

The quality of banking legislation in transition countries

One of the EBRD's key policy objectives is to support the creation and development of a financial sector based on sound banking principles. In order to assess the quality of banking legislation in its 27 countries of operations, the EBRD recently benchmarked the relevant legislation against the Core Principles for Effective Banking Supervision (issued by the Basel Committee in 1997). This article describes the main results evidenced in the assessment.

In October 1998 the ministers of finance and the governors of the central banks of the G7 countries requested Mr Hans Tietmeyer, then president of the Deutsche Bundesbank to develop a series of recommendations aimed at promoting stability in the international financial system. The recommendations were also aimed at improving cooperation between national and international supervisory bodies and international financial institutions. In February 1999 the Tietmeyer Report led to the creation of the Financial Stability Forum.¹ This Forum nominated the Core Principles for Effective Banking Supervision as one of the 12 key standards for sound financial systems.² These key standards have been broadly accepted as the minimum requirements for good practice. The successful implementation of international standards strengthens domestic financial systems and encourages sound regulation and supervision, greater transparency, and efficient institutions, markets, and infrastructure.

Core Principles for Effective Banking Supervision

The Core Principles for Effective Banking Supervision (the Core Principles) were enacted in 1997 by the Basel Committee on Banking Supervision. It was the product of collaborations and consultations between supervisory authorities worldwide. The Core Principles are a set of 25 basic principles which the Basel Committee believes must be in place for a supervisory system to be effective. The Core Principles are intended to serve as a basic reference for supervisory and other public authorities in all countries.

The Core Principles address the preconditions for effective banking supervision, licensing and structure, prudential regulations and requirements, methods of ongoing banking supervision, information requirements, formal powers of supervisors and cross-border banking.

Using the Basel Core Principles as a benchmark, in 2004 the EBRD conducted an assessment of the extensiveness of banking legislation (i.e., the quality of the legislation, usually referred to as "laws on the books") in its 27 countries of operations.³

The initiative, which was financed by Switzerland, was conducted by a questionnaire divided into 10 different sections (the Checklist), each corresponding to a particular focus area identified by the Basel Committee.

The sections are explained in detail below along with the description of the major strengths and weaknesses reported in the assessment. A series of charts illustrating each country's compliance in each of the sections under analysis are provided in an annex.

Assessment of banking legislation in the EBRD countries of operations

Competence of the banking supervision authority

The first section of the Checklist aims to identify the legal regulation governing independence of the regulator and its staff, to identify the conditions for the appointment, termination and liabilities of the head of the supervisory authority and to verify its compliance with international standards.



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In general, central and eastern Europe and the Baltic states (CEB)⁴ and the countries in south-eastern Europe (SEE)⁵ showed a higher level of compliance compared with the Commonwealth of Independent States (CIS).⁶

Bosnia and Herzegovina, Croatia, Estonia, Hungary and the Slovak Republic have the most compliant legislation, providing the regulator and its lead management with operational independence and legal protection from liability suits.

The Core Principles recommend that banking authorities and their staff should not be considered automatically responsible for bank failure, unless there is a causal link between the improper conduct and the damage caused. This immunity, which covers only supervisory actions taken in good faith while discharging their supervisory duties is not provided for in Armenia, Belarus, the Czech Republic, Kazakhstan, the Kyrgyz Republic, Poland, Russia, Serbia and Montenegro, Slovenia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

When assessing an authority's independence, the assessment revealed that in Belarus the government can significantly influence the budget of the National Bank therefore placing doubts on the autonomy and independence of the authority.

Discharge of the banking supervisory authority's powers

The second section of the Checklist analyses the banking supervisory responsibilities and objectives and aims to identify whether the law provides the regulator with adequate resources to meet the objectives set.

The assessment shows that legislation in CEB is substantially in line with international standards. Lithuania and Slovenia reached the best compliance rate in the region. In both countries the accountability of the regulator, its authorities with respect to on-site and off-site examinations and the regulator's authority to request information from banks under supervision is clearly detailed by the law.

The assessment also showed a relatively sound framework in SEE countries, with only some deficiencies found in Bulgaria. The National Bank of Bulgaria has limited authority to appoint or revoke external auditors⁷ and there are no policies in place for assessing the effectiveness of the National Bank's on-site and off-site supervisions.

Tajikistan and Ukraine obtained the best compliance ratings in the CIS, while major shortcomings in the region were reported in Armenia, Azerbaijan⁸ and Turkmenistan.

In Armenia the Central Bank has no authority to appoint banks' external auditors or revoke their appointment when they are not deemed independent.⁹ No guidelines are in place covering the scope and conduct of audit

programmes and ensuring that audits cover issues such as non-performing assets, asset valuations, derivatives, asset securitisations and the adequacy of internal controls over financial reporting.¹⁰ These issues are considered essential by the Basel Committee.

The explanatory notes to Core Principle 21 points out that "banking supervisors must ensure that each bank maintains adequate accounting records drawn up in accordance with consistent accounting policies and practices enabling the regulator to obtain a true and fair view of the banks' financial conditions". It is therefore essential that the law provides the supervisor with the right to revoke the appointment of a bank's auditors and with the authority to require banks to appoint auditors recognised as having the necessary professional skills and independence to perform their work.

In Turkmenistan the law is silent on the Central Bank's authority to have on-site access to local branch or subsidiary offices of a foreign bank for financial supervision purposes.¹¹

In Uzbekistan, the Central Bank has no methodology in place for determining or assessing the nature, importance and scope of the risks to which individual banks are exposed.¹² In addition, there are no cooperation arrangements between domestic and foreign authorities to enhance the supervision of the financial system.¹³

Definitions of bank and banking activities

The purpose of the third section of the Checklist is to identify whether national legislation clearly identifies which institutions can carry out banking activity.

The assessment revealed that all the EBRD's countries of operations are fully in line with the requirements established by Core Principle 2: the term "bank" in general is clearly defined and the laws clearly set guidelines for identifying which institutions can carry out banking activity and in particular take deposits from the public. This is the only section where all countries reached full compliance.

Licensing authorities and requirements

Under this section, the assessment aims to ascertain whether there is a sound framework and clear criteria for licensing banking institutions. The purpose is to understand whether under the law regulators are capable of determining that new banking institutions have suitable shareholders, adequate financial strength and management with sufficient expertise and integrity to operate in a sound and prudent manner.

In most of the countries the legislation is reported to be highly compliant with the Core Principles: the licensing authority, its monitoring procedures and the minimum initial capital requirements, suitability

of shareholders and management and transparency of ownership are generally detailed in the law.

Notable exceptions to the above are Slovenia in CEB, Albania and Bulgaria in SEE and Belarus, Kazakhstan and Uzbekistan in the CIS, although only minor deficiencies are registered.

In Albania, Azerbaijan, Kazakhstan, Slovenia and Uzbekistan the licensing criteria provided by the law does not include a comprehensive assessment of the legitimacy of the source of initial capital, which conflicts with one of the essential requirements established in Core Principle 3.

Additional criteria require that the licensing authority has procedures in place to monitor the progress of new entrants in meeting their business and strategic goals, and to determine that supervisory requirements outlined in the licence approval are being met. These requirements were only partially found in Belarus, Bulgaria and Slovenia.

Supervision of operations by domestic banks overseas and foreign banks locally

The fifth section of the Checklist gauges the regulator's authority to establish specific licensing requirements for foreign banks creating local branches and additional reporting requirements for local banks opening branches and subsidiaries in foreign countries. Bulgaria and the Slovak Republic showed full compliance in this section.

International standards on "home country" supervision are found in Core Principles 23 and 24, while Core Principle 25 details the essential criteria for the "host country" supervisors. These principles require banking supervisors to apply prudential supervision to all aspects of business conducted by their banking organisations worldwide. Consolidated supervision requires that supervisors have in place information sharing agreements with host supervisory authorities.

The Basel Committee recommends that without information sharing agreements, banking supervisors should prohibit their banks from establishing operations in countries where secrecy laws impede the flow of information and adequate supervision. Where the host country supervision is deemed inadequate, the parent supervisor should have the authority, at least as a final resort, to request the closure of the overseas office. Finally, "banking supervisors must require the local operations of foreign banks to be conducted to the same high standards as are required of domestic institutions and must have powers to share information needed by the home country".¹⁴

Among the CIS countries, the major weaknesses were found in Kazakhstan, Turkmenistan, Ukraine and

Uzbekistan, while in Armenia, Azerbaijan, Belarus and Moldova the law is deemed generally compliant with international standards. In SEE, the situation is deemed relatively sound in Bosnia and Herzegovina, Croatia and Romania, while in CEB substantial problems are registered only in the Czech Republic and Hungary.

The most common weaknesses are the regulator's lack of authority to prohibit banks from establishing operations in countries where secrecy laws prohibit disclosure to home country supervisors and to require closure of overseas offices when risks are deemed excessive.

Transfer of ownership and undertaking major acquisitions and equity investments

This section focuses on significant direct or indirect investment in a bank, changes in ownership over particular thresholds, including the definition of such threshold, and the authorisation procedure governing certain types of acquisition and investments by banks. Essential criteria are contained in Core Principles 4 and 5. The former principle requires that the legislation provide clear definition of "significant" ownership in banks and prompt disclosure over changes in ownership; the latter recommends a clear definition of the criteria for the evaluation of bank investments.

International standards were found to be fully transposed in Armenia, Bosnia and Herzegovina and Bulgaria, while in Croatia, the Czech Republic, Estonia, Georgia, the Kyrgyz Republic, Latvia,¹⁵ Lithuania, Poland, Romania, Russia, Serbia and Montenegro, Tajikistan and Uzbekistan the law does not request prior supervisory approval for major acquisitions. In addition, in some instances laws are silent on the criteria for assessing whether a proposed investment exposes a bank to undue risks or hinders effective supervision. Disclosure of beneficial ownership was also found to be a problematic issue.

The assessment revealed that legislation in CEB is generally less compliant than in the other two regions. This deficiency can be accounted for by the fact that the European Union's *acquis communautaire* is limited on these issues. The new Financial Conglomerates Directive, which will be fully applicable this year, and the new Transparency Directive, which will be applicable starting from January 2007, will hopefully fill this gap. These directives will introduce prudential supervision on a banking group-wide basis and set new minimum disclosure requirements.

In the CIS, the assessment revealed that in Georgia, the Kyrgyz Republic, Ukraine and Uzbekistan the criteria on the bank's financial and organisational resources to handle the acquisition/investment was deemed insufficient.

Prudential regulations

Developing and utilising sound prudential regulations and requirements to control risks related to capital adequacy, large exposures and lending limits are a key part of the supervisory process. This section aims to identify whether the national legislation sets minimum capital adequacy requirements for banks and to define the regulator's powers in establishing prudential standards.

All countries in the region showed a high level of compliance, especially Albania, Bulgaria, the Czech Republic, Estonia, Georgia, FYR Macedonia, Hungary, Latvia, Romania, Poland, Russia and the Slovak Republic. The law clearly defines the minimum capital adequacy requirements that all banks must meet, which are in line with those established in the Basel Capital Accord. The banking supervisory authority has the power to set prudential rules for banks and to impose prudential standards on a consolidated basis for banking groups.

In all other countries only minor flaws were registered.

Extension of credit and investment activities

The eighth section of the Checklist covers one of the essential aspects of the supervisory system: bank policies, practices and procedures related to the granting of credits and the ongoing administration of their loan and investment portfolios. International principles require that banks have grounded policies for granting credits and adequate control of credit risks. The banks' approval procedures and the regulator's supervision, the mechanisms to weight credit and investment portfolios and the prudential regulations concerning "connected or related parties" are analysed in this section.

All three groups of countries showed a similar level of compliance. The highest compliance rates were reported in Belarus, Estonia, Georgia, Kazakhstan, Poland, Romania and the Slovak Republic. Banks have objective and grounded policies for granting credits, making investments and adequate control of credit risks. In addition, the approval process of credit and investment activity in the banks is clearly organised and the regulator's authority in controlling credit and investment activity of the banks is well detailed by the law as the regulation of crediting connected or related parties.

The assessment showed some deficiencies in Albania, Azerbaijan, Armenia, Lithuania, Russia, Serbia and Montenegro, Tajikistan, Turkmenistan and Uzbekistan.

In Armenia, the cooperation arrangements between the Central Bank and domestic and foreign authorities should be improved, in particular concerning banking groups' financial conditions, capital adequacy and risk management.¹⁶

In Russia, banks are not required by law to establish management information systems providing essential

details on the condition of loan and investment portfolios.¹⁷ Russian banks are also not required to set up comprehensive procedures for assessing the borrower's repayment capacity. As well as these systems and procedures, the law should include provisions requiring that the valuation of collaterals reflect the net realisable value¹⁸ and that loans to connected and related parties be deducted from the capital when determining capital adequacy.

In Serbia and Montenegro credits and investments exceeding certain amounts and those considered especially risky or not in line with the mainstream of the bank's activities are not subject to a specific approval procedure. Banks are not required by law to establish internal policies for evaluating the quality of assets and the adequacy of loan-loss provisions and reserves.¹⁹ Finally, in lending to connected or related parties, banks are not required by law to conduct transactions on an arm's length basis.²⁰

Risk management

This section analyses national legislation dealing with country, transfer, market and interest rate risks in investments and international lending. The purpose of this analysis is to find out whether banks have adequate policies and procedures for identifying, monitoring and controlling such risks. Country and transfer risks are dealt with under Core Principle 11. Country risk refers to risks associated with the economic, social and political environment of the borrower's home country, while transfer risk is a component of country risk which arises when the borrower's obligation is not denominated in local currency. Market risk is detailed in Core Principle 12. Banks face a risk of losses from movements in market prices. One specific element of market risk is the foreign exchange risk.

Other typical risks are the interest rate risks, liquidity risks and operational risks. The first refers to the exposure of a bank's financial condition to adverse movements in interest rates. The second arises from the inability of a bank to accommodate decreases in liabilities or to fund increases in assets. Finally, operational risk includes all aspects of risk-related exposure other than those falling within the scope of credit and market risk. These include specifically the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and reputational risk.

Countries in CEB showed a higher level of compliance compared with the other two regions. In particular, a high compliance rate was registered in the Czech Republic, Hungary, Kazakhstan, Latvia, Lithuania, Poland and the Slovak Republic. Substantial problems were, however, registered in Azerbaijan, Russia, Slovenia and Uzbekistan.

One of the major shortcomings reported was the lack of suitable banking procedures for identifying, measuring and monitoring market risk. In some instances banks are also not required to set appropriate limits for various market risks, including their foreign exchange business.²¹

Governance and auditing

This final section assesses several types of supervisory issues. First, it examines the corporate governance of banking institutions, including responsibilities of management to introduce proper corporate governance regulation in banks. Second, it gauges the extensiveness of anti-money laundering and the compliance by banks with financial disclosure and adherence to internationally accepted auditing standards.

The assessment revealed very high levels of compliance in Armenia, Azerbaijan, Estonia, FYR Macedonia, Hungary, Latvia and Romania, while major shortcomings were reported in Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Poland, Serbia and Montenegro, Slovenia, Tajikistan, Turkmenistan and Uzbekistan.

In Belarus, Georgia, Kazakhstan,²² Poland, Slovenia and Tajikistan banks are not required to have in place adequate policies, practices and procedures promoting high ethical and professional standards.²³ In addition, in Belarus, Georgia²⁴ and Serbia and Montenegro, regulators have no authority to limit or circumscribe the range of activities consolidated banking groups may conduct.²⁵

In Georgia, Serbia and Montenegro, Tajikistan and Turkmenistan auditors do not have the legal duty to report to the supervisor matters of material significance regarding individual banks, such as failure to maintain the licensing criteria, breaches of banking or other laws etc.²⁶

Kazakhstan does not have a specific money laundering law and the regulator has no authority in anti-money laundering issues. In the Kyrgyz Republic money laundering is still not classified as a crime. In 2004 the Kyrgyz legislature drafted a fairly comprehensive law on combating terrorism and illicit money laundering. On 9 December 2004, the bill passed its first reading in the parliament. It is expected that the second reading will take place during the second half of 2005.

In Tajikistan money laundering issues are included within the provisions of the Tajik Criminal Code.²⁷ However the provisions are limited in their application and again the banking regulator has no authority under the law to take action against a bank that does not comply with its anti-money laundering obligations. In Uzbekistan a new anti-money laundering law was enacted in August 2004 and is scheduled to take effect in January 2006.

Overall compliance of banking legislation with the Core Principles for Effective Banking Supervision

Central and eastern Europe and the Baltic states

Among all the EBRD's countries of operations, the best compliance ratings were assigned to the Slovak Republic followed by Hungary, Estonia and Latvia. Here the banking framework is generally sound and very few flaws were identified.

In the Slovak Republic only minor problems were reported in the discharge of banking supervisory authority's powers, while in Hungary and Estonia, some weaknesses exist in the supervision of operations by domestic banks overseas and foreign banks locally and the transfer of ownership and the undertaking of major acquisitions and equity investments.

Estonia is among the few countries having a dual supervisory system. The financial supervision authority is the sole banking supervision authority in Estonia and is responsible for ensuring that all market participants comply with the requirements of the legislative framework. The second Estonian authority is the Bank of Estonia which is responsible for regulating the banking sector and issuing general regulations that are part of the banking legislative framework (e.g., prudential norms).

Slovenia obtained the lowest rating among the new EU member states showing several shortcomings especially in the transfer of ownership and the undertaking of major acquisitions and equity investments and in risk management.

South-eastern Europe

Turning our attention to countries in south-eastern Europe, Romania, Bosnia and Herzegovina, Bulgaria and Croatia obtained the highest compliance scores in the region. Notably, Albania also had a high compliance rating.

Croatia has developed a modern and extensive set of laws and regulations to control banking activity. Most of the banking legislation was enacted after 2000. In 2001, following the implementation of a set of recommendations expressed by the International Monetary Fund, the banking framework was substantially improved. Certain aspects of banking regulation, however, still require revision. These aspects include the assessment of criteria on acquisitions and investments, risks involved, notification procedures. Related parties transactions are regulated by Croatian law, however, the mechanism for determining and controlling such transactions is poor. Although Croatian law regulate examinations held by the National Bank, criteria for assessment of the effectiveness of such examinations has not been established.

Romania has also established a sound legislative framework in the banking sector and is gradually improving it. The objectives and institutional framework for regulation and supervision of banking institutions is broadly provided in the laws on banking and on the statutes of the National Bank of Romania. The National Bank of Romania has the exclusive power to grant licenses to banking organisations and supervise the activity of licensed banks in Romania.

Unlike many other countries, Romania has developed legislation for on-site examinations of commercial banks by a supervisory authority and for the assessment of obtained results from such examinations. Extensive regulation exists with respect to activity of foreign banks and Romanian overseas offices. Anti-money laundering legislation has been in place for several years already. Among the legislative gaps in Romanian law is the absence of clear criteria for reviewing and assessing major acquisitions and investments, including the threshold and types of acquisition and investment that is subject to supervisory approval.

Commonwealth of Independent States

Among the countries of the CIS, only Georgia, Moldova and Ukraine reached the high compliance category, while Russia was very close to the low compliance level.

Ukraine is making progress in strengthening prudential regulations and supervision of the banking system, although some weaknesses remain. Similar to Croatia, Ukraine enacted most of the subordinate banking legislation after 2000. The National Bank has a broad range of powers. An operationally independent unit within the National Bank of Ukraine, which seems to have sufficient resources to fulfil current supervisory responsibilities, conducts banking supervision. Among the shortcomings evidenced by the assessment, transparency of the shareholding structure remains an issue and in general requirements concerning shareholding and identification of ownership should be strengthened. Provisions on risk management by banks still require further development in Ukraine.

In Russia, after the financial crisis of 1998, authorities made significant efforts to protect the banking sector from any future crises. After long discussion, a new law on the Central Bank was enacted in 2002. Several regulations on mandatory normative of banks, establishing reserves for possible losses and organising internal controls were promulgated in 2003 and 2004. Nevertheless, there was a "little banking crisis" in the banking sector in May/June 2004.

Given the frequent claims that too many banks are active in Russia, it was to be expected that licenses of several banks would be revoked due to their inability to comply with financial obligations and money

laundering legislation. The lack of protection for Central Bank staff was also highlighted as one of the reasons why the Central Bank had no remedy against the quick drop in trade among banks. (Confidence has reportedly only been restored since state banks were used to open lines.) In addition, the lack of ability to undertake action against managers of the bank in question may have contributed to the crisis.

Finally, as the Checklist shows, regulation of banking activities and ongoing supervision in Russia is unsatisfactory. There are deficiencies within lending and investment regulation, in particular with formulating internal policies and procedures for granting credit and making investments and with lending to connected and related parties. Another area that needs attention is the establishment of clear policies and procedures to identify risks that banks face in their activities.

Conclusion

The EBRD's assessment revealed that half of its countries of operations have made considerable progress in developing financial systems of supervision. None of them, however, have demonstrated banking legislation that is fully in line with the Core Principles. Each of the 27 countries shows some weakness in at least one section of the Checklist.

In general, transition countries tend to have good legislation relating to the start up of new banks, but weak legislation related to continuing supervision. This is particularly the case for issues related to the disclosure of beneficial ownerships and the consolidated supervision of banking groups. It is in these two areas that policy makers and legislator should now turn their primary attention.

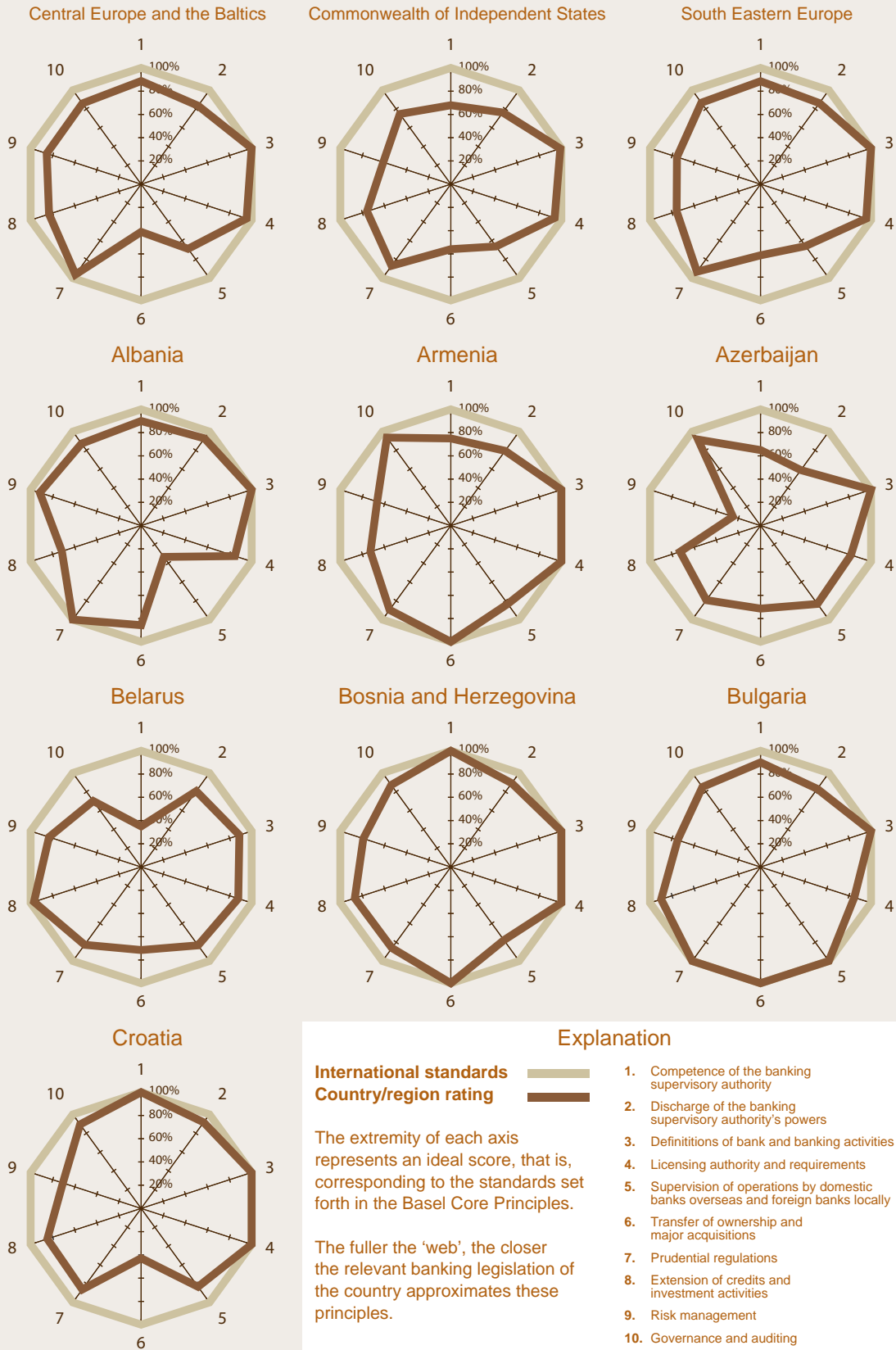
Endnotes

1. The Financial Stability Forum brings together senior representatives of national financial authorities (e.g., central banks, supervisory authorities and treasury departments), international financial institutions, international regulatory and supervisory groupings, committees of central bank experts and the European Central Bank, to promote international financial stability through information exchange and international cooperation in financial supervision and surveillance.
2. The 12 key standards for sound financial systems are: 1. Code of Good Practices on Transparency in Monetary and Financial Policies (IMF); 2. Code of Good Practices in Fiscal Transparency (IMF); 3. Special Data Dissemination Standard/General Data Dissemination System (IMF); 4. Principles and Guidelines for Effective Insolvency and Creditor Rights Systems (World Bank); 5. Principles of Corporate Governance (OECD); 6. International Accounting Standards (IASB); 7. International Standards on Auditing (IFAC); 8. Core Principles for Systemically Important Payment Systems (CPSS) and Recommendations for Securities Settlement Systems (CPSS-IOSCO); 9. The Forty Recommendations of the Financial Action Task Force and Eight Special Recommendations on financing terrorism (FATF); 10. Core Principles for Effective Banking Supervision (BCBS); 11. Objectives and Principles of Securities Regulation (IOSCO) and 12. Insurance Core Principles (IAIS).
3. The assessment refers to legislation in force on 1 June 2004.
4. Central and eastern Europe and the Baltic states consist of: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia.
5. South-eastern Europe consists of: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Romania and Serbia and Montenegro.
6. The Commonwealth of Independent States includes: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.
7. Under Article 65 (2) of the Law on Banks, the Bulgarian National Bank can appoint an independent ad-hoc auditor to conduct financial due diligence of a bank. The National Bank can exercise this right only in specific circumstances, exhaustively listed in Article 65 (1), which relate primarily to suspected financial troubles or breaches of the law. So far there is very little practice on the implementation of this article.
8. In Azerbaijan a new law Law on the National Bank was issued in December 2004. The law, which substantially improved the Azeri legal framework, was issued after the assessment took place and therefore is not taken into consideration in this assessment.
9. It should be specified that, according to Article 58 of the Law on Banks and Banking, the Central Bank of Armenia can request banks to appoint an independent auditing company within six months, and to publish its auditing statement. The statement of the independent auditing company must be submitted to the Central Bank within six months after the submission of the annual report. Upon the request of the Central Bank, the independent auditing company is obliged to present to the Central Bank all the necessary documents regarding the audit of the bank, irrespective of whether they represent any commercial, banking or other secrets.
10. It should be mentioned though that the Minister of Finance and Economy, by order N 324 of 10 September 2001, has approved the Armenian Audit Standards (AAS). As the preamble of this order declares, the AASs should be adopted according to the International Standards on Auditing approved by the International Federation of Accountants. The AASs include 34 auditing standards and regulate a wide range of auditing issues, comprising of the standard on audit standards' framework, the core principles and purpose of financial statements' audit, quality control documentation, fraud and mistakes, planning etc.
11. As required by Core Principles 16, 19 and 25.
12. As required by Core Principle 16.
13. As required by Core Principles 1, 24 and 25.
14. Core Principle 25.
15. In Latvia, while the prior supervisory approval is not required, the Regulation on Preparation of Investment Reports of Banks (Art. 3.6) banks have the obligation to inform the Financial and Capital Market Commission in writing at least 30 days in advance of any acquisition of a qualifying holding (10% and more of share capital or voting shares) in another bank, financial institution or other type of undertaking.
16. As required by Core Principles 1, 24 and 25.
17. As required by Core Principle 7.
18. As required by Core Principle 8.
19. As required by Core Principle 8.
20. As required by Core Principle 10.
21. As required by Core Principle 12.
22. In Kazakhstan there is only a general provision in the Civil Code (General Part) stating that legal entities must carry out their activities in an ethical manner (Article 8).
23. As required by Core Principle 15.
24. In theory under Article 59 of the Georgian Law on the National Bank, the regulator may limit the range and locations of activities if these contradict sound banking practices.
25. As required by Core Principle 20.
26. As required by Core Principle 21.
27. In particular, Article 262 and 574.

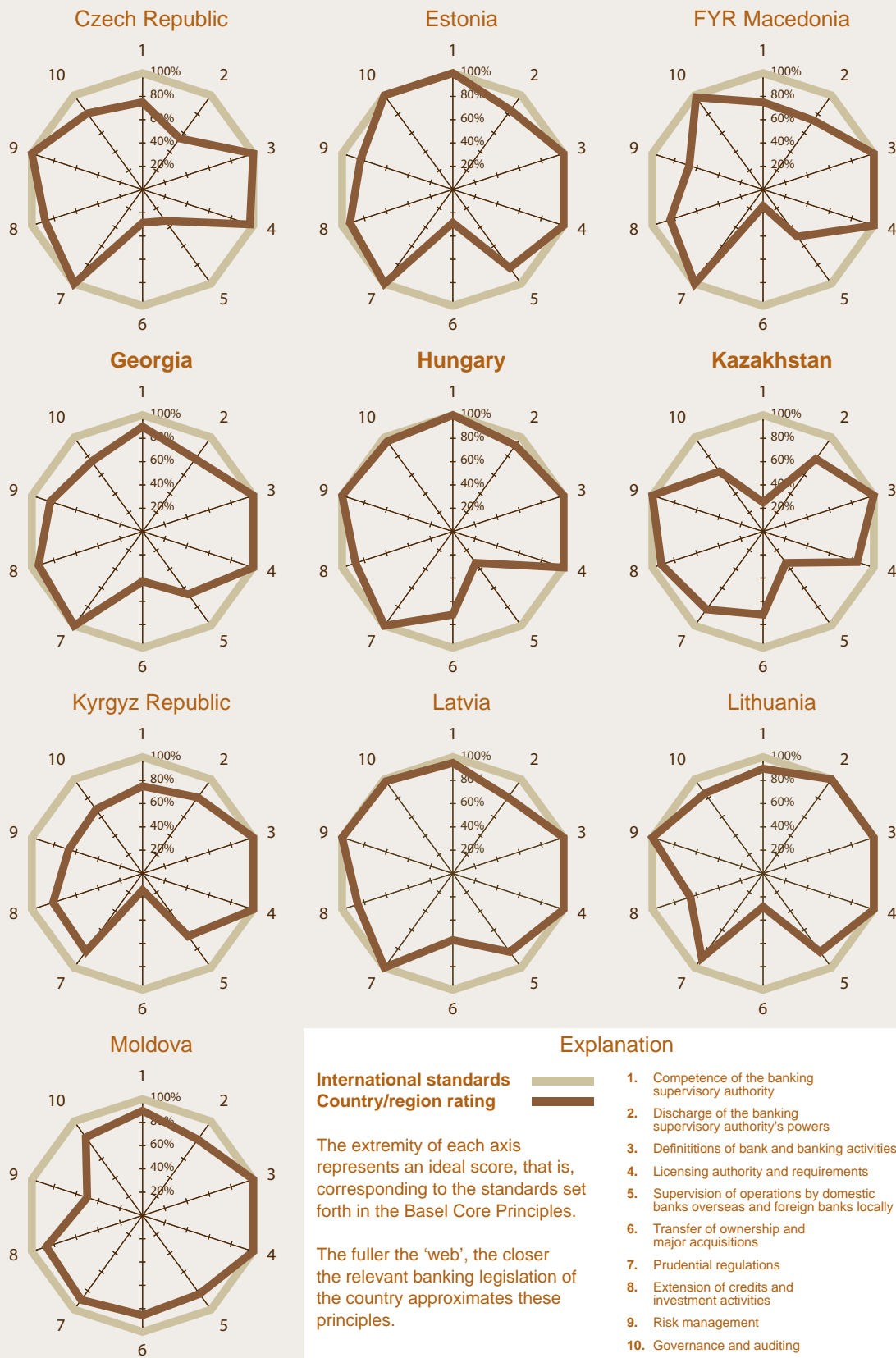
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Annex: Quality of Banking legislation in EBRD countries of operation



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