FATF Recommendation 1). <p><u>Identification of Politically Exposed People (PEPs)</u></p> <p><u>The rules seem imprecise with regard to verifying the entry of a PEP (see FATF Recommendation 12 and interpretive note). Article 2 provides only for authorization "from an appropriate management level."</u> However, in practice, at most banks, the verification mechanism involves general management.</p> <p><u>In addition, the regulations produce different treatment in the definitions of national PEPs and foreign PEPs. In effect the family members of a PEP (in this case, the spouse, any partner considered as the equivalent of a spouse, children and their spouses or partners, other relatives) as well as persons known to be closely associated with a PEP fall only within the scope of foreign PEPs.</u></p> |
| EC2 | <p>The supervisor determines that banks have policies and processes that promote high ethical and professional standards and prevent the bank from being used, intentionally or unintentionally, for criminal activities. This includes the prevention and detection of criminal activity, and reporting of such suspected activities to the appropriate authorities.</p> |

| | |
|--|---|
| <p>Description and Conclusions EC2</p> | <p>Regulatory Framework</p> <p>The CBU requires banks to have internal processes to ensure compliance with legal and regulatory provisions in the area of preventing money laundering and combating the financing of terrorism in the WAMU, consistent with Article 5 of Instruction No. 007-09-2017.</p> <p>The Work of the DSP</p> <p>The DSP makes use of reports submitted by the banks. These reports are utilized in the form of a summary table identifying the performance of the compliance function, the human and material resources allocated to the function, incidents, deficiencies detected by the banks, and action plans implemented. The summary exercise should conclude with a manager’s assessment, a rating, and recommendations. In this regard, it has been noted that <u>the risk assessment made by the supervisors upon concluding analysis of the report could seem lenient with regard to the deficiencies noted by the banks, some of which are located in highly vulnerable areas, particularly with respect to the financing of terrorism.</u></p> <p>DSP Mapping of Money Laundering and Financing of Terrorism Risk</p> <p>A ML-FT mapping exercise is also conducted at the DSP level. The input for this exercise was based on a cycle of 18 on-site surveys conducted in 2018. The mapping is done on a global basis and can also be broken down by country. It uses ratings assigned to the ML-FT risk factor in the context of the annual rating exercise (SNEC) on credit institutions and other information available (survey reports but also auditors’ reports and banks’ reports). The latest updated mapping indicated various weaknesses on a global level and related to the following in particular:</p> <ul style="list-style-type: none"> • Not always appropriate positioning of the person responsible for the compliance function, which does not allow him the independence needed to perform his task. • The lack of an IT device allowing the detection of suspicious transactions. • Inadequacies in the identification of politically exposed persons. <p>DCPEME Supervision Tasks</p> <p>The DCPEME supervisors have a dedicated supervision methodology for AML-CFT - in the form of questionnaires – that supports them in conducting their audits. Several checkpoints are provided:</p> <ul style="list-style-type: none"> • Review of the solidity and quality of the AML-CFT framework including confirmation of the existence of a control structure, appointment of an AML-CFT manager responsible for directing the work and making suspicious transaction reports, the existence of a committee addressing AML-CFT subjects (risks committee, compliance committee). • Check of the existence of a corpus of procedures validated by the deliberative body and verification of the quality and implementation of the procedures. |
|--|---|

- Check of the training and awareness framework for management, administrators, and staff.
- Confirmation of the existence of a risks classification resulting in a client rating in terms of AML-CFR risk.
- Confirmation of the proper identification of the client, particularly information on his identify, address, income, profession/activity.
- Check on the existence of a transaction monitoring framework suitable for detecting suspicious transactions and forwarding findings to the deliberative body.
- Check on the existence of an internal control framework, taking particular note of AML-CFT in the audit program.

In addition, the inspectors make sure to test the functionality of the framework based on analysis of a sample of cash transactions, transfers issued and received in order to detect discrepancies between the nature of the transactions and the client's reported income. The DCPEME has planned to purchase software to facilitate this control task. A tool is now being tested.

Methods for Establishing a Survey Program

The criteria considered for establishing the survey program are based on a risks approach, particularly the rating assigned to the ML-FT risk factor. BCEAO information and warnings (weak points seen in some countries) are also incorporated.

Figures in the ML-FT Survey Program

The DCPEME has been conducting thematic AML-CFT surveys since 2017 but has conducted only eight over the last three years. Since 2019, ML-FT has been detected more rapidly in the context of global or specific surveys. The lack of a mission in 2020 is explained by the health crisis linked to COVID-19. The duration of AML-CFT topical missions is very short with an average on-site presence of five and a half days, which may limit the depth of certain investigations.

| Typology of DCPEME-Conducted Missions Addressing the AML-CFT Component Between 2017 and 2021 | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|--------------|
| Type of Mission | 2017 | 2018 | 2019 | 2020 | 2021 | Total |
| Topical AML-CFT Missions | 2 | 14 | 2 | | 6 | 24 |
| General Missions Including AML-CFT | 3 | | 4 | 8 | 3 | 18 |
| Specific Missions Including AML-CFT | | | 4 | 1 | 6 | 11 |
| Total | 5 | 14 | 10 | 9 | 15 | 53 |

Source: WAMU

| | |
|---------------------------------|--|
| EC3 | In addition to reporting to the financial intelligence unit or other designated authorities, banks report to the banking supervisor suspicious activities and incidents of fraud when such activities/incidents are material to the safety, soundness, or reputation of the bank. ⁷⁶ |
| Description and Conclusions EC3 | <p>Regulatory Framework</p> <p>The obligations and methods for reporting suspicious transactions are established in Chapter III of the law (Articles 79, 80, 81, and 82). <u>The specific provisions in the AML-CFT regulations in effect do not require banks to report suspicious activities to the supervisor but only to the FIU.</u> In practice, banks record the data relating to their reporting activity in their compliance report sent to the SGCB.</p> <p>Only significant fraud cases should be brought to the attention of the supervisor in the context of operational risk management. In addition, the regulations do not provide the threshold for qualifying frauds deemed significant.</p> <p>Banks' Reporting Activity</p> <p>The reporting activity of banks in the Union has clearly increased over the course of the last few years, despite a slowdown in 2020, with 2,332 suspicious transaction reports (STRs) filed compared to 699 in 2015. However, in terms of the number of banks, there are only about 15 STRs on significant discrepancies per bank.</p> |

⁷⁶ Consistent with international standards, banks are to report suspicious activities involving cases of potential money laundering and the financing of terrorism to the relevant national center, established either as an independent governmental authority or within an existing authority or authorities that serves as an FIU.

| | |
|------------------------------------|---|
| | <p><u>Similarly, the review of a tabulation table of nine compliance reports submitted to the mission confirmed the banks' very weak reporting activity. Thus 54 STRs were identified, or an average of six transactions per bank – for certain banks located in countries particularly at risk for FT – with the understanding that preparation of a panel would concentrate 60 percent of the STRs recorded (32).</u></p> <p>In certain banks, the reporting rate related to transactions detected as atypical is very low. The mission also noted a rate of one per thousand in a bank where it consulted the report certified by an audit firm.</p> <p><u>This situation is potentially indicative of a lack of awareness and training but also of the lack of expertise in setting tool parameters or not enough tools.</u></p> |
| EC4 | <p>If the supervisor becomes aware of any additional suspicious transactions, it informs the financial intelligence unit and, if applicable, other designated authority of such transactions. In addition, the supervisor, directly or indirectly, shares information related to suspected or actual criminal activities with relevant authorities.</p> |
| Description and Conclusions EC4 | <p>The uniform law related to AML-CFT establishes in Chapter II the requirements regarding cooperation and sending all information related to suspected or actual criminal activities to the FIU. In particular, Article 75 of the law states that “when in the performance of their mission, supervisors and professional bodies discover facts that are potentially related to money laundering or terrorism financing, they report them to the FIU, which, as applicable, addresses them in terms of reporting suspicious transactions.”</p> <p><u>However, so far the law is not applied by the BCEAO. Its departments do not send information to the FIU, particularly as regards cases of failure to submit STRs detected by the inspectors in the context of their on-site mission (supplemental STRs). Thus, the BCEAO and FIU have not always formalized a memorandum of agreement governing information-sharing. Nor are there exchanges between SGCB staff and the FIU, prior to and upon completion of supervisory visits, nor contacts made when an on-site survey program is being prepared, in order to take subjects of concern to the FIU into consideration.</u></p> <p><u>More generally, the BCEAO does not actively carry out its coordination functions as provided in Article 77 of the uniform act.</u></p> |
| EC5 | <p>The supervisor determines that banks establish CDD policies and processes that are well documented and communicated to all relevant staff. The supervisor also determines that such policies and processes are integrated into the bank's overall risk management and there are appropriate steps to identify, assess, monitor, manage, and mitigate risks of money laundering and the financing of terrorism with respect to customers, countries, and regions, as well as products, services, transactions, and delivery channels on an ongoing basis. The CDD management program, on a group-wide basis, has as its essential elements:</p> |

| | |
|--|--|
| | <p>a) a customer acceptance policy that identifies business relationships that the bank will not accept based on identified risks;</p> <p>b) a customer identification, verification, and due diligence program on an ongoing basis; this encompasses verification of beneficial ownership, understanding the purpose and nature of the business relationship, and risk-based reviews to ensure that records are updated and relevant;</p> <p>c) policies and processes to monitor and recognize unusual or potentially suspicious transactions;</p> <p>d) enhanced due diligence on high-risk accounts (e.g., escalation to the bank’s senior management level of decisions on entering into business relationships with these accounts or maintaining such relationships when an existing relationship becomes high-risk);</p> <p>e) enhanced due diligence on politically exposed persons (including, among other things, escalation to the bank’s senior management level of decisions on entering into business relationships with these persons); and</p> <p>f) clear rules on what records must be kept on CDD and individual transactions and their retention period. Such records have at least a five year retention period.</p> |
| <p>Description and Conclusions EC5</p> | <p>a) Customer Acceptance Policy</p> <p>According to the DCPEME, most banks define customer acceptance policies by proscribing certain sectors of activity as well as business relationships with sanctioned countries.</p> <p>b) Customer Identification</p> <p>Customer identification is a structuring point of on-site audits, considering weaknesses identified, particularly in terms of the comprehensiveness and updating of information collected on customers (absence of sources of income, in particular). Unreliable data appearing in information systems represents another challenge and alters the ability of tools to capture transactions requiring attention.</p> <p>c) Policies for Monitoring Suspicious Transactions</p> <p>Inspectors analyze the quality of the monitoring system and potential treatment of warnings generated by the system to ensure that the bank has the resources necessary to cover suspicious transactions.</p> <p>d) Identification and Monitoring of PEPs</p> |

| | |
|---------------------------------|---|
| | <p><u>DCPEME audits highlight significant deficiencies in the identification and monitoring of transactions involving PEPs.</u></p> <p><u>The identification procedure is not sufficiently secure. DCPEME inspectors assess at 10% the number of banks that have not contracted with specialized providers. In addition, the lists of PEPs – but also sanctions – are not always well implemented in the banks’ information systems. The PEP lists are not updated.</u></p> <p><u>In addition, a review of DCPEME reports shows that transactions for very significant amounts involving PEPs are regularly detected and do not lead to STRs even when the transactions seem atypical both in terms of their amount – in cash – and their inconsistency with reported income.</u></p> <p>e) High-risk Accounts (Securitization Procedure for High-risk Transactions)</p> <p>The DCPEME assesses the banks’ procedures with regard to the monitoring of high-risk accounts. Generally, the inspectors observe that the banks establish rules taking into account the nature of the customer, their sector of activity, the volume of operations. AML-CFT risk rating tools may vary significantly depending on the bank. Not all banks have such tools as yet.</p> <p>f) Data Retention</p> <p>Banks do not always save information in digital format, which makes the processing of regulatory requirements in the area of AML-CFT monitoring more complex.</p> <p>It should be noted that DCPEME inspectors have already detected cases where data on customers is stored outside the Union, which is prohibited in the circular on risks.</p> |
| EC6 | <p>The supervisor determines that banks have, in addition to normal due diligence, specific policies and processes regarding correspondent banking. Such policies and processes include:</p> <p>a) gathering sufficient information about their correspondent banks to understand fully the nature of their business and customer base, and how they are supervised;</p> <p>b) not establishing or continuing correspondent relationships with those that do not have adequate controls against criminal activities or that are not effectively supervised by the relevant authorities, or with those banks that are considered to be shell banks.</p> |
| Description and Conclusions EC6 | <p>Regulatory Framework</p> <p>Procedures in the area of correspondent banking are mentioned in Articles 38, 50, 51, and 52 of the uniform act. The instruction also establishes a certain number of prescriptions and suggests a model questionnaire for cross-border correspondents.</p> |

| | |
|------------|---|
| | <p>In accordance with Article 38, financial institutions are required, with regard to cross-border correspondent banking relationships and other similar relationships, in addition to the normal due diligence in regard to customers:</p> <ul style="list-style-type: none"> • To identify and verify the identification of client institutions with which they maintain correspondent banking relationships. • To gather information on the nature of the client institution’s business. • To evaluate the reputation of the client institution and the degree of supervision to which it is subject, based on publicly available information. • To evaluate the controls introduced by the client institution to combat money laundering and the financing of terrorism. <p>Authorized officers of financial institutions should have previously authorized concluding a relationship with the banking correspondent.</p> <p>Article 53 also provides various strengthened supervisory measures applicable to banks offering correspondent banking services.</p> <p>Article 52 prohibits financial institutions from “forming or maintaining a correspondent banking relationship with a credit institution or company engaged in equivalent activities established in a country where this bank has no effective physical presence for the performance of leadership and management activities, if it is not attached to a regulated bank or group.”</p> <p>In contrast, <u>in the area of correspondent banking the Uniform Act does not provide for the ability to put an end to relationships with financial institutions located in higher-risk countries (interpretative note to FATF Recommendation 19 (g)).</u></p> <p>DCPEME Audits</p> <p>The DCPEME’s methodology provides checkpoints on correspondent banking. However, it is incomplete on certain points, particularly on audits that can be done on certain SWIFT messages or technological developments in the context of correspondent banking practices (key exchanges called “Relationship Management Application” (RMA)).</p> <p>Audits show that procedures for the identification of correspondent banks are not strictly applied and do not cover the entire portfolio of the partner banks.</p> |
| EC7 | <p>The supervisor determines that banks have sufficient controls and systems to prevent, identify, and report potential abuses of financial services, including money laundering and the financing of terrorism.</p> |

| | |
|------------------------------------|--|
| Description and Conclusions EC7 | <p>Deficiencies in the area of identifying suspicious transactions in the absence of existing or effective tools are noted on a nearly systematic basis by the DCPME's inspectors. A large number of banks do not have an automatic detection tool for this type of transaction.</p> <p>Nonetheless, while the inspectors note efforts on the part of banks seeking to acquire specific software on AML-CFT, they find that such software:</p> <ul style="list-style-type: none"> • Is not always well interfaced with customer data – at the risk of being inoperable – and is not appropriately parameterized. • Is not always of good quality. <p>The compliance reports submitted by the banks themselves also highlight these weaknesses.</p> |
| EC8 | The supervisor has adequate powers to take action against a bank that does not comply with its obligations related to relevant laws and regulations regarding criminal activities. |
| Description and Conclusions EC8 | <p>Article 112 of the AML-CFT law gives the supervisor disciplinary power to act <i>ex officio</i> under the conditions provided in specific laws and regulations in effect.</p> <p><u>Several sanctions (warning + injunction) were thus issued against six banks following a cycle of topical AML-CFT missions in 2018. In 2021, monetary sanctions were imposed on banks upon the conclusion of topical AML-CFT missions.</u></p> |
| EC9 | <p>The supervisor determines that banks have:</p> <p>a) requirements for internal audit and/or external experts⁷⁷ to independently evaluate the relevant risk management policies, processes, and controls. The supervisor has access to their reports;</p> <p>b) established policies and processes to designate compliance officers at the bank's management level, and appoint a relevant dedicated officer to whom potential abuses of the banks' financial services (including suspicious transactions) are reported;</p> <p>c) adequate screening policies and processes to ensure high ethical and professional standards when hiring staff or when entering into an agency or outsourcing relationship; and</p> <p>d) ongoing training programs for their staff, including on CDD and methods to monitor and detect criminal and suspicious activities.</p> |
| Description and Conclusions EC9 | <p>Article 24 of the AML-CFT law requires banks to ensure:</p> <ul style="list-style-type: none"> • Designation of a compliance officer at the management level, responsible for implementation of the AML-CFT framework. |

⁷⁷ These could be external auditors or other qualified parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions.

| | |
|----------------------------------|---|
| | <ul style="list-style-type: none"> • Deployment of an ongoing training program for personnel to help them detect transactions and behaviors that could be linked to money laundering and the financing of terrorism. • Establishment of an internal control mechanism to verify compliance, observance, and effectiveness of measures adopted for application of this law. <p>In addition, the supervisor requires financial institutions to take into account, when hiring their staff, according to the level of responsibilities to be carried out, risks related to money laundering and the financing of terrorism. In addition, Instruction No. 007-09-2017 states that financial institutions should provide training and awareness programs including basic internal or external training for newly hired staff, in order to build awareness of the financial institution's AML-CFT policy, as well as legal and regulatory requirements on the subject.</p> <p>As indicated above, observance of these obligations is included in the DCPEME inspectors' audits.</p> <p>a) DCPEME inspectors determine that banks incorporate AML-CFT tasks in their periodic supervision missions.</p> <p>b) DCPEME inspectors systematically confirm the organization of the AML-CFT framework, particularly the designation of a compliance officer. <u>Cases of vacant positions may be noted. Thus, a reading of a DCPEME report indicates that the position of compliance officer in a bank remained unfilled for more than two years, from 2018 to 2021.</u></p> <p>c) The DCPEME's methodology does not contain very precise provisions for assessing a high degree of ethics and professionalism when recruiting staff and in establishing delegation or outsourcing relationships.</p> <p>d) <u>The DCPEME notes disparities in the banks' training framework.</u> While banks are well-equipped with on-line training for certifying staff, most of them resort to more basic methods with ad hoc training exercises and awareness-building meetings. Most bank action plans in the area of AML-CFT include strengthening training and awareness actions.</p> |
| EC10 | <p>The supervisor determines that banks have and follow clear policies and processes for staff to report any problems related to the abuse of the banks' financial services to either local management or the relevant dedicated officer or to both. The supervisor also determines that banks have and utilize adequate management information systems to provide the banks' Boards, management, and the dedicated officers with timely and appropriate information on such activities.</p> |
| Description and Conclusions EC10 | <p>The Uniform Act has not established obligations related to the introduction of a whistleblower mechanism. Nonetheless, it establishes liability exemptions for suspicious transaction reports made in good faith. In contrast, Article 44 of the circular on governance expressly provides it.</p> |

| | |
|-------------------------------------|---|
| EC11 | Laws provide that a member of a bank's staff who reports suspicious activity in good faith either internally or directly to the relevant authority cannot be held liable. |
| Description and Conclusions EC11 | <p>This guarantee is covered by Article 83 of the Uniform Act related to the liability exemption for suspicious activities reports made in good faith.</p> <p>In effect, this article provides that staff or managers and agents of persons who, in good faith, have sent information or made any statement, in accordance with the provisions of this law, are exempt from any sanctions for violation of professional secrecy. In addition, it states that no action for civil or criminal liability can be attempted, nor may any professional penalty be issued against such persons even if judicial decisions made on the basis of the statements in said paragraph produced a conviction.</p> |
| EC12 | The supervisor, directly or indirectly, cooperates with the relevant domestic and foreign financial sector supervisory authorities or shares with them information related to suspected or actual criminal activities where this information is for supervisory purposes. |
| Description and Conclusions EC12 | <p>The principles of cooperation and information-sharing among all relevant authorities at the national and international level are embodied in the Uniform Act on AML-CFT (cf. Articles 74 to 78 and 86). In effect, they provide that the supervisor:</p> <ul style="list-style-type: none"> • Introduces effective mechanisms allowing it to cooperate and coordinate its activity at the national level with regard to the definition and implementation of AML-CFT policies and actions (Article 74). • Shares all information useful to the achievement of its missions for the implementation of the AML-CFT law (Article 75). <p>In practice, sharing with national authorities (FIUs) remains limited.</p> |
| EC13 | Unless done by another authority, the supervisor has in-house resources with specialist expertise for addressing criminal activities. In this case, the supervisor regularly provides information on risks of money laundering and the financing of terrorism to the banks. |
| Description and Conclusions EC13 | The supervisor does not have these skills. The Union's regulations do not provide it. Instead, this kind of expertise is found in other WAMU agencies charged with combating money laundering and the financing of terrorism, particularly the FIU. |
| Assessment of Principle 29 | Non-compliant |
| Comments | <p>The regulatory framework, within the Union, in the area of AML-CFT was significantly strengthened with the entry into effect of the Uniform Act of 2015 and Instruction No. 07-09-2017 on implementing methods. However, several provisions seem relatively vague or are not applied at the risk of altering the effectiveness of AML-CFT.</p> <p>The process of issuing national lists on freezing of assets is not operational in all jurisdictions due to the failure to set up national committees authorized for this purpose. In total, the only effective list is the U.N. list, and it does not fully cover all persons at risk within the Union. It also seems that the provisions on freezing assets are cursory and do not guarantee – due to</p> |

| | |
|--|---|
| | <p>the lack of guidelines – extensive support of supervised banks on the technical-operational level.</p> <p>The obligations provided in Article 21 on remote account opening, in Article 40 on additional supervisory measures, or in Article 25 on validating the opening of a relationship with a PEP need to be clarified. The definition of national PEPs should also be supplemented to take into account close relatives and affiliates. In addition, the principle of proportionality, indicated in Articles 11 and 90, could be such that it reduces the effectiveness of the AML-CFT mechanism, and it would be advisable rather to insist on the need to use a risk-based approach in all circumstances.</p> <p>Moreover, the BCEAO does not fully perform the coordination function assigned to it. For example, the BCEAO and the FIUs have not always formalized a memorandum of understanding on information-sharing. The result is that SGCB and FIU staff do not collaborate, while structured exchanges would facilitate better targeting of at-risk banks and the use of information collected by on-site supervision missions. Thus, the DCPEME does not send to the FIU the cases of failure to report suspicious transactions detected by the inspectors.</p> <p>In addition, review of DCPEME reports – very thorough in terms of the missions’ duration (five and a half days on average) – and auditors’ reports highlight the very numerous and significant weaknesses in all AML-CFT components: incomplete customer identification, inadequate risk assessment, detection of atypical transactions limited by the nearly systematic lack of customer profiling tools, the lack of strict monitoring of PEPs, very limited formalization of suspicious transaction reports, insufficient training of bank personnel. In this regard, the increased number of missions on AML-CFT undertaken by the supervisor in 2021 should be noted.</p> <p>Finally, the utilization of information on AML-CFT provided by off-site supervision could be strengthened and produce strong measures without awaiting launch of an on-site audit mission.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Formalize guidelines – in accordance with FATF Recommendation 34 – providing clarification on various missing or imprecise regulatory issues (establishing relations remotely, additional due diligence measures, definition of national PEPs, validation of relations established with PEPs by senior management staff, incentives for ending correspondent banking activities in at-risk countries, duty to report suspicious activities to the supervisor). • Remind member states of the requirement to promptly set up national committees responsible for issuing lists of sanctions and asset-freezing measures. |
|--|---|

| | |
|--|---|
| | <ul style="list-style-type: none">• Complete the DCPEME's methodology on AML-CFT risk factors and controls required by the specific nature of certain lines of business (correspondent banking).• Ensure the inclusion of a series of topical AML-CFT missions in the annual surveys program.• Develop an AML-CFT expertise center within the SGCB (off-site supervision) and be sure to formalize risk AML-CFT risk mapping, highlighting all weaknesses identified.• Continue the policy of strengthening sanctions against banks deemed to be in violation of the AML-CFT regulations.• Formalize a memorandum of understanding between BCEAO and the CENTIFs in order to provide a framework for and guarantee the sharing of AML/CFT information and to ensure the implementation of regular exchanges between the SGCB teams and the CENTIFs on AML/CFT risk factors. |
|--|---|