

## **Supervisory Guidelines & Standards**

Supervisory Standards and Guidelines are set by supervisors with a view to ensuring effective supervision. Similarly, the committee of banking supervisory authorities develops supervisory standards and guidelines with the hope that member countries will adapt them with a view to encouraging convergence towards common approaches and standards.

### **The Basel Accords**

This supervisory approach focuses on individual group entities. Individual entities are supervised on a solo basis according to the capital requirements of their respective regulators. The Transaction's Based Type of Supervision of individual entities is complemented by a general qualitative assessment of the group as a whole and, usually, by a quantitative group-wide assessment of the adequacy of capital.

### **Core Principles for Effective Supervision**

The Basel committee on Banking Supervision, with the endorsement of the Central bank Governors of the Group of ten countries in collaboration with Supervisory authorities from 28 jurisdictions developed a set of 29 basic principles for supervisory system to be effective. The principles are comprehensive and represent the basic elements of an effective supervisory system. The 29 principles are enumerated below:

Principle 1 – Responsibilities, objectives and powers

Principle 2 – Independence, accountability, resourcing and legal protection for supervisors

Principle 3 – Cooperation and collaboration

Principle 4 – Permissible activities

Principle 5 – Licensing criteria

Principle 6 – Transfer of significant ownership

Principle 7 – Major acquisitions

Principle 8 – Supervisory approach

Principle 9 – Supervisory techniques and tools

Principle 10 – Supervisory reporting

Principle 11 – Corrective and sanctioning powers of supervisors

Principle 12 – Consolidated supervision

Principle 13 – Home-host relationships

Principle 14 – Corporate governance

Principle 15 – Risk management process

Principle 16 – Capital adequacy

Principle 17 – Credit risk

Principle 18 – Problem exposures, provisions and reserves

Principle 19 – Concentration risk and large exposure limits

Principle 20 – Transactions with related parties

Principle 21 – Country and transfer risks

Principle 22 – Market risk

Principle 23 – Interest rate risk in the banking book

Principle 24 – Liquidity risk

Principle 25 – Operational risk and operational resilience

Principle 26 – Internal control and audit

Principle 27 – Financial reporting and external audit

Principle 28 – Disclosure and transparency

Principle 29 – Abuse of financial services

## **Prudential Guidelines**

To facilitate off-site supervision, a set of prudential guidelines was introduced by the CBN for licensed banks to ensure a stable, safe and sound banking system. It was meant to serve as a guide to banks to:

1. Ensure a more prudent approach in their credit portfolio classification, provisioning for non-performing facilities, credit portfolio disclosure and interest accrual on non-performing assets;

2. Ensure uniformity of their approach
3. Ensure the reliability of published accounting information and operating results.

The ultimate justification for prudential guidelines is the failure of the market, not only to reflect a depositor's risk exposure but more importantly, to control such exposures. The objectives of prudential regulations are therefore to protect the interest of depositors and the financial system as a whole.

The change in Nigeria's banking environment, occasioned by the economy's new philosophy of deregulation and the introduction of a deposit insurance scheme makes the need for such guidelines more imperative. As deregulation makes the industry more competitive, there is therefore the likelihood for depositories to get into more risky and unfamiliar undertakings. Also, the operation of deposit insurance schemes has the potential to reduce market discipline from depositories, if experiences from other countries are anything to go by.

The issue of overstatement of unearned profits by banks which enables them to declare dividends thereby eroding their capital base of a serious concern to the supervisory and regulatory authorities. The acceptance of the recommendations of the Basel Committee on the need for common and effective accounting standard for global banking makes the prudential guidelines imperative. Click CBN released Prudential Guidelines for Deposit Money Banks in Nigeria.

### **Statement for Accounting Standards**

Many banks have adopted inconsistent accounting policies and reporting practices which make the assessment and comparison of their performances very difficult. Some banks have allegedly overstated reported profits, while some banks continue to accrue interest on non-performing credits, declare unearned profit and thereafter appropriate such profits as provisions for bad and doubtful debts.

It is the belief of the monetary authorities that there is need to sustain public confidence in the financial statement of banks. The new uniform accounting standards therefore seek to provide a guide for accounting policies and accounting methods that should be followed by banks in the preparation of their financial statements.

### **Other Regulatory Directives**

Other regulatory directives to the banks included the following:

1. Code of Corporate Governance for banks: to ensure ethical practices by banks post consolidation, the CBN issued code of Corporate Governance guidelines for banks. This is with a view to encouraging transparency and accountability of management of banking institutions and the curtailment of risk appetite of banks.
2. Circular on the Development of Risk Management Systems in Nigerian Banks.
3. Framework for Risk-Based Supervision of Banks in Nigeria.
4. Circular on Unethical and Unprofessional Practice of Demarketing Colleagues/Other Banks in the Industry by spreading Rumors among others.