

New capital requirement for Iranian banks



LAW (EUROPE)

By Shakeel Adli

Recent failures by certain Iranian financial institutions have highlighted problems in Iran's banking sector. In a move to ensure greater accountability and transparency among local banks and financial institutions, on the 13th June 2017, the Monetary and Credit Council of Iran approved the Directive for Assessing Capital Adequacy Ratio of Credit Institutions (the Directive).

According to the Central Bank of Iran (CBI), the key objective of the Directive, which replaced a similar directive issued in 2003, is "to align the capital base of domestic banks with the latest international regulations and to promote greater stability in the banking sector to accelerate the development of international banking relationships". All domestic banks, credit institutions and foreign banks in Iran which are regulated and/or are under the supervision of the CBI (the Financial Institutions) are required to comply with the Directive.

According to the CBI, the Directive is based on the IFSB's standard, IFSB-15.

Some of the key guidelines of the Directive are:

- New Bank capital categories: The old classification of the 'main capital' of banks which included capital paid by the bank's shareholders and 'supplementary capital' which

included reserves for bad debts will be replaced by the following categories of capital:

- Category 1 which includes capital paid by the bank's shareholders, equity shares in the bank, accumulated profits, contingent and legal reserves and other reserve capital, and
 - Category 2 which includes capital raised from the issuing of debt securities that meet certain conditions including: (i) debt guarantees not provided by credit institutions or legal entities related to the credit institution, (ii) the maturity date for the debt must be five years and (iii) debt holders must not be entitled to interest until the maturity date
- New categorization of risks: Risks are categorized into credit, market and operational risks
 - Creation of a data system: A new data system on capital and the risk ratio will be put in place by the Financial Institutions within six months from the date the Directive comes into force. The Directive also requires banks to obtain credit ratings from internationally recognized credit rating agencies such as S&P
 - Minimum capital requirement: Under the Directive, a minimum capital to risk ratio of 8% will be held by the

Financial Institutions. This ratio is calculated as a ratio of the bank's capital (ie a combination of Category 1 and Category 2 capital) versus the risk-weighted assets calculated as a sum of all categories of risks. Within three years, the Financial Institutions are required to achieve a 4.5% ratio between Category 1 versus categories of risks, and

- Penalties: A failure to meet the requirements of the Directive within five years could result in preventive or punitive penalties against financial institutions.

According to the CBI's 2016 banking sector report, the average capital to risk-weighted assets ratio was approximately 5%, which is lower than the capital to risk-weighted assets ratio of Basel II and Basel III.

The Directive is a positive step toward the development of the Iranian banking sector in the aftermath of the relaxations of nuclear sanctions. It could help the CBI identify the weak banks and could play a valuable role in a market where banks still lack international credit ratings.⁽²⁾

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Positive developments in sovereign Sukuk space



SOVEREIGN SUKUK

By Hamed Afzal

The sovereign Sukuk space has seen some key announcements from Africa this month.

It has been reported that Nigeria still plans to tap the sovereign Sukuk market, assuring the market that an offering is imminent. The Central Bank of Gambia has issued its Sukuk with tenors of three months, six months and one year worth GMD30 million (US\$636,324) in aggregate on the 2nd August. In Morocco, a draft Sukuk law was recently reviewed and approved by the government, as it

steps closer to developing its Islamic financing framework, while Kenya may reportedly delay its debut Sukuk to the 2018-19 financial year.

In the Middle East, Bahrain's three year BHD125 million (US\$328.93 million) Sukuk Ijarah facility was oversubscribed, while the Kingdom of Saudi Arabia's maiden domestic Sukuk facility worth SAR17 billion (US\$4.53 billion) under its Saudi Arabian Government Saudi riyal-denominated Sukuk program received overwhelming demand with subscriptions received exceeding SAR51 billion (US\$13.59 billion), resulting in a 300% coverage ratio.

In Southeast Asia, the government of Indonesia's IDR17 trillion (US\$1.27 billion) Sukuk facility was also oversubscribed, while Autoriti Monetari Brunei Darussalam issued its 147th offering of short-term Sukuk Ijarah worth BN\$100 million (US\$73.31 million).

All of the aforementioned developments have resulted in continued positive sentiment generally in the sovereign Sukuk space.⁽²⁾

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