



BULGARIAN NATIONAL BANK

Annual Review of the Implementation of the Plan on Reforms and Development of Banking Supervision

The reforms in and development of banking supervision were a key priority in the 18-month governance and development programme of the Bulgarian National Bank (BNB) for the period July 2015 – December 2016.

The focus on banking supervision was prompted both by the 2014 events in relation to Corporate Commercial Bank, and by the need to make BNB supervisory practices as compliant as possible with the current international standard – the 2012 *Basel Core Principles for Effective Banking Supervision*.

The Plan on Reforms and Development of Banking Supervision exercised by the BNB was adopted by the BNB Governing Council and published on the central bank's website on 5 October 2015.¹

The Plan on Reforms and Development of Banking Supervision included specific measures for elimination of weaknesses found out in six problem areas:

- inadequate governance model of exercising the BNB's supervision functions;
- weaknesses in the internal organisation of the Banking Supervision Department;
- incompleteness of the regulatory acts, internal rules and guidelines regulating banking supervision;
- absence of an institutional framework for crisis management and bank resolution;
- deficient IT and communication support for the supervisory function;
- insufficient coordination and information exchange with other institutions relevant to the supervisory function.

These areas determined six lines of work, along which a total of 16 specific measures were planned with the relevant timeframes for implementation.

¹ The Plan can be found [here](#).

The plan was the result of an almost one year long process including internal analysis and assessment of the procedures and practices of the Banking Supervision Department and an independent external assessment made by a joint IMF – World Bank team.²

In April 2016 the BNB reviewed the implementation of the Plan on Reforms and Development of Banking Supervision in the first six months after its adoption. The results of this review were published on the central bank’s website.³

The review of the implementation of the Plan in the year after its adoption identified the following observations and conclusions:

- all core reforms were launched, and most of the slated measures were carried out;
- the full effects of the reforms pursued will be established gradually in the course of practice;
- the implementation of several measures under the Plan on Reforms and Development of Banking Supervision is underway;
- the Plan had a key role in defining the immediate and strategic tasks facing banking supervision and serves as a basis for management of the overall reform process in this area.

The table below summarises the implementation of the Plan on Reforms and Development of Banking Supervision.

Plan on Reforms and Development of Banking Supervision First Year Implementation

Measure	Indicative timeframes	Condition as of today
1. Governance model		
1.1. To adopt a decision that the BNB Governing Council will approve the internal rules and guidelines regulating the supervisory activities.	October 2015	Implemented.
1.2. To perform annually an internal audit of the compliance with the supervision rules and procedures and reporting the audit results to the BNB Governing Council.	Annually	Already applied.

² The full original text of the IMF and World Bank Report can be found [here](#).

³ The results of the progress report for the first six months can be found [here](#).

1.3. To submit to the BNB Governing Council a quarterly report on the current supervisory monitoring of banks (off-site monitoring and on-site inspections), supervisory problems identified, supervisory measures pursued, and their enforcement, as well on changes in the shareholding structure of banks.	On an on-going basis	Already applied. Since the beginning of 2016 such quarterly reports have been submitted to the BNB Governing Council by the Deputy Governor heading the Banking Supervision Department.
2. Internal organisation of the Banking Supervision Department		
2.1. To establish an Off-site Supervision Directorate.	October 2015	Implemented. The new directorate was created on 1 November 2015. At the end of August 2016 its staff included 18 inspectors and two more are going to be employed.
2.2. To establish an internal advisory council for setting-up and implementation of supervisory measures.	October 2015	Organisation of the ongoing work has been set up in the Banking Supervision Department, and it allows consultations on issues related to the conduct of supervisory activities and the preparation of supervisory measures. A new Manual on the Banking Supervision Processes will be adopted and it will regulate all the processes.
2.3. To increase the number of inspection teams.	December 2015	Implemented. A new team has been set up; now the On-site Supervision Directorate consists of 26 inspectors and another 14 are going to be employed.
2.4. To establish an Analysis of Market Behaviour-related Risks Division within the Special Supervision Directorate.*	December 2015	Implemented. The new division performs tasks related to the transparency of the products and services offered by banks, and tasks ensuing from the new Law on Consumers' Real Estate Loans.
3. Regulatory framework		
3.1. Draft legislative amendments with the purpose of expanding the powers for imposing supervisory measures.	March 2016	Implemented. The legislative amendments have been adopted by the National Assembly.
3.2. To conduct a full review of ordinances, internal rules and guidelines regulating supervision activities to bring them into compliance with the Basel principles.	September 2016	Underway. As a result of the review, a phased updating of manuals and internal rules will be done, and these will have to be approved by

		the BNB Governing Council in accordance with item 1.1.
3.3. To adopt a supervisory review and assessment manual in line with the decisions of the European Banking Authority on common procedures and methodologies.	September 2016	Underway. The European Banking Authority has adopted guidelines on this issue, and the BNB has declared that it will observe them. At the same time the BNB's manuals for risk assessment, for on-site and off-site supervision are still under review so as to bring them into full compliance with the European Banking Authority's decisions and guidelines, and to incorporate the ECB's supervisory approach about which there is information.
4. Preventive supervisory measures and bank resolution		
4.1. To establish a new Bank Resolution Directorate outside the Banking Supervision Department	October 2015	Implemented. The new directorate was established on 1 November 2015.
4.2. To specify the requirements and processes of preparation and approval of recovery plans	December 2015	Underway. The procedures and formats provided for in the decisions and guidelines of the European Banking Authority are applied.
4.3. To set up rules and procedures for early intervention	March 2016	Underway. Work must continue throughout next year to ensure compliance with the European regulatory framework, currently in formation, concerning actions to implement the Recovery and Resolution Directive.
5. IT and Communication (ITC) support		
5.1. To select an independent consultant	June 2016	Underway. A respective public procurement procedure is being prepared.
5.2. To prepare an external assessment of the adequacy of existing ITC solutions to the banking supervision needs and to the bank resolution activities	September 2016	Underway. A respective public procurement procedure is being prepared. .

6. Coordination and information exchange		
6.1. To sign coordination and information exchange memorandums with the relevant institutions	December 2015	Implemented. In August 2015 Guidelines on Interaction with the State Agency for National Security was signed, and in December 2015 – a Memorandum of Cooperation with the Commission for Public Oversight of Statutory Auditors. In August 2016, an Information Exchange Memorandum was signed with the Bulgarian Deposit Insurance Fund. Similar documents that have been already signed with the Financial Supervision Commission and the Prosecutor’s Office of the Republic of Bulgaria are subject to update. There is also a formal mechanism in place within the Financial Stability Advisory Council for BNB interaction with the Ministry of Finance and the Financial Supervision Commission.

* Presently: Specific Supervisory Activities Directorate

In parallel with the completion of the full implementation of all actions identified in the Plan of 5 October 2015, the future actions to be taken with regard to the reforms and development in the banking supervision will be based on:

- the conclusions and ideas for enhancing the supervisory process, received by the BNB as a result of the bank asset quality review and stress test carried out in 2016;
- the additional observations and possible recommendations, which will be made by the International Monetary Fund and the World Bank in the course of their overall assessment of the condition of the financial sector in Bulgaria through the Financial System Assessment Program (*FSAP*).⁴

⁴ The evaluation under *FSAP* started in the second half of 2016 and the results are envisaged to be submitted to the Boards of Executive Directors of the International Monetary Fund and the World Bank in May 2017.