

MENA Task Force on Corporate Governance of Banks

Questionnaire

Following its meeting in Dubai (November 2006), the MENA OECD Working Group on Corporate Governance agreed to establish a Task Force on corporate governance of banks in the region. The Task Force will engage in a discussion of this topic, electronically and at dedicated meetings. Its primary objective is to produce a non-binding Policy Brief, outlining conclusions and options for reforms, within a year.

The present questionnaire is sent to selected experts from the MENA countries in order to provide factual input for the preparation of the Policy Brief. The feedback to this questionnaire does not necessarily represent the views of the organisations to which the respondents belong. Please note that it will be treated as **your personal view**.

While all the members of the Task Force have not been appointed yet, it is possible that your feedback, on an anonymous basis, could be shared with the members of the Task Force for further discussions.

This questionnaire consists of two parts. **Part I** should be answered by **banking supervisors only**. **Part II** is expected to be answered by **all respondents (including banking supervisors)**.

Part I is aimed at collecting data and additional factual information, which will set the context and inform the discussions of the Task Force. Furthermore, it could be included as annex to the final policy brief for information purposes.

Part II includes a variety of questions. Some require simple “yes” or “no”-answers, while others request explanatory comments. In terms of the latter type of questions, although we would welcome if you could kindly fill-in responses to all questions, we assume you may be more interested in providing more details, in particular, on issues within your main responsibility or expertise, **while answering simply “yes” or “no” to the other questions**. Where available, English translations of the legal and other measures referred to in your responses should also be sent by e-mail.

It would be appreciated if you could insert your **answers in this WORD document**, using **bold** fonts so that we can easily distinguish questions and **answers**.

The responses are to be sent **electronically to Elena Miteva** (Elena.miteva@oecd.org).

Last but not least, please note that submissions are expected by **5 April 2007**, at the latest.

NOTES

The term “**bank**” in this questionnaire means what is often called a commercial bank, or a corporation engaging in all three core banking businesses as follows: **deposit-taking, lending, and settlement**. Needless to say, a “bank” may or may not engage in other businesses as provided by law. Laws often prohibit other firms from using the term “bank” in their company names. While investment banks, mere financial companies or credit unions are not included here, **co-operative** banks are within the scope as far as they engage in three operations above and are allowed to use “bank” in their names. The term “bank” refers to both publicly held (or **listed**) banks and closely held (or **non-listed**) banks.

State-owned banks, whether they are listed or not, are usually included except those who mainly engage in policy lending supported by government subsidies (i.e., policy lending, development banks).

It would be rather difficult to provide a definition of the “**family-owned bank**” in a single uniform way. Some of them are non-listed, but others can be listed with relatively small portion of shares held by the family. In this questionnaire, we would like you to include banks which you believe to be under significant control/influence of specific family/families in reality, even though their voting rights may be rather small.

Part I

- This part is to be answered by all respondents (including banking supervisors).

A. General principles

1. What are the most serious problems/challenges, in your view, involving corporate governance of banks in your country? Please explain briefly.

2. Please provide examples (on anonymous basis, if appropriate) of:
 - (a) recent failures:

 - (b) regulatory initiatives:

 - (c) measures taken by individual banks.

3. Do you think corporate governance of banks needs **special attention** in comparison with other listed companies? If yes, do you also think that corporate governance of banks is **more important** than of other large listed non-financial companies? Please briefly explain your views.

4. Is there a corporate governance code in your country that exclusively (or mainly) focuses on the banking industry? Is there a corporate governance code that applies generally, including banks? (*Please electronically attach the document[s] to your e-mail.*) Which entity, if any, monitors compliance with the code(s)?

5. Do you think it is desirable for your country to develop a corporate governance code that exclusively (or mainly) focuses on banks? Please explain your standpoint.

6. What is the actual / potential role of the bank supervisor in issuing guidance to banks about corporate governance? Is there a danger that instructions or regulations regarding corporate governance will result in “ticking the box” or pro-forma compliance?

6. What is the organisational chart of the governing bodies and departments ensuring good corporate governance with their underlying responsibilities, lines of reporting and authority? (Please chose between outlining the organisational chart typical for your country’s banks or the one of your bank).

7. To the best of your knowledge, are there any measures taken by banks in your country in order to implement sound corporate governance practices? Does your bank have specific written procedures and policies as regards corporate governance? If yes, please briefly give a description thereof. If not, are there any planned steps to be taken in this regard?

B. Board (and management) issues

1. Please summarise the key points of the mandatory requirements on the composition of the board and the executives of banks in your country (e.g. mandatory outside directors, mandatory committees, mandatory separation of the chairman and CEO, one-tier/two-tier system, fit-and-proper person requirements), as well as the functions of board members

2. Please list all mandatory committees (if any) of banks required by laws/regulations in your country. If they are requested by voluntary codes/rules, please list them, too. What are the board committees of your bank? What are the most frequent board committees typical for the banks in your country?

3. What is the usual size of bank boards of directors in your country? What is the typical composition of bank boards of directors, in terms of profile (qualifications), number of independent directors, relations to the bank shareholders, etc.? Please specify the requirements in these respects and their source (legislation, specific regulations or buy-laws)?

4. Is there a definition of independent director in your country legal framework of corporate governance, in a national Code or in the statutory documents of your bank? If yes, please describe. How are independent directors appointed? Are the independent directors identified as such in the annual report of the bank?

5. What is the procedure for appointing new directors in your bank? Is this a formal and transparent procedure? Is it functioning properly? Do nomination committees exist in the majority of banks? On what grounds are board members removed? What is the overall practice in your country?

6. Do bank boards of directors in your country function properly, in your view? How often do they meet? Do directors dedicate enough time to their duties? Do directors perform well their function of overseeing management or do they get involved in the day-to-day management of the business?

7. Are the opinions of board members accurately reflected in the minutes of board meetings? Do directors have access to the information necessary for fulfilling their duties?

8. Do banks arrange insurance cover in respect of legal action against directors, in your country? What are the practices in your bank?

9. Do bank boards undertake formal annual evaluation of their own performance, and that of their committees and individual directors? What are the practices in your bank?

C. High standards of professional conduct and appropriate management of conflicts of interest

1. Do most banks in your country have a written set of documents clearly stipulating strategic objectives, corporate values and standards of conduct?

2. What kind of regulations prohibits a bank from lending money to its related parties on unduly favourable terms and conditions? Please summarize the key points of the law/regulations that may prohibit certain type of related-party lending or may ensure that related-party lending is based on market terms and conditions (i.e., arm's length rule). (E.g., mandatory disclosure / reporting, mandatory approval by the board, etc.)

3. Generally speaking, which type of related-party lending below can (potentially) be most problematic in your country?
 - A. lending to shareholders;
 - B. lending to board members/management;
 - C. lending to employees;

D. lending to the firms within the company-group to which a bank belongs;

F. lending to favoured clients, such as relatives of the management / board.

4. Please summarise the key points of the laws/regulations regarding individual persons and corporate entities holding shares of banks (e.g. upper limit of such holdings, approval of banking supervisor for such holdings, fit-and-proper test, mandatory reporting, mandatory disclosure, disclosure of beneficial owners).

5. Other than the related-party lending, please explain major problematic activities (if any) of banks involving conflicts of interest (e.g., bank's insider trading of the shares of its corporate borrowers, operating investment funds).

6. Is a bank employee in your country usually able to communicate his/her legitimate concerns about illegal/questionable practices of the bank to the board (or to an independent body within the bank) without fear of retaliatory action?

D. Clear lines of responsibility and accountability (in the case of group structure)

1. Are there any parent companies that hold domestic banks as their subsidiaries in your country? If yes, do you see major problems involving corporate governance of the parent companies and/or banking subsidiaries? Please explain briefly.

2. Is the parent company expected to support the bank beyond its commitment as a shareholder?

3. Is the oversight of bank subsidiaries an issue?

E. Appropriate oversight by senior management consistent with board policy

1. Do you think most (if not all) senior management* of banks in your country have the necessary skills to manage the business under their supervision and have appropriate control over the key individuals in these areas? If not, please briefly explain.

* “Senior management” means such as CFO and division heads who are responsible for overseeing the day-to-day management of the bank

2. Please provide a brief description of the role and responsibilities of senior management of banks in your country? Are there any rules to avoid conflicts of interest?

F. Internal audit, external audit and internal controls

1. Is there an accepted standard for internal audit? What are the practices and requirements in terms of auditor’s qualifications, remuneration and training? How are auditors appointed and by whom?
2. Are audit committees common and well-functioning governing bodies of your country’s banks? What is their mandate? Are members of audit committees generally well qualified to perform their duties?
3. Is a matrix system of management oversight of banking operations common? Please briefly explain major problems (if any) regarding internal audit function of banks in your country.

4. Are there any provisions or well established practices regarding the external auditors of the bank? Please briefly explain major problems (if any) regarding external audit function of banks in your country. Is there effective implementation of high quality audit standard?

5. What steps have been taken to ensure independence of auditors?

6. What are the risk management systems in your country's banks? How are risk management systems overseen?

7. Are risk management committees common? If yes, do they provide effective oversight of senior management's activities in managing credit, market, liquidity, operational, legal, compliance, reputational and other risks of the bank?

8. Please briefly explain major problems (if any) regarding internal control functions (including the compliance and legal functions) of banks in your country.

G. Compensation policies

1. Do you see major problems in terms of compensations (including stock options and retirement payment) of board members and/or senior management of banks in your country? If yes, please explain briefly.

H. Transparency (disclosure and reporting)

1. What are the reporting standards for banks in your country? Is there a full compliance with International Financial Reporting Standards (IFRS)? Are there specific difficulties encountered by banks in this respect (please provide examples)?

2. Does the banking supervisor have access to information about beneficial owners* of banks even though it is not known to the banks or not publicly disclosed?

*Beneficial owner is the person who benefits from the ownership of a security or other property, the *de facto* owner. **The beneficial owner may not always be the same as the nominal owner** (who is registered as the owner or who holds the title to the property).

3. Is it mandatory for banks in your country to disclose (or report to the supervisor) information about some kind of related-party transactions? If yes, please summarise the key points of the disclosure (or reporting) requirements.

4. Is important information (e.g., annual financial statement) of banks available to depositors of **non-listed** banks in your country? If yes, how do the depositors of the non-listed banks receive such information (e.g., annual report published by the bank, or supervisor makes public such information)?

5. What are the requirements for public disclosure of information by banks in your country? What are the most frequent problems with public disclosure of information by banks in your country?

6. Do investment advisors and business media in your country weigh information provided by banks and probe for additional information?

7. Is the board remuneration policy disclosed? What are the requirements regarding disclosure of the remuneration of members of the board and key executives?

I. Monitoring of the corporate governance of corporate borrowers by banks

1. Generally speaking, do banks in your country usually occupy a dominant position vis-à-vis corporate borrowers? More specifically, are they potentially able to exert *de facto* influence on the corporate governance structure/practices of their corporate borrowers if they want to do so?

2. Does the board (or senior management) of corporate borrowers in your country often include bankers (or ex-bankers) of the bank who lends money to the company? If yes, what are the pros and cons of such a practice in your view?

3. Please describe pros and cons of encouraging banks in your country to play a more active role in improving corporate governance structure/practices of their corporate borrowers.

J. Other

1. Please feel free to comment any views on corporate governance of banks other than above.

Part II

- This part is to be answered by banking supervisors only.

1. Please provide the total lending outstanding by all banks in % compared with the GDP (most recent figures available).

2. **Please provide the total assets of the banking sector in % compared with the GDP** (most recent figures available).

2. (a) Numbers of banks

Please fill in the number of banks operating in your country in the box below:

Domestic banks				Foreign affiliated banks		Not classifiable	Total
commercial banks	investment banks	state-owned	Islamic banks	branches	locally registered		

Please also fill in the numbers of five years ago (2001)

Domestic banks				Foreign affiliated banks		Not classifiable	Total
commercial banks	investment banks	state-owned	Islamic banks	branches	locally registered		

(b) Numbers regarding **domestic** banks

Please fill in the numbers of **domestic** banks in the box below according to official data or, if not available, your personal estimation. If a bank is a subsidiary of a holding company, please classify the bank by the shareholders of the holding company.

	Domestic banks with no controlling shareholders*	Domestic banks with controlling shareholder(s)	Not classifiable	Total
Listed				
Non listed				
Total				

* "Controlling shareholder" means a shareholder who has enough votes to choose a majority of the board and exert *de facto* control over management. Such shareholder may be able to control the bank

while owing less than 50% of the equity through shares with special voting rights, control pyramids, and other arrangements.

(c) Numbers regarding domestic banks with controlling shareholder(s)

Please fill in the numbers of **domestic banks with controlling shareholder(s)** in the box below according to official data or, if not available, your personal view. If a bank is a subsidiary of a holding company, please classify the bank by the shareholders of the holding company. A bank may have more than one controlling shareholders but please classify banks by their most significant controlling shareholder.

	Domestic banks controlled by family	Domestic banks controlled by the state	Domestic banks controlled by others	Total
Listed				
Non listed				
Total				

3. What is the market share (%) of the top five largest banks (compared with all banks including foreign banks) in terms of deposits? (Please provide the names of the banks, as well.)

4. Generally speaking, what are the overall key characteristics of banks in your country, in which they might differ from banks in many OECD countries (if any)?

(a) What is your overall assessment of state-owned banks' role in the financial sector?

(b) In your opinion, is there a need for consolidation of the banking sector? If so, please explain.

(c) What is your overall assessment of the role of family-owned banks in the financial sector?

(d) Are there any liquidity concerns in the banking sector of your country? How have loan-to-deposit ratios evolved in recent years (growing, declining, no steady trend, latest available aggregate figure)?

5. Do laws in your country allow banks to engage in what is called “universal banking” (i.e. banking that includes investment services in addition to services related to savings and loans)?
6. Please provide information on bank regulatory institutions.
- (a) Which institution implements the off-site monitoring (reviewing and assessing disclosed information) and on-site inspection of banks? How many persons in this institution are employed for off-site and on-site supervision?
- (b) Which institution is responsible for “fit and proper” tests for:
- members of boards of directors and management

 - major shareholders
- (c) Which institution licenses banks and revokes them? How many licences were revoked in the last five years?
- (d) Which institution is in charge of the administrative measures on individual banks, such as forcing banks to do (or not to do) something in order to comply with the banking law, and of sanctioning (i.e.. prompt corrective action)?
- (e) Which institution is in charge of policy making in terms of banking regulations (e.g., drafting the banking law, drafting and issuing regulations/rules for banks)?
- (f) Does the regulatory framework comply with international best standards, such as the Basel Committee’s Core Principles for Effective Banking Supervision? Was the compliance with any such standards assessed in the past, and if so, by which international organisation? (Please provide a link to the report, if available.)

- (e) Has a bank regulatory institution issued corporate governance related rules, circulars or handbooks? If yes, please describe the features of this document and any actions, which may have followed to ensure its implementation.
7. Does a deposit insurance/guarantee scheme already exist in your country? What are its main features (e.g. insurance caps on accounts covered or insurance caps on individuals covered)?
8. Do banks pay premium for deposit insurance based on criteria, such as assessed risk, or is it a flat payment, related only to the level of deposits?
9. At this point in time, are there any banks whose shares are (partially) owned by the public sector as a result of a rescue operation? (i.e., in some countries, the state often recapitalises ailing banks in order to prevent financial crisis, etc.)
10. Does your country frameworks comply with international standards on anti-money laundering and terrorism financing? Please cite the related legal acts and their date of enactment. How are extra-territorial issues addressed with respect to money laundering and terrorism financing occurring across borders?