The new requirements of Banking Supervision according to the BCBS rules and the reality of their implementation in Algerian Banks

المتطلبات الجديدة للرقابة البنكية وفققواعد "BCBS" وواقع تطبيقها في البنوك الجزائرية

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Abstract:

This study aims to identify the content of Pillar (2) related to supervisory review processes under the BCBS(Basel Committee on Banking Supervision)rules and its most important amendments until the year 2019, in addition to the « Core Principles for Effective Banking Supervision » issued by the BCBS in 2019, and to study the extent of their implementation in Algerian banks.

The results show that Algerian banks have not yet applied the new requirements of Pillar (2) issued in 2019, but they have implemented most of the requirements mentioned in the « Core Principles for Effective Banking Supervision » of 2019, especially those related to measuring and managing risks and the requirements of internal control in banks and financial institutions.

Keywords: Pillar (2); Supervisory review;BCBS;Core Principles for Effective Banking Supervision of 2019;Algerian banks.

JELClassificationCodes :E59, G21.

ملخص:

تهدف هذه الدراسة إلى التعرف على محتوى الركيزة (2) المتعلقة بعمليات المراجعة الرقابية الواردة ضمن قواعد لجنة بازل للرقابة البنكية وأهم التعديلات التي مستها إلى غاية سنة 2019، بالإضافة إلى "المبادئ الأساسية للرقابة البنكية الفعالة" الصادرة عن اللجنة في سنة 2019 ودراسة مدى تطبيقها في البنوك الجزائرية.

وقد أظهرت النتائج أن البنوك الجزائرية لا تطبق بعد المتطلبات الحديثة للركيزة (2) الصادرة في سنة 2019، إلا أنها تطبق معظمالمتطلبات الواردة ضمن "المبادئ الأساسية للرقابة البنكية الفعالة" لسنة 2019، خاصة تلك المتعلقة بقياس وإدارة المخاطر وكذا متطلبات الرقابة الداخلية في البنوك والمؤسسات المالية.

كلمات مفتاحية: ركيزة (2)، مراجعة رقابية،لجنة بازل للرقابة البنكية، مبادئ أساسية للرقابة البنكية الفعالة لسنة 2019،بنوك جزائرية.

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1. INTRODUCTION

The issue of banking supervision occupies a special importance since the inception of banking, and this interest continues to increase with the development of the latter and the increase in its complexities and the risks associated with it, until the issue of supervision in itself has become a global issue that attracts attention from international banking institutions.

In this context, the first serious step for international cooperation in the field of banking supervision came when an international body was established for this purpose known as “the Basel Committee on Banking Supervision” (BCBS).

The committee has worked on issuing many rules and directives on banking supervision, among them the “Core Principles for Effective Banking Supervision” that banks and financial institutions must apply in order to monitor and manage their risks, and pillar (2) that includes supervisory review processes. These rules and directives have been amended several times, most recently in December 2019.

Algeria, like other countries, endeavors to implement the new procedures and rules of supervision issued by the Basel Committee. In this regard, we have raised the following problematic:

To what extent are the new requirements of banking supervision issued by the BCBS (Basel Committee on Banking Supervision) applied in Algerian banks?

In order to answer the previous problematic, we divided the research into three main sections:

- General concepts of banking supervision.
- Banking supervision under the new requirements of the BCBS
- The reality of the implementation of banking supervision in Algerian Banks according to the new requirements of the BCBS.

2. General concepts of banking supervision

2.1 Definition of banking supervision

Banking supervision refers to a set of rules and procedures to monitor the financial performance of banks and ensure their proper functioning in accordance with banking rules (United Nations, 2009, p. 29).

2.2The importance of banking supervision

Banking supervision has a great importance due to the fundamental role that banking system plays in allocating resources in the economy, as well as the increasing interdependencies that characterize the global economy due to financial globalization at the present time (Căruntu Genu & Ciurlău, 2014, p. 145). In addition, the importance of banking supervision is represented in (السيسي، 1998، الصفحات 171-172):

- Banks represent the place where society keeps its liquid funds, and therefore it is necessary to provide protection and guarantee for these funds;
- One of the characteristics of the banking sector is the high degree of risk in banks' investments, so it is necessary to monitor their investments in order to reduce the risks.
- Commercial banks are financial institutions that have continuous and wide contact with the public, which requires accurate and strong control systems, because making any mistake can affects the bank’s reputation among the public of customers, and the bank - as it is known - is based on good reputation.
- Increasing the number of commercial bank operations requires the existence of sound accounting and control systems that enhance the safety and accuracy of these operations and the correctness of their records, and reduce risks;

- The bank’s capital is usually small compared to the size of the operations it carries out. Therefore, trust is the basis of the bank’s credit. This requires the existence of sound supervisory systems to maintain the continuation of this trust.

3. Banking supervision under the new requirements of the BCBS

3.1 Supervisory Review according to Basel (II), (2,5) and (III) standards

The supervisory review process aims to encourage banks to develop and use better techniques to monitor and manage risks.

3.1.1 Supervisory Review according to Basel (II) standards

The supervisory review under Pillar (2) of Basel (II) accord allows supervisors to evaluate the bank's ability to assess its own risks and ensure that its operations are robust (Brunner, Hinz, & Rocha, 2008, p. 5). Supervisors should make the criteria that they use in reviewing banks' internal capital assessments available to the public (Siqiwen, 2014, p. 91).
Supervisory Review Process is based on (4) principles: the first principle states that banks should assess the adequacy of their total capital and maintain its levels (Kern , 2019, p. 156). Whereas the second principle states that supervisors should evaluate banks' operations and strategies, in addition to assess their ability to ensure compliance with “regulatory capital ratios” (Coyle , 2004, p. 136). Principle (3) states that banks should operate above the minimum “regulatory capital ratios”, and supervisors should be able to require banks to maintain capital in excess of the minimum set by the Basel Committee (Kern , 2019, p. 158). Finally, principle (4) states that supervisors must intervene early to prevent “regulatory capital ratio” from declining (Morris, 2008, p. 3).

3.1.2 Supervisory Review according to Basel (2,5)

After the global financial crisis of 2008, many weaknesses appeared in the risk management processes of banks and financial institutions. Therefore, the Basel Committee amended the Basel (II) accord in 2009, and the new amendments were called "Basel 2,5". The amendments to pillar (2) aim to assist banks and supervisors in managing risks in the future, because a sound risk management process is necessary to support the confidence of supervisory bodies as well as market participants in banks' evaluation methods of risks and capital adequacy (BCBS, 2009, p. 9).

In this regard, the committee recommended that banks develop techniques to identify and measure concentration risks (geographical areas, economic sectors) and to follow stress tests by preparing the bank for specific shock scenarios to measure its ability to absorb these shocks and conduct its operations in times of crisis without any major negative consequences.

3.1.3 Supervisory Review under Basel (III)

Since the publication of Pillar (2) Supplementary Guidelines in 2009, the Basel Committee have continuously reviewed and updated this pillar, most recently on December 15, 2019, when the Committee issued a chapter containing additional guidance on “supervisory transparency and cross-border cooperation”. This chapter is considered as a reference to other guidelines, and it includes the application of pillar (2) to systemically important banks.

The committee follows a pragmatic approach to mutual supervisory cooperation for internationally active banks, which includes recognition of common capital adequacy approaches in host jurisdictions, as well as a desire to reduce differences in national capital adequacy regulations between home and host jurisdictions so that subsidiary banks are not subjected to excessive burden (BCBS, 2019).

3.2 Core principles for effective banking supervision (Last revised in 2019)

The BCBS issued the “Core Principles for Effective Banking Supervision” for the first time in 1997. Since then, these principles have been amended several times, starting in 2006, then 2012.

On December 15, 2019, the BCBS issued a chapter describing the “Core Principles”, the preconditions for effective banking supervision, the assessment methodology and criteria for assessing compliance. In this chapter, the Basel Committee maintained the principles issued in September 2012, with introducing important enhancements into individual "Core Principles", especially in the necessary areas to strengthen supervisory practices and risk management. According to this chapter, the Core principles are as follows (BCBS, Core Principles for Effective Banking Supervision, 2019):

Principle1- “Responsibilities, objectives and powers”: this principle implies the necessity of a legal framework for supervising banks and financial institutions, where each responsible authority conducts continuous supervision... etc.

Principle 2- “Independence, accountability, resourcing and legal protection for supervisors”: the supervisory authority has operational independence and legal protection and is responsible for performing his duties and the use of his resources.

Principle 3- “Cooperation and collaboration”: an adequate framework for cooperation with local authorities and foreign supervisors requires adequate laws and regulations.

Principle4- “Permissible activities”: the monetary authority clearly defines the permitted activities of banks and financial institutions, and the use of the word "bank" in names is regulated.

Principle5- “Licensing criteria”: the licensing criteria include, at least, an assessment of the ownership structure of the bank and its broader group, how it manages risk, its strategic and operational plan… etc.

Principle 6- “Transfer of significant ownership”: The supervisor has the power to impose precautionary terms or reject any suggestions to transfer substantial ownership or to control interests held in existing banks, directly or indirectly.

Principle 7- “Major acquisitions”: the supervisor approves or rejects major acquisitions or investments by the bank (according to specific conditions). He can also make a recommendation to the responsible authority to approve or reject these operations.

Principle 8- “Supervisory approach”: effective supervision requires developing and following a forward-looking assessment of the bank's risk profile, identifying… potential risks arising from banks; As well as developing a framework for early intervention... etc.

Principle 9- “Supervisory techniques and tools”: the supervisory authority uses a proper range of methods and techniques to carry out the supervisory process, taking into consideration the risk characteristics... etc.

Principle 10- “Supervisory reporting”: the supervisor must collect, review and analyse both statistical reports and prudential reports from banks on an individual and unified basis, and these reports should be independently verified.

Principle 11- “Corrective and sanctioning powers of supervisors”: the supervisor intervenes to address unsound practices early in order to avoid financial problems in banks or financial institutions...

Principle 12- “Consolidated supervision”: The supervisor applies prudential standards to the work carried out by the banking group all over the world if necessary.

Principle 13- “Home-host relationships”: information sharing and collaboration between “home and host supervisors of cross-border banking groups” is necessary for effective supervision of the group and the group's entities.

Principle 14- “Corporate governance”: the supervisor verifies that appropriate policies and processes of governance are in place to manage the risks, e.g. strategic direction, roles and responsibilities of the banks’ Boards ... etc.

Principle 15- “Risk management process”: the supervisor verifies that there is a comprehensive risk management process by the banks, in order to identify, measure, and monitor ... all material risks in a timely manner…

Principle 16- “Capital adequacy”: the supervisory authority determines the appropriate requirements for capital adequacy for banks (in addition to specifying capital components and the ability to absorb losses).

Principle 17- “Credit risk”: the supervisory authority makes sure that the bank has an adequate credit risk management procedures, which take into consideration the nature of risks and their market and economic conditions.

Principle 18- “Problem assets, provisions and reserves”: the supervisor makes sure that banks have proper policies to measure and manage doubtful assets, in addition to maintaining appropriate provisions and reserves.

Principle 19- “Concentration risk and large exposure limits”: the supervisory authority verifies that the bank has sufficient policies to control, monitor and mitigate risk concentrations in a timely manner…

Principle 20- “Transactions with related parties”: the supervisory authority verifies that the bank carries out its transactions with related parties on an equal basis with other clients, in order to avoid the conflicts of interest.

Principle 21- “Country and transfer risks”: the supervisor verifies that the bank has sufficient tools to identify, monitor, and mitigate or control country risks in time.

Principle 22- “Market risks”: the supervisor verifies that the bank uses appropriate tools to identify and manage market risks in time.

Principle 23- “Interest rate risk in the banking book”: the supervisor makes sure that banks have an appropriate system to identify, monitor and manage interest rate risks in the banking book at an appropriate time.

Principle 24- “Liquidity risk”: the supervisory authority verifies that banks have an appropriate liquidity risk management strategy, which takes into account the liquidity requirements under Basel (III) accord.

Principle 25- “Operational risk”: the supervisor verifies that bank has an appropriate processes and policies to manage operational risk (which takes into account the risk profile, market conditions… etc).

Principle 26- “Internal control and audit”: the supervisory authority verifies that banks have appropriate frameworks for internal control with an independent and appropriate function for internal audit.

Principle 27- “Financial reporting and external audit”: the supervisor verifies that banks maintain reliable records prepared in accordance with international accounting policies and practices…

Principle 28- “Disclosure and transparency”: the supervisory authority verifies that banks regularly publish information that reflects their financial position and performance.

Principle 29- “Abuse of financial services”: the supervisor verifies that banks have an appropriate framework in place to prevent its use, intentionally or unintentionally, in criminal activities.

4. The reality of the implementation of banking supervision in Algerian Banks according to the new requirements of the BCBS

4.1 The reality of banking supervision in Algeria

Banking supervision in Algeria is carried out through the following bodies:

4.1.1 The Banking Commission: The Banking Commission is a commission that has in charge the surveillance of banks and financial institutions on the basis of documents, and also the surveillance in field.

4.1.2 The auditors: According to article (8) of Ordinance 10-04 (amending and supplementing article 100 of Ordinance 11-03), every bank or financial institution and every branch of foreign bank or financial institution must designate two (2) auditors, at least, registered in the list of the Syndicate of Expert Accountants and Auditors (after consulting the Banking Commission).

The auditors must submit their monitoring reports to the Bank of Algeria Governor periodically (article 101 of Ordinance 03-11).

4.1.3 The credit risk registry of companies and households: Initially it was called “The credit risk registry”, and according to article (98) of Ordinance 03-11, this registry is charged with collecting the names of the beneficiaries of loans, the nature of loans… from all banks and financial institutions.

Later, it was changed to "The credit risk registry of companies and households", where the monetary authority issued the Regulation 12-01 on February 20th, 2012 related to “the organization and running of the credit risk registry of companies and households”.

According to article (1) of the regulation 12-01, the “Credit Risk Registry” is subdivided into two (2) parts: “Credit Risk Registry of companies”, in which data relating to loans granted to legal entities and natural persons who engage in professional activity (without pay) are recorded, and “Credit Risk Registry of households”, in which data relating to loans granted to individuals are recorded.

On December 31st, 2019, the monetary authority issued the instruction n° 14-2019, which aims to define ways to implement the provisions of Regulation n° 12-01, as well as the ways of disclosure about the risks faced by banks and financial institutions towards their customers from the companies and households.

4.2 The extent of the implementation of banking supervision according to Basel (II), (2,5) and (III) standards in Algerian banks

According to the "Financial Stability Institute Survey" in July 2015, Algerian banks have applied Pillar (2) from Basel (II) accord, concerning Supervisory Review, after the issuance of regulation n° 14-01 concerning "the implementation of Basel (II) and some of Basel (III)" by the monetary authority (the Council of Money and Credit) on February 16th, 2014. The final rule entered into force the first October 2014.

The article (32) of the Regulation n° 14-01 states that "banks and financial institutions shall hold equity capital in adequacy with risks of any nature that they may incur", and "the Banking Commission may require banks and financial institutions to hold the level of equity capital above minimal requirements, if the latter does not allow for the covering of all risks effectively incurred".

Whereas, Article (33) states that "banks and financial institutions shall implement an appraisal system of adequacy of their internal equity capital in hedging risks to which they are or would be exposed". According to this article, periodic reports must also be submitted to the Board of Directors and the executive body, on the adequacy of equity capital to the risks faced by the bank or financial institution.

As for the amendments related to Basel (II) accord (Basel 2,5), the banks operating in Algeria have not implemented any of them yet, as the monetary authority have presented a draft law regarding these amendments, but it has not published yet, and the monetary authority has not yet finalized the law.

Finally, supervisory review according to the recent amendments of the Basel Committee (in December 2019), contained in Basel (III) accord, are not fully implemented in Algerian banks. As Article (7) of Regulation 14-01 states that the Banking Commission may require banks and financial institutions of systemic importance, solvency standards higher than those mentioned in Articles (2) and (3) for banks and financial institutions in general. However, there are currently no instructions or regulations indicate the necessity of mutual supervisory cooperation for internationally active banks between host and home countries.

4.3 The extent of the implementation of the "Core Principles for Effective Banking Supervision" in Algerian banks

Principle1: "Responsibilities, objectives and powers": this principle is applied in Algerian banking system, through:

- Article (62) of Ordinance n° 03-11 issued on August 27, 2003, relating to money and credit states that the monetary authority is represented by the Council of Money and Credit, which exercises its function within the framework of the law by issuing a set of related banking regulations.
- Article (105) of Ordinance n° 03-11 provides for the establishment of a Banking Commission, charged with monitoring the proper application of banks and financial institutions of banking rules and punishing proven violations.

Principle 2: "Independence, accountability, resourcing and legal protection for supervisors": According to article (106) of Ordinance n° 03-11 and article (08) of Ordinance n° 10-04 (amending and supplementing the Ordinance n° 03-11), the members of the Banking Commission are appointed by the President of the Republic, which shows us that the commission is not fully independent.

Principle 3: "Cooperation and collaboration": According to article (86) of Ordinance n° 03-11, the Council of Money and Credit determines the modalities of agreements that may be concluded when necessary, and, as appropriate, with monetary authorities or foreign central banks.

Principle4: "Permissible activities": According to article (81) of Ordinance n° 03-11, every institution, other than banks and financial institutions, is prohibited from using a name, commercial name, publicity, or ... that would lead to the belief that it is approved as a bank or financial institution.

Principle5: "Licensing criteria": According to article (82) of Ordinance n° 03-11, the Council of Money and Credit must authorise the establishment of any bank and any financial institution governed by Algerian law on the basis of a file that contains a set of conditions mentioned in article (80) of the same Ordinance. Article (6) of Ordinance n° 10-04 amending and supplementing Ordinance 03-11 (which amended Article 83) states that external shareholders of banks and financial institutions governed by Algerian law can only be authorised in a partnership (of at least 51% of the capital for Algerian resident shareholders).

Principle 6: “Transfer of significant ownership”: According to article (06) of Ordinance n° 10-04 (amending article 94 of Ordinance 03-11), the bank or financial institution must obtain a pre-authorisation from the governor before any assignment of shares or similar bond. Any assignment that has not taken place at the national level and according to the legislation and regulation in force is considered null and void.

Principle 7: “Major acquisitions”: Currently there is no legal provision related to this principle.

Principles 8 and 9: “Supervisory approach and Supervisory techniques and tools”: The supervisory authorities in Algeria monitor the work of banks and financial institutions periodically and regularly through their supervisory bodies, which are:

The Banking Commission that has in charge the surveillance of banks and financial institutions (article 108 of Ordinance 03-11), the auditors appointed by banks and financial institutions who submit their monitoring reports to the Bank of Algeria Governor periodically (articles 100 and 101 of Ordinance 03-11), in addition to the credit risk registry of companies and households (regulatory 12-01).

Principle 10: “Supervisory reporting”: According to article (11) of the Regulation n° 11-08 issued on November 28th, 2011 relating to internal audit of banks and financial institutions, persons responsible of permanent and periodic monitoring should give their reports to the executive body upon their request and to the audit committee, if such exists.

Principle 11: “Corrective and sanctioning powers of supervisors”: If a bank or financial institution violates any of the legislative or regulatory provisions related to its activity or does not comply with an order or ... the Banking Commission may impose a set of penalties specified in Article (114) of Ordinance 03-11.

Principle 12: "Consolidated supervision": Currently there is no legal provision related to this principle.

Principle 13: "Home-host relationships": According to article 110 of Ordinance 03-11, the supervision of the Banking Commission may be extended, within the framework of international agreements, to the branches of Algerian companies residing abroad. And according to article (117) of the same Ordinance, the Bank of Algeria and the Banking Commission can communicate information to the authorities in charge of controlling banks and financial institutions in other countries, taking into account reciprocity.

Principle 14: "Corporate governance": The monetary authorities in Algeria have taken many measures that contribute to the proper application of the principles of governance through the Regulation n° 11-08 relating to international audit of banks and financial institutions.

Principle 15: "Risk management process": In this regard, the monetary authorities in Algeria issued the Regulation n° 14-01 that shows how to measure and manage credit risk, market and operational risks according to Basel (II) standards, in addition to prudential supervision of equity capital and financial reporting.

Principle 16: "Capital adequacy": Articles (2, 3 and 4) of the Regulation n° 14-01 state that "banks and financial institutions shall be compelled to comply at all times on individual or consolidated basis, a minimum solvency ratio of 9,5% between on the one hand the total of their regulatory equity capital, and on the other hand the sum of weighted operational risk, market risk and credit risk". In addition, "the core capital shall cover at least 7% of operational, market and credit risks". As well as "a safety cushion consisting of core capital and covering 2,5% of weighted risks".

Principle 17: "Credit risk": According to article (47) of the Regulation n° 11-08, every bank must have a system for measuring credit risk in order to determine the risks that arise from all balance sheet and off-balance sheet transactions.

The Bank of Algeria has also established "the credit risk registry of companies and households", and issued the Regulation n° 12-01 on February 20th, 2012 which includes the organization and running of this registry, then instruction n° 14-2019 on December 31st, 2019 which aims to define ways to implement the provisions of Regulation n° 12-01.

Principle 18: “Problem assets, provisions and reserves”: The monetary authority in Algeria issued the Regulation n° 14-03 on February 16th, 2014 relating to “the classification and provisioning of claims and signature commitments of banks and financial institutions”, which aims, according to article (1) “to set rules for classifying and provisioning claims and signature commitments of banks and financial institutions and the accounting procedures”.

Principle 19: “Concentration risk and large exposure limits”: According to article (39) of the Regulation n° 11-08, banks and financial institutions should have policies and procedures for identifying and measuring credit risk. These procedures should enable them to undertake the distribution of their obligations on behalf of all counterparties according to the level of risk in order to understand the potential risks of concentration.

According to article (04) of the Regulation n° 14-02 issued on February 16th, 2014 relating to large risks and equity stakes, “any bank or financial institution shall be compelled to observe at all time a maximum ratio of 25% among all net weighted risks that it incurs on a same beneficiary and the amount of its regulatory equity capital”.

Principle 20: “Transactions with related parties”: Article (104) of Ordinance n° 03-11 states that it is forbidden for every bank or financial institution to lend to its directors, its shareholders, or the institutions affiliated with the bank group or financial institution.

Principle 21: “Country and transfer risks”: Currently there is no legal provision related to this principle.

Principle 22: “Market risks”: According to article (53) of the Regulation n° 11-08, banks and financial institutions must implement specific systems to ensure the measurement and control of transactions in financial markets or foreign exchange markets when these transactions for their own account are significant.

And according to article (29) of the Regulation n° 14-01, “the Banking Commission may impose banks higher weighting rates for foreign exchange risk in case of specific risk”.

Principle 23: “Interest rate risk in the banking book”: According to article (51) of the Regulation n° 11-08, every bank must have an “internal information system” to identify the general interest rate risk (when the risk is large), which helps the supervisors to monitor it and make the necessary corrections.

Principle 24: “Liquidity risk”: According to article (50) of the Regulation n° 11-08, every bank must establish a system in order to identify, measure and manage liquidity risk. This article explains the components of this system; however, the liquidity requirements in Algerian banks do not match the requirements of Basel (III) accord.

Principle 25: “Operational risk”: According to article (59) of the Regulation n° 11-08, every bank must have the efficient tools to monitor operational and legal risks, especially those that may lead to an interruption of core activities or an attempt on their reputation.

Article (21) of the Regulation n° 14-01 states that “the requirement in capital equity needed for hedging operational risk is equal to 15% of the annual net banking average income of the last three (03) financial years. Only positive net banking income shall be taken into account when calculating such average”. And this corresponds to the requirements of the Basel (II) accord.

Principle 26: “Internal control and audit”: According to article (7) of Ordinance n° 10-04 (supplementing article 97 of Ordinance 03-11): banks and financial institutions are required to put in place an effective internal control system, in addition to a conformity control system.

In addition, article (7) of the Regulation n° 11-08 states that the system for controlling operations and internal procedures includes:

- A permanent monitoring of compliance and respect for internal directions, procedures and measures taken by the bank or financial institution;
- A periodic control over the regularity and integrity of transactions, compliance with internal procedures, and the effectiveness of permanent oversight.

Principle 27: "Financial reporting and external audit": According to article (31) of the Regulation n° 11-08 "banks and financial institutions must comply with legislative and regulatory provisions relating to financial accounting system, namely regulations of the Council of Money and Credit and instructions of the Bank of Algeria".

Although Algeria began adopting a new accounting system since 2010 to bring accounting practices closer to International Accounting Standards (IAS, IFRS), but it still does not implement international accounting standards and international financial reporting standards (Bouarar, 2017, p. 46).

Principle 28: "Disclosure and transparency": According to article (103) of Ordinance n° 03-11, every bank and financial institution must publish its annual accounts within six (6) months following the end of the fiscal accounting year in the official bulletin of mandatory legal announcements.

Article (35) of the Regulation n° 14-01 states that every bank and financial institution must have an official procedure approved by the governing body and relating to financial reporting, which specifies the conditions for publishing information and controls to carry out the entire process. Whereas, article (36) of the same regulation states that banks and financial institutions should begin publishing quantitative and qualitative information on the capital structure, risk management practices … etc.

Principle 29: "Abuse of financial services": According to article (2) of the Regulation n° 12-03 issued on November 28th, 2012 relating to "the prevention and fight against money laundering and the financing of terrorism", banks, financial institutions and financial services of the postal service company "Algérie Poste" must ensure that internal standards related to the "identification of clients" are available, with a view to avoid the exposure to severe risks connected with their clients and counterparts.

5. CONCLUSION

On the basis of the above information, we conclude that:

- The Basel committee reviewed and updated Pillar (2) related to supervisory review processes in 2019, and added some directives regarding the systemically important banks;

- In December 2019, the committee issued a chapter describing the “Core Principles for Effective Banking Supervision”, the assessment methodology and standards for assessing compliance. In this chapter, it maintained the same principles issued in September 2012, with introducing important enhancements into individual "Core Principles";
- Algerian banks have not yet implemented the recent requirements of Pillar (2) issued in 2019;
- Algerian banks have implemented most of the directives mentioned in the “Core Principles for Effective Banking Supervision”, especially those related to measuring and managing risks and the requirements of internal control in banks and financial institutions, but they have not implemented some principles such as the international accounting standards.

In order to implement the remaining directives (not applied in Algerian banks), the following steps are needed:

- The introducing of liquidity measurement ratios in Algerian banks similar to the requirements of Basel (III) accord;
- The necessity of applying international accounting standards and international financial reporting standards in Algerian banks;
- The necessity for banking commission to enjoy absolute independence in order to fully perform its role in banking supervision.

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