

**Cyprus: Financial Sector Assessment Program Update—Technical Note—
Factual Update on Basel Core Principles for Effective Banking Supervision—ASDCS**

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BASEL CORE PRINCIPLES FOR

EFFECTIVE BANKING

SUPERVISION—ASDCS

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GLOSSARY

AML	Anti–money Laundering
ASDCS	Authority for the Supervision and Development of Cooperative Societies
AOCS	Audit Office of Cooperative Societies
BCP	Basel Core Principles for Effective Banking Supervision
CBC	Central Bank of Cyprus
CCB	Cooperative Central Bank
CCI	Cooperative Credit Institution
CEBS	Committee of European Banking Supervisors
COREP	Common Reporting
CRD	Capital Requirements Directive
CSL	Cooperative Society Law
EU	European Union
ICAAP	Internal Capital Adequacy Assessment Process
OFCA	Offshore Financial Center Assessment
SREP	Supervisory Review and Evaluation Process

I. INTRODUCTION

1. **This note presents a factual update of the 2005 assessment of Cyprus compliance with the 1997 *Basel Core Principles for Effective Banking Supervision (BCP)*, including a follow up on implementation of the 2005 BCP assessment, undertaken in the context of the original Offshore Financial Center assessment (OFCA) in 2005 by Stefan Spamer, Deutsche Bundesbank. The note was based on a factual update prepared by the Authority for the Supervision and Development of Cooperative Societies (ASDCS); interviews with staff of the ASDCS, external auditors, industry, and professional associations; and legal and other background documents. The update follows the 1997 BCP and took into account the revised BCPs which came into effect October 2006.**
2. **This update is based solely on the laws, supervisory requirements, and practices that were in place at the time of the assessment.** However, the mission made note of regulatory initiatives which have yet to be fully implemented or which are not final, such as the regulatory decision to implement the Internal Capital Adequacy Assessment Standards (ICAAP) and the Supervisory Review and Evaluation Process (SREP).
3. **The mission is grateful to the ASDCS for its full cooperation and assistance with the logistical arrangements and co-ordination of various meetings with industry bodies and companies.** Discussions with ASDCS staff during a series of technical meetings facilitated a meaningful update of Cyprus's approach for the supervision regime.

II. OVERVIEW SUPERVISORY SCOPE

4. **The ASDCS is responsible for licensing, winding up, regulating and supervising all cooperative credit institutions in Cyprus.** The Commissioner is the head of the ASDCS. He chairs the Committee of the ASDCS, which is composed of the Commissioner and four other members all appointed by the Council of Ministers for a term of five years. The committee is responsible for determining the strategy and policy of the ASDCS and for the regulation of Cooperative Credit Institution (CCIs) according to specific provisions of the Cooperative Society Law (CSL).
5. **The ASDCS has made impressive progress both organizationally and to its supervisory practices to strengthen Cyprus's supervisory framework for CCIs.** The mission commends the ASDCS for the many important measures adopted since the 2005 OFCA. The ASDCS will undergo additional changes e.g., the joint inspection program with the Central Bank of Cyprus (CBC).
6. **The ASDCS's organization reflects the nature of the cooperative sector.** Currently there exist 121 CCIs with limited or unlimited liability and 88 non-credit limited liability cooperatives. All cooperative societies (including the largest that chose not to be affiliated) are shareholders-members of the Cooperative Central Bank (CCB). Their number is reduced dramatically since 2005 due to the ongoing efforts of merging.

7. **The authority has worked to enhance the quality of supervision, inter alia in the organizational area**, upgrading the number of staff and staff expertise, and planning to intensify on-site supervision. The ASDCS has to continue to advance the depth of its staff expertise and skills further. This is a major challenge also for the supervisors of the ASDCS, as it has to be expected that the single CCI becomes larger in the size and more complex in its business activities. The ASDCS should continually ensure that it has the necessary resources, expertise and advanced skills.

8. **As from 1/1/08 the CCB has undertaken an additional role by becoming the central body of the CCIs.** CCIs became affiliated to the CCB by applying the relevant provisions of Article 3 of the directive 2006/48/EC regarding central body arrangements whereby CCB guarantees their obligations whereas the solvency and liquidity of the CCB and the affiliated CCIs are monitored as a whole on a consolidated basis. This affiliation does not constitute a parent-subsidiary relationship or the formation of a group. The affiliated CCIs maintain their autonomy and independence as separate legal entities. CCB as central body, is legally empowered, in cooperation with the Commissioner, to issue instructions on concrete management issues to and obtain information from all affiliated CCIs as provided in the cooperative legislation and the relevant directives issued thereunder by the Competent Supervisory Authority for Cooperative Societies—the ASDCS.

9. **The ASDCS has broadly implemented the recommendations of the 2005 OFCA.**

III. BCP FACTUAL UPDATE

10. **Since the earlier BCP assessment, the ASDCS has issued regulatory decisions addressing a number of prudential areas** such as corporate governance, internal controls, supervisory reporting, application of minimum reserves, anti-money laundering (AML) and the solidarity fund etc. The ASDCS has addressed most of the areas of the “Recommended Action Plan—Basel Core Principles” from the 2005 OFCA and the mission commends the ASDCS for its efforts. The 2005 BCP assessment gave ASDCS a low compliance level—which was closely related to the inadequate staff level—but also made some recommendations. The narrative below summarized measures that have been adopted and addresses each of the recommendations from the 2005 BCP assessment. The discussion below is divided into the broad categories of the 1997 BCPs. Additional recommendations for consideration are also noted.

A. Objectives, independence, powers, transparency and cooperation (Principle 1)

11. **The progress made by the ASDCS is closely related to the recommendations made by the mission of 2005.** It was commented that a comprehensive transitional regulatory and supervisory system has been set in place which will require every CCI to conform to the EU-banking directives before the end of 2007. During this transitional period, the CCIs were allowed to continue their existing business within Cyprus under the CSL

without any restrictions or conditions, with the result that the cooperative credit sector will not be fully compliant with the European Union (EU) banking directives during that period. The annual budget of the ASDCS is prepared by the Committee and then forwarded to the Council of Ministers through the Ministry of Finance and, finally, submitted to and approved by the House of Representatives. This may raise questions and doubts about the financial independence of the supervisory authority. The number of required additional staff was testimony to that. The 2005 mission therefore recommended that the government proceed without further delay with the execution of the various plans in order to strengthen the supervisory capacity of the ASDCS.

12. **Since 2005 a comprehensive transitional regulatory and supervisory system has been completed** and requires every CCI to conform to the EU-banking directives since the end of 2007. In this context, the CSL has been modified between 2003 and 2007 in order to ensure full conformity with the *acquis communautaire*. In addition, several regulatory, structural and operational changes took place. It has to be mentioned that the approach to implement the capital requirements directive (CRD) was adopted from the CBC and is therefore very similar to the respective CBC rules and regulation. As a result:

- The legislative and regulatory framework is harmonized with EU Directives;
- CCIs' mergers were successfully performed on a large scale; and
- all arrangements for the establishment of the Central Body were completed.

13. **In 2005 the total number of the ASDCS's staff was 56 employees.** To meet the increasing needs especially for the on-site examinations and the implementation of the CRD the recruitment of new staff, which is at a final stage, will increase the total number of staff to 76. The incoming staff will be adequately trained so as to reinforce and strengthen the supervisory capacity of ASDCS.

14. **The identified shortage of staff** influenced also BCP 7 on Credit Policies, BCP 8 on Loan Evaluation, BCP 9 on Large Exposure, BCP 10 on Connected lending, BCP 13 on Other Risks, BCP 14 on Internal Controls, BCP 16 on On-site and Off-site Supervision, BCP 18 on Off-site Supervision and BCP 19 on Validation of Supervisory Information.

15. **An effective system of banking supervision should have clear responsibilities and objectives for each authority involved in the supervision of banks.** In the overall framework of supervision of credit institutions, two parties have responsibility to execute specific duties. There exist a duplication of work as the CBC and the ASDCS have both responsibilities in the supervision of the Cooperative Central Bank and the affiliated CCIs with regard to consolidated supervision. A single supervisor for all banks operating in Cyprus could enhance the effectiveness and efficiency of supervision and could support the creation of a level playing for all banks. Such an entity should have the responsibility or should contribute to safeguarding the stability of the financial sector but should not be commissioned to develop entities outside the financial sector.

16. **The mission could not identify any doubts on the financial independence of the ASDCS.** The authority receives the necessary funds to guarantee an adequate supervision of the CCIs. In this context it has to be mentioned that the new law grants the commissioner separate funds to hire outside experts.

B. Licensing and Structure (Principles 2–5)

17. **There have been no major changes to the ASDCS’s licensing regime.** The Central Body’s affairs were set forth and the new operating licenses were issued by the ASDCS for all affiliated CCIs. It is noted that only one of the 121 CCIs chose to “stand-alone,” where the remaining 120 affiliated with the CCB. It had to be added, that the ASDCS issued an operating license for the non affiliated CCIs as well.

18. **To increase transparency of the cooperative sector the ASDCS should publish a list of CCIs they supervise.** In addition, the supervisor should evaluate the members of the board and senior management in a more formal way. A “fit-and-proper” Regulative Decision will be issued in the first quarter of 2009 by the ASDCS.

C. Progress on Recommended Actions From 2005 Assessment

19. **The recommendation to finalize a regulatory decision defining permissible services and activities is addressed as well as the missing definition of the term. “Cooperative Credit Institution”** or any derivative of this term cannot be used without the approval of the ASDCS, the regulative decision 103/2007 was issued regarding the services and activities that the CCIs may offer or exercise as well as the criteria and requirements they have to comply with, i.e. the activities included in the Activity Program/operating license. Moreover the CSL amended law 37(I)/2007 prohibits the use of the term “Cooperative Credit Institution” or any derivative of this term without the ASDCS Commissioner’s approval.

20. **Concerning the Investment criteria it was recommended in 2005 that the regulatory decision regarding participation in other enterprises be finalized.** In this context the ASDCS’s Committee issued a Regulative Decision 2/2008 for harmonization purposes with the European Directives, regarding the calculation of the capital requirements and large exposures as well as the issue of CCIs' participation in other institutions in or outside the financial sector. According to the Decision an investment in a company within the financial sector, should be deducted from the own funds if it exceeds the limits described by the CRD, and investments in companies outside the financial sector should not exceed the prescribed limits.

D. Prudential Regulation and Requirements (CPs 6–15)

21. **The ASDCS has fully transposed the CRD into legislation for CCIs.** This means that capital requirements are now imposed on the basis of the new approaches laid down

therein. Including the requirement to calculate capital needs for operational risk; and the introduction (under the so-called Pillar II of the CRD) of powers for the ASDCS to require additional capital coverage for other risks (such as interest rate risk, concentration risk, etc.) constitutes a fundamental change compared to the more rigid and “mechanical” regime in place until recently.

22. **The respective regulative decision 2/2008 for harmonization purposes with the European Directives 2006/48/EC and 2006/49/EC focuses on the calculation of the capital requirements and large exposures.** This directive was drafted in cooperation with the CBC and the CCB. As a result the ASDCS’s regulatory decision is in line with the CBCs directive, except:

- Definition of residential real estate (2006/48/EC)
- ASDCS adopted the national discretion according to Article 154(1) of the 2006/48/EC regarding pass due exposures.
- Farms may be considered as an eligible commercial real estate provided that all quantified and qualified criteria are satisfied.
-

The ASDCS may wish to consider increasing the frequency of reporting from 6 to 3 months for the capital adequacy and large exposures ratios.

23. **The above mentioned regulative decision sets the prudential limits to restrict large exposures to single borrowers or group of related borrowers.** This regulative decision is identical to the respective directive of the CBC. Despite the fact that the affiliated (to the Central Body) CCIs are excluded from the responsibility of complying with the relevant requirements on a solo basis, their lending limits and their special rules that incorporate those limits, are reported to the ASDCS and approved by the Commissioner.

24. **Pursuant to the regulative decision 196/2005 the Commissioner vests the CCIs that apply for, the power to grant credit facilities to legal entities (which by definition are non members) without his approval given that they comply with the terms and conditions set.** With regard to the respective regulatory decision during on-site examinations the quality of assets individually and the level and adequacy of provisions and compare their results with those of the CCI under examination would be assessed.

25. **Concerning the suspension of interest and other income for the nonperforming loans (NPL)** ASDCS examines the need to revise the regulative decision, in line with CBCs intention to introduce the provisions of IAS 39 as regards the treatment of interest income of non performing loans. It is noted that, similarly as set for the commercial banks by the CBC on the initial introduction of the respective directive on NPL, ASDCS has set the period for the identification of the NPL to nine (9) months. This period will be reduced to 90 days by the end of 2010.

26. **Under the transposed CRD, qualitative requirements with regard to risk management have been extended,** deepened and, above all, made more explicit. The CCIs have to comply with the provisions of the Regulative Decision issued by the Committee of ASDCS concerning the “Framework of Principles of Operation and Criteria of Assessment of Cooperative Credit Institutions Organization Structure, Internal Governance and Internal Control Systems.” CCIs should have a written policy and procedures, in line with their operational strategy (monitoring and management of risks such as credit-, market-, liquidity- and operational risk) and CCIs are required to establish a Risk Management Unit which should be administrative independent and submit an annual report on the management of risks.

27. **All CCIs apply to the simpler approaches to measuring risk under the CRD.** The effective date for implementation of these approaches has been January 1, 2008. The capital ratio (both under CAD and CRD) is effectively higher than the 8 percent requirement. It should be noted, however, that the said possibility to require capital add-ons under “Pillar II,” as laid down in the respective rules and regulations, is subject to very precise criteria for progressively more severe measures.

28. **Practical experience of the effectiveness of the new regime for the cooperative sector present in the Cyprus market is as yet limited.** It is also too early to assess to what extent the new provisions and their implementation by the authorities will effectively enhance the quality of supervision and the stability of the banking sector. In general it appears, however, that all elements are in place or will be in place soon to reach the objectives set out by the Basel Committee, Committee of European Banking Supervisors (CEBS), and the ASDCS. This issue should be addressed further in the off-site monitoring and on-site in section plan for the next year.

29. **Moreover, ASDCS will soon issue new Regulative Decisions on ICAAP and SREP following the Regulative Decision for the calculation of the capital requirements and large exposures (RAA 2/2008).** This regulative decision will be in line with the corresponding guidelines issued by the CBC for the banks regarding ICAAP.

30. **With regard to other risks the Commissioner has issued—in addition to the directive on the Liquidity ratio which determines the minimum liquidity ratio of 25 percent—a regulative decision regarding the calculation of protective liquidity.** As from 27/12/07 the CCIs have signed a minimum reserve requirement agreement with the CCB via which the CCB has been authorised to act as the CCIs’ intermediary for the purposes of complying with the European Central Bank minimum reserve requirements. Furthermore, according to this Decision, CCIs are obliged to follow the prescribed principles for liquidity risk management.

31. **The 2007 regulative decision on corporate governance provides that each CCI should have a robust internal governance framework.** This requires also for smaller CCIs

with a minimum structure and gives guidance how to implement such independent control systems. The CCB as the central body provides support to their affiliated institutions. A final decision on the framework of CCB's support to the affiliated CCIs regarding the internal control and risk management functions is in process.

32. **In 2007 the “The Prevention and Suppression of Money Laundering Activities Law” was enacted** to were consolidate, revise and repeal the former Laws on the Prevention and Suppression of Money Laundering Activities of 1996-2004. Under the current Law, which came into force on January 1, 2008, the Cyprus legislation has been harmonised with the Third EU Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. The main purpose of the above Law is to define and criminalise the laundering of proceeds generated from all serious criminal offences including terrorist financing offences and provide for the confiscation of such proceeds aiming at depriving criminals from the profits of their crimes.

E. Progress on Recommended Actions From the 2005 Assessment

33. **In 2005 the mission proposed that the ASDCS should require reporting on CCIs' capital ratios and their components at least semi-annually.** In this respect the regulative decision regarding the calculation of the capital requirements and large exposures, also provides for the CCIs' obligation to report their solvency ratios and capital requirements on a semi-annual basis. Currently this reporting is done in two ways: through common reporting (COREP) and with the use of a structured form prepared by ASDCS. Moreover, new software was acquired for the compliance with the requirements of the Basle II. Therefore the ASDCS has now access to a larger range of data for monitoring purposes of all CCIs. However, the ASDCS may wish to consider increasing the frequency of reporting from six to three months for the capital adequacy and large exposures ratios.

34. **The 2005 mission recommendations related to additional regular reporting are addressed by the establishment of a direct access of the ASDCS to the CCIs databases.** The ability to regularly acquire and analyze information is established or will be e.g., on interest rate risk available soon.

35. **Concerning the recommendation of the 2005 assessment on connected lending,** article 41KD provided by the amended law 37(I)/2007, prohibits the granting of credit facilities to the members of the CCIs' Committee and Supervision Board, to the Secretary/Director and to the rest staff members and their connected persons on more favorable terms. Further guidelines on the definition of the term “connected persons,” which is the same as the definition provided by the regulative decision 2/2008 for capital adequacy and large exposures purposes, as well as CCIs' obligations as derived from above article, have been issued.

36. **The mission recommended in 2005 that the supervisor adjust and develop the necessary expertise in order to supervise the new risks that will be assumed by the CCIs**

in this context. As the CCIs currently are not exposed to market risk since they do not keep a trading book (i.e., they don't perform transactions in transferable securities). Moreover, as regards foreign exchange risk, the CCIs do not perform foreign exchange transactions as independent dealers but they act as agents of the CCB. A number of training programs/seminars were attended by the CCIs personnel and the ASDCS's officers on foreign exchange activities. However, the ASDCS considers the possibility of granting the CCIs the permission to perform foreign exchange transactions as independent dealers and intends to issue a regulative decision regulating this issue.

37. **The recommendation to undertake efforts to encourage mergers favoring critical mass and organizational capabilities of CCIs is addressed in a very comprehensive way,** as with regard to the ongoing merger process larger entities were established and with regard to the affiliation with the CCB there is support to improve internal control and audit. There are some considerations on the level of support that would be provided by CCB on internal control and risk management to affiliated CCIs. A final decision is not agreed until now.

38. **The recommendations on anti-money-laundering are addressed through a revised directive** requiring the introduction of new revised policies and procedures, as well as the upgrading and enhancement of the measures and systems for the effective prevention of money laundering and terrorist financing. It is emphasized that the Law explicitly states that the competent authorities' Directives are binding and compulsory to all persons to whom they are addressed. Moreover, the Cooperative Movement acquired through Cooperative Computer Society (SEM) Ltd. an IT system for detecting money laundering, which is specialized in such type of systems. All CCIs and ASDCS are on-line connected with this system.

F. Methods of On-going Supervision (CPs 16–20)

39. **The CRD and risk-based supervision generally will require the ASDCS to enhance the frequency and the scope of on-site inspections,** taking into account, on the one hand, the need for adequate coverage of the full scope of credit institutions operating in the country.

40. **The ASDCS should force its plans to have a full scope on-site examination of each single CCI in the years 2009 and 2010.** In addition, it is planned, to introduce a joint on-site inspection plan (20 inspections) with the CBC concerning their responsibility for consolidated supervision of the CCB and its affiliates.

41. **The ASDCS's computerization project is almost completed and ASDCS has direct access to the CCIs' databases.** A rating system for the CCIs has also been developed based on the "CAMEL" system (Capital, Asset, Management, Earnings, Liquidity). The investigated risk profile has proved to be a very useful tool for early warning purposes and for planning on-site supervision. ASDCS takes into account information received directly from CCI's, external auditor (AOCS), and its own reviews. and from other supervisors. The

rating influences the supervisory strategy for the CCI. Since the systems are new, their effectiveness will need to be evaluated further.

42. **Regarding consolidated supervision, CCIs do not have subsidiaries or affiliated companies.** However, pursuant to Article 41D(1)(e) of the CSL, the commissioner is responsible for supervising the compliance of the registered societies that are affiliated to the Central Body with the provisions of the CSL, for the purposes of consolidated supervision.

G. Progress on Recommended Actions From 2005 Assessment

43. **The 2005 mission recommended to strengthen supervisory capacity.** The significant reduction in the number of CCIs due to the continuous mergers enhanced the supervisory efficiency of the ASDCS. Within 2007 and 2008 the ASDCS's performed 177 on-site examinations, covering all CCIs either through basic on-site supervision, performed by the Development Division, or detailed/comprehensive supervision (only 6) performed by the Supervision Division. By the end of the year 2008 the number of staff will be increased by 20 compared to 2005.

44. **The ASDCS's Committee issued a regulative decision in 2008 with which the CCIs are obliged to immediately notify the Commissioner of the ASDCS of any material changes in their activities and/or any adverse developments that may occur, presenting all details involved.** In addition, the Commissioner may require that the CCIs should take any corrective measures necessary to encounter the above mentioned material changes and/or adverse developments in their activities. In this context, according to article 19(16) the AOCS must immediately inform the Commissioner of any negative finding.

45. **Currently, the ASDCS is in a consultation process of changing the Law that regular external auditors (in addition to AOCS) will be allowed to audit CCIs in the future.**

H. Formal Powers of Supervisors (CP 22)

46. **The ASDCS retains exclusive sanctioning powers and thus carries full responsibility thereof.** However, it is recommended that the range of sanctions available will be reconsidered; the “middle section” between essentially symbolic fines and hard enforcement actions seems somewhat weak in the supervisory toolkit.

I. Cross-Border Banking (CPs 23–25)

47. **The respective principles on cross border banking are still not applicable,** as there are no entities of foreign banks under the supervision of the ASDCS and no Cyprus CCIs have entities in foreign countries. However, concerning the ongoing merger process CCIs becoming larger and more competent to enter foreign countries in the future.

IV. KEY RECOMMENDATIONS

Table 1. Key Recommendations

Reference Principle	Recommended Action
CP 1.1 Objectives	An evaluation of the approach to banking supervision should be take place as soon as possible.
CP 1.2 Independence	Continue to advance the depth of staff expertise and skills.
CP 2 Permissible Activities	To increase transparency of the cooperative sector the ASDCS should publish a list of CCI's they supervise.
CP 3 Licensing	Develop more comprehensive criteria on the fit and properness of the board and senior management.
CP 6 Capital Adequacy	Increase the frequency of reporting from 6 to 3 months.
CP 9 Large Exposure Limits	Increase the frequency of reporting from 6 to 3 months.
CP 13 Other Risks	Finalize the regulatory decision on the implementation of the ICAAP and SREP.
CP 14 Internal Control and Audit	To provide more clarity, a final decision concerning the level of support that would be provided by CCB on internal control and risk management to affiliated CCI's should be reached.
CP 16 On-site and Off-site Supervision	Evaluation of the effectiveness of the new capital regime. Enforce plans for full scope on-site examinations.
CP 22 Remedial measures	Develop a more comprehensive system of monetary penalties.

V. RECOMMENDED ACTION PLAN 2005

Table 2. Follow-up on 2005 OFC Assessment

Reference Principle	Recommended action	Status 2008
CP 1.1 Objectives	Manage changes during the transitional period through a global change committee.	Since 2005 a comprehensive transitional regulatory and supervisory system has been completed that requires every CCI to conform to the EU banking directives from the end of 2007.
CP 1.2 Independence	Full government support of supervisory strengthening capacity	When the recent recruitment process is completed, staff numbers will stand at 76 compared to 56 in 2005.
CP 2 Permissible Activities	Finalize regulatory decision defining permissible services and activities. Make provision that the term "Cooperative Credit Institution" or any derivative of this term cannot be used without the approval of the CSSDA.	A regulative decision has been issued regarding the services and activities that CCIs can offer and a law was introduced that prohibits the use of the term "Cooperative Credit Institution" or any derivative thereof without the ASDCS Commissioner's approval.
CP 5 Investment Criteria	Finalize regulatory decision regarding participation in other enterprises.	A regulative decision was issued, in accordance with relevant EU directives, in relation to CCI's participation in entities, both financial and non-financial.
CP 6 Capital Adequacy	Mandatory semi-annual reporting on each CCI's compliance with capital requirements regime.	A regulative decision has been introduced requiring 6 monthly reporting of capital adequacy positions.
CP 7 Credit Policies	Strengthen supervisory capacity. Enhance the supervisors' capacity to evaluate loan policies.	Twenty additional staff have or are in course of being recruited since 2005 and increased training on supervisory matters have also been strengthened.
CP 8 Loan Evaluation	Strengthen supervisory capacity. Provide for additional prudential reporting	Following the introduction of new software, ASDCS has now access to a wide range of o data for monitoring purposes.
CP 9 Large Exposure Limits	Strengthen supervisory capacity.	Twenty additional staff have or are in the course of being recruited and there has been a significant increase in the number of inspections over the three year period.
CP 10 Connected Lending	Strengthen supervisory capacity. Facilities to connected persons should not be granted on terms more favourable than those used in the normal course of business.	Article 41KD provided by the amended law 37(I)/2007, prohibits the granting of credit facilities to the members of the CCIs' Committee and Supervision Board, to the Secretary/Director and to the rest staff members and their connected persons on more favourable terms.
CP 12 Market Risks	Adjust and develop expertise to supervise new risks.	CCIs are not currently exposed to market or foreign exchange rate risk. Nonetheless, staff have attended seminars and received training on the matter.

CP 13 Other Risks	Strengthen supervisory capacity. Organize accelerated access to centralized reporting system regarding interest rate risk.	The ability to acquire information on a regular basis and analyze such information has been, or is in the course of being, introduced. This will include information on interest rate risk.
CP 14 Internal Controls	Strengthen supervisory capacity. Undertake efforts to encourage mergers favouring critical mass and organizational capabilities of CCIs.	There have been a considerable number of mergers since 2005.
CP 15 Money Laundering	Update guidance note.	A revised directive has been introduced.
CP 16 On-site and Off-site Supervision	Strengthen supervisory capacity.	Additional staff and increased training have been introduced to address this issue. In addition, it is proposed to carry out an on-site inspection of all CCIs in 2009/2010.
CP 17 Bank Management Contact	Impose mandatory and timely communication of material changes in activities and adverse developments.	A regulative decision was issued in 2008 requiring all CCI's to notify the Commissioner of all material changes in activities and adverse developments.
CP 18 Off-site Supervision	Strengthen supervisory capacity. Accelerate direct connection to central data server	The ASDCS's computerized project is almost complete which will provide it with full access to all CCI's databases.
CP 19 Validation of Supervisory Information	Strengthen supervisory capacity.	This has been facilitated by the recruitment of the additional staff referred to in Principle 1.2 above.