

# KEY POINTS ON PREVENTIVE SUPERVISION

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## **KEY POINTS ON PREVENTIVE SUPERVISION**

### **TO PARAPHRASE A TYPICAL AMERICAN JOKE**

IN MY EXPERIENCE IT LOOKS  
WALKS LIKE A DUCK  
QUACKS

IT IS NOT NECESSARILY A DUCK

#### **1. GENERAL ASSUMPTION, AS SEEN IN 30 COUNTRIES**

- IN TIMES OF PROSPERITY, INSTITUTIONS ARE TRANSPARENT  
BUT, IF THEY HAVE PROBLEMS, THEY HIDE THEM. THEY LIE
- MINE IS A BACK TO BASICS PPROACH AS THE BACKGROUND  
OR COUNTERPOINT TO CHALLENGE CONVENTIONAL WISDOM
- MY RULES OF THUMB ON REGULATION AND SUPERVISION  
ARE APPLICABLE BEFORE AND AFTER THE CRISIS.

#### **2. FREQUENT PATTERN OF BANKER'S BEHAVIOR**

- GOOD BANKERS MAY BECOME BAD BANKERS THROUGH A  
SEQUENTIAL PROCESS THAT SHOULD BE PREVENTED OR

## STOPPED BY SUPERVISION

### 1. FIRST, THEY MAY PERFORM WELL

GOOD CAPITAL  
PROFITS – CASH FLOWS  
SUCCESSION  
MANAGEMENT PROSPECTS

- BUT WHEN THEY HAVE PROBLEMS OF CAPITAL OR EARNINGS,  
RATHER THAN ADDRESSING THEM, THEY APPLY COSMETIC  
ACCOUNTING, IN ORDER TO BUY TIME AND REMAIN IN PLACE

- THEN, AS COSMETICS DO NOT SOLVE PROBLEMS,  
DESPERATE POLICIES: ACCELERATED GROWTH, HIGH RISK  
OPERATIONS AND SPECULATION

- SINCE THINGS GET WORSE AND WORSE AND THERE IS RISK  
OF FAILURE. FRAUDULENT PRACTICES, BEFORE

CONNECTED LENDING  
REMOVAL OF COLLATERALS  
SWINGING ASSETS  
(WITHDRAWALS OF MONEY NEVER DEPOSITED)

INTERVENTION TAKES PLACE. “IT IS OTHER PEOPLE’S  
FAULT”. “FIRST MY CHILDREN”

### 3. DEREGULATION AND SHEER MARKET DISCIPLINE HAS PROVED A BIG AND COSTLY MISTAKE

- THIS DOCTRINE WAS SOWED – AND STILL IS – BY  
ACADEMICIANS, SOME CENTRAL BANKERS, INVESTMENT

BANKERS AND LOBBIES. A TECHNICAL STRATEGY AND/OR A COMBINATION OF VESTED INTERESTS... AND SOMETIMES CORRUPTION. EXAMPLES :

- CHICAGO SCHOOL
- INVESTMENT BANKERS

SOME MAJOR PHALACIES

- ONLY THE REAL ECONOMY MATTERS
  - IF WELL, WHY WORRY
  - IF WRONG, WHY WORRY
- CRISIS ARE DUE TO MACRO UPHEAVALS. SO, MACROPRUDENTIAL SUPERVISION IS ENOUGH NOT NECESSARILY. MISMANAGEMENT AND INEFFECTIVE SUPERVISION ARE ALWAYS THERE AS A TRIGGER OR AS AN AGGRAVATING ELEMENT. 50/50 OR MORE.
- MARKETS KNOW BETTER AND WILL AUTOMATICALLY CORRECT PROBLEMS. REALLY? THEY OFTEN BASE THEMSELVES ON UNRELIABLE INFORMATION. ALSO SUBJECT TO SPECULATORS AND MANIPULATION... OR TO RATING AGENCIES, WITH VESTED INTERESTS:
- SUPERVISION IS VERY COSTLY. REALLY? THE MOST COSTLY SUPERVISION IS NO SUPERVISION AT ALL: MAKES EARLY

WARNING VERY DIFFICULT AND BRINGS ABOUT HIGHER COSTS DERIVED FROM UNDETECTED AND GROWING INSOLVENCY

- ON-SITE SUPERVISION IS AN OLD FASHIONED TECHNIQUE. SHOULD BE REPLACED BY OTHER TOOLS. REALLY? AS I WILL EXPLAIN LATER, THE FOLLOWING TOOLS HAVE OFTEN PROVED TO BE INSUFFICIENT, MISLEADING OR COUNTERPRODUCTIVE:

- OFF-SITE ANALYSIS
- MATHEMATICAL MODELS
- EXTERNAL AUDITORS
- RATING AGENCIES
- CODES OF CONDUCT

CONCLUSION: MARKETS SHOULD BE A SUPPLEMENT OF GOVERNMENT CONTROL. BUT, JUST BY THEMSELVES, MAY PROVE HARMFUL.

HAVE THEY WARNED ABOUT THE CURRENT CRISIS?

COULD THEY HAVE BEEN ABLE TO SOLVE IT?

4. **SUPERVISION SHOULD INVOLVE A SENSE OF MISSION: JUST WORKING ON A STONE OR BUILDING A TEMPLE?**

**IMPLICATIONS OF UNDETECTED AND GROWING INSOLVENCY**

- RISK OF SYSTEMIC CONTAGION
- DISRUPTION OF PAYMENT SYSTEMS
- FREEZING OF WHOLESALE MARKETS
- MISALLOCATION OF RESOURCES
- CREDIT CRUNCH AND IMPLICATIONS FOR THE ECONOMY AND EMPLOYMENT
- HUGE COST FOR:
  - THE DEPOSITORS, IF CLOSURES. (UNFAIR BECAUSE OF INFORMATION ASYMETRY)
  - THE INDUSTRY. (FAIR, BUT MAY PROVE OVERWHELMING OR PASSING THE HIGHER COST TO BORROWERS)
  - THE TAX-PAYER (TO BE AVOIDED, BUT IF BAIL OUT, OFTEN PROVES UNAVOIDABLE)
  - THE INVESTORS, IF BAIL-IN. (FAIR ENOUGH BUT RISK OF SECURITIES MARKETS FREEZE)

## 5. THE FOUR PILLARS OF BANK SUPERVISION: A BROAD

### CONNOTATION

#### AS PREVENTIVE MEDICINE

- REGULATION : “THE RULES OF THE GAME”, FOR THE INDUSTRY TO APPLY AND FOR SUPERVISORS TO ENFORCE.
- SUPERVISION PROPER, – VERIFICATION OF QUALITY: “GETTING OUT OF THE DARK”

#### - AS CURATIVE MEDICINE

- REMEDIAL ACTION OR TIMELY CORRECTING DEPARTURE FROM RULES AND MAKING DISCIPLINE A ROUTINE
- DEALING WITH PROBLEM BANKS: “AVOIDING CONTAGION “OR ADDRESSING SYSTEMIC PROBLEMS BY WAY OF:
  - LIQUIDITY SUPPORT
  - DEPOSIT INSURANCE IF CLOSURE: VERY RARE
  - RESTRUCTURING = RECAPITALIZATION/ FILLING THE BLACKHOLE/ ASSISTED M&A/ CHANGE OF OWNERSHIP AND MANAGEMENT

LIKE IN HI-FI CHAINS:

- THE WEAKEST OF THE FOUR ELEMENTS LOWERS THE QUALITY LEVEL OF THE WHOLE SET

THE CHAIN OF “NO GOODS PILLARS”

- IF REGULATION IS ADEQUATE, BUT SUPERVISION IS NOT, REGULATION IS NO GOOD
- IF REGULATION AND SUPERVISION ARE ADEQUATE, BUT REMEDIAL ACTION AND RESTRUCTURING MECHANISMS ARE NOT, THE FORMER ARE NO GOOD
- LAST BUT NOT LEAST: IF THE FOUR PILLARS ARE ADEQUATE BUT THERE IS NO POLITICAL WILL TO PREVENT AND/OR ADDRESS THE PROBLEMS, ANY EFFORT TO STRENGTHEN THEM WILL BE NO GOOD. I MEAN, WASTED

**6. KEY POINTS IN REGULATION**

- ENTRY REQUIREMENTS FOR LICENCING TO SET UP OR BUY CONTROL OF A FINANCIAL INSTITUTION

- CAPITAL ADEQUACY REQUIREMENTS : A BUFFER FOR LOSSES / BUT ALSO A LIMIT TO OVEREXTENSION AND A SOURCE OF FUNDS AT NO COST
  
- ASSETS CLASSIFICATION AND PROVISIONNING, BASED ON THE BORROWERS REPAYMENT CAPACITY. AN INDISPENSABLE INSTRUMENT TO AVOID FICTITIOUS CAPITAL & PROFITS
  
- STRICT INCOME RECOGNITION RULES, ALSO CRUCIAL TO AVOID COSMETIC PROFITS, PROVISIONS AND RESERVES
  
- LIMITS TO LOAN CONCENTRATION, AS A MAJOR WEAPON AGAINST POTENTIAL LOSSES
  
- MEANINGFUL ACCOUNTING RULES, PARTICULARLY: BOOKING EXPECTED LOSSES AND STRENGTHENING ACCOUNTING CONSOLIDATION

## 7. ENTRY: I.E. LICENCING

- POLICY SHOULD BE CONSERVATIVE: IF LIBERAL ENTRY, TOUGH EXIT. THE CASE OF RUSSIA IN THE 90'S  
(FROM 0 → 3.000  
3.000 → 1.000)
- REQUIREMENTS:
  - AMOUNT OF INITIAL CAPITAL CONMENSURATE WITH BUSINESS PLANS
  - ORIGIN OF FUNDS  
THE CASES OF
    - RUMASA (1983)
    - MEXICO (1991)
  - FIT AND PROPER TEST FOR OWNERS AND MANAGERS, BASED ON PROFESSIONAL EXPERIENCE AND RECORD, AS WELL AS ON INTEGRITY
  - BUSINESS PLANS: CONSISTENT AND REALISTIC
    - RUSSIA: TREASURY OPERATIONS
  - NO CONFLICT OF INTERESTS, (SUCH AS LINKS WITH OTHER CORPORATIONS OR POTENTIAL BORROWERS... OR BOTH)

## 8. CAPITAL ADEQUACY REQUIREMENTS WHILE ONGOING

- A PROPORTION OF CAPITAL OVER RISK WEIGHED ASSETS
- GEARING RATIOS: TOTAL ASSETS OR DEPOSITS <-> CAPITAL  
ABANDONED IN EU  
KEPT IN USA
- NO GOOD IF NO TOUGH PROVISIONING

ADDITIONALLY

- GENUINE COMPONENTS OF CAPITAL, ALONG AND LINKED WITH GOOD PROVISIONING SYSTEM
- ACCOUNTING CONSOLIDATION OF FINANCIAL SUBSIDIARIES AND PRODUCTS, WHEREVER THERE IS RISK FOR THE INSTITUTION
- POSITIVE EARNINGS TRENDS, NOW NEGLECTED
- RELIANCE ON WORSE SCENARIOS, NOW FASHIONABLE BUT
  - TO BE VERIFIED BY THE SUPERVISORS ,NOT JUST BY THE ENTITIES
  - TO ALSO FOCUS ON EARNINGS TRENDS AND CASH FLOW TRENDS

- AN ELABORATION ON CAPITAL COMPONENTS:
  - WHAT REALLY COUNTS IS CORE LEVEL COMPONENTS: PAID IN CAPITAL I.E. CASH OR LIQUID ASSETS AND GENUINE RETAINED EARNINGS
  - THE CASE OF CAPITAL GAINS (M&A)
  - DEFERRED TAX CREDIT (ONLY IF EXPECTED PROFITS)
  - CONVERTIBLE SECURITIES. THE CASE OF “COCOS”. A BURDEN, RATHER
  - TREASURY STOCK (REDUCTION FROM CAPITAL & NO VOTING RIGHTS – “THE 7 BASEMENTS”)

9. **ASSETS CLASSIFICATION, PROVISIONING AND PROPER INCOME RECOGNITION: THE KEY INSTRUMENT FOR CRISIS PREVENTION: BUT “IRRELEVANT” FOR MANY**

- THE SO-CALLED “PRINCIPLE OF PRUDENCE”: BAD RISKS SHOULD BE RECORDED AS SOON AS FORESEEN. GOOD THINGS, ONLY WHEN MATERIALIZED
- INCURRED VS. EXPECTED LOSSES: THE IMPACT OF INTERNATIONAL ACCOUNTING STANDARDS (I.A.S.)

- MATURITY (PAST-DUE) VS REPAYMENT CAPACITY, AS A PRIORITY BASIS FOR CLASSIFICATION. MATURITY CAN BE EASILY DISGUISED (WE'LL SEE LATER)
- A RELEVANT ALTERNATIVE: EARLY RECOGNITION OF PROBLEMS OR PHASE-IN? FORBEARANCE : IN REGULATION OR IN COMPLIANCE
  - NEGATIVE INCENTIVE TO GET RID OF BAD ASSETS
  - THE COST OF FINANCING NPL OR LOSSES:  
CONTINUOUS DETERIORATION OF EARNINGS AND LIQUIDITY, IF WASTING TIME
  - MORAL HAZARD AND SUPERVISORS COMPLICITY IN COSMETICS
  - IF THINGS ARE IMPROVING, OK. IF THEY ARE DETERIORATING, SUICIDE

**10. LOAN EVERGREENING AND OTHER COSMETIC PRACTICES TO AVOID PROVISIONING AND RECORD FICTICIOUS PROFITS**

- REFINANCING BAD LOANS, WITH INTEREST CAPITALIZATION
- THE WORST LOANS ARE NEVER BOOKED AS PAST-DUE
- THE PAST-DUE FIGURE IN THE BOOKS CAN BE EASILY MULTIPLIED BY 2 OR... BY 4

- WHEN YOU GO INTO A BANK, LOOK AT THE “GOOD LOANS” (STANDARD – SUBSTANDARD), THE PAST-DUE ARE ALREADY BEING DEALT WITH BY THE LEGAL DEPT.
- POOR QUALITY COLATERALS: FEATURES :  
INSUFFICIENT/INEFFECTIVE
- CROSS LENDING WITH OTHER FINANCIAL INSTITUTIONS
- TRANSFERRING LOSSES
  - TO PAPER COMPANIES
  - TO SUBSIDIARIES OF SUBSIDIARIES OR COMPANIES UNDER THE INSTITUTION ACTUAL CONTROL
  - TRESPASSING ACCOUNTING CONSOLIDATION PERIMETER (PARTICIPATED COMPANIES, OFF-SHORE OPERATIONS...)
- SELF-FINANCED ASSETS SALE
- SALE AT OVERVALUED PRICE AND LEASE BACK
- PRESSURE ON VALUERS, BASED ON LEGAL LOOPHOLES OR OTHERWISE

11. **IMPLICATIONS OF COSMETICS: FICTICIOUS CAPITAL, EARNINGS, PROVISIONS AND RESERVES**

- NOT JUST A TECHNICALITY
- A DECEIT FOR SHAREHOLDERS / INVESTORS/DEPOSITORS/ ANALISTS / MARKETS AND SUPERVISORS..
- PREEMPTING LEGAL GROUNDS FOR REMEDIAL ACTION INTERVENTION AND TREATMENT OF INSOLVENCY (CAN BACKFIRE)
- MEANWHILE, PAYING OUT UNJUSTIFIED TAXES AND DIVIDENDS, WHICH FURTHER WORSENS PROFITS AND LIQUIDITY

12. **PROVISIONING AND PROPER INCOME RECOGNITION**

- SPECIFIC PROVISIONS
- GENERIC FLAT OR ANTICYCLICAL. FOR SURPRISES, AND DETERIORATION. MAY DISCOURAGE INSPECTION AND SPECIFIC PROVISIONS
- TYPES AND THE AGING ELEMENT TILL WRITE-OFF
  - "PAST DUE", BASED ON FORMAL MATURITY AND STARTING AT 30 DAYS OR 90 DAYS. THEN?
  - "DOUBTFUL", BASED ON REPAYMENT CAPACITY (MARKET VALUE AND/OR SEGMENT VULNERABILITY)

- SUBSTANDARD
  - WHAT IF COLATERALIZED?
  - THE IMPORTANT CASE OF OVERDRAFTS (“ROCK OF LOSSES”)
  - FORECLOSURES CHILE / SPAIN
  - WRITE-OFFS. RESISTANCE OF MANAGERS (BORROWERS RELIANCE)
  - APPLICABILITY OF PROVISIONS (DRAGGING EFFECT)
    - TO ALL LOANS TO SAME BORROWER
    - TO ALL LOANS TO SAME GROUP
  - TAX DEDUCTIBILITY? IMPORTANT
- TIMELY ACCRUAL SUSPENSION, AS THE HEART OF PREVENTIVE SUPERVISION

13. **RISK CONCENTRATION AS AN EARLY INDICATOR OF POTENTIAL SERIOUS LOSSES (THE SWISS EXAMPLE)**

- LIMITS TO LARGE EXPOSURES: CONCENTRATION ON A BORROWER OR GROUP OF BORROWERS, AS A PROPORTION OF CAPITAL
- SCOPE: LOANS / FORECLOSURES / SECURITIES AND OFF-BALANCE SHEET ITEMS

- CONCEPT OF GROUP: COMMON CONTROL. BE IT VIA CAPITAL / DIRECTORS / MANAGEMENT / OR FIGURE HEADS
- LIMITS TO THE SUM OF ALL RISK CONCENTRATIONS TO SEVERAL BORROWERS
- LIMITS TO A GIVEN ECONOMIC SEGMENT. EX: REAL ESTATE
- A PROBLEM: OFF-SHORE OPERATIONS AND SPECIAL PRUPOSE VEHICLES (GREY AREA TO BE CAPTURED)
- A POTENTIAL INSTRUMENT: ADDITIONAL CAPITAL REQUIREMENTS FOR EXCESS CONCENTRATION AND LENDING TO SUBSIDIARIES. (SPAIN)
- THE CASE OF RELATED PARTIES: A TYPICAL CAUSE OF FAILURES. MORE DIFFICULT TO IDENTIFY. (COLOMBIA: "SELF LENDING", AS A CRIME)

## 14. ACCOUNTING SYSTEMS

- FLAWS IN THE NEW INTERNATIONAL ACCOUNTING SYSTEM /IAS: LOSSES SHOULD ONLY BE PROVISIONED IF MATERIALIZED (ART. 39). SO, ELIMINATION OF THE CONCEPT OF EXPECTED LOSSES, A BLOW TO THE PRINCIPLE OF PRUDENCE, WHICH WAS A KEY FOR TRANSPARENT ACCOUNTING / PREVENTIVE SUPERVISION / PROPER FUNCTIONING OF MARKETS
  
- PENDING IMPROVEMENTS INCLUDE INTEGRATION OF PRUDENTIAL AND ACCOUNTING REGULATIONS ON CAPITAL ADEQUACY AND PROVISIONS FOR LOAN LOSSES. CAPITAL IS NO GOOD IF NO PROVISIONS
  
- ALSO ACCOUNTING CONSOLIDATION OF:
  - OFF-SHORE OPERATIONS
  - SPECIAL VEHICLES
  - SPECIAL PRODUCTS: DERIVATIVES
  - SECURITIZATION, WHEN THE SECURITIZER RETAINS THE RISK

## KEY POINTS IN SUPERVISION PROPER

15. PROGRESS IN REGULATION AFTER THE CRISIS IS WELCOME,  
BUT DILUTED AND DELAYED. ALSO MAY PROVE TO BE OF  
LITTLE USE IF SUPERVISION IS WEAK

IN FACT, SUPERVISION IS MORE IMPORTANT THAN REGULATION.  
EVEN WITH CURRENT REGULATION, THINGS COULD WORK, WITH  
STRONG SUPERVISION

16. THE KEY TOOL: ON-SITE EXAMINATION. FILE BY FILE APPROACH

17. INSTITUTIONS

- ONE VERSUS SEVERAL INSTITUTIONS

CENTRAL BANK/SUPERINTENDENCY/OMNIBUS/TWIN PEAKS...

IF JOINT, TENDENCY TO FOCUS ON

- COMPETITION
- LONG TERM STABILITY
- CUSTOMERS PROTECTION

OK, BUT

- IF IT WORKS, KEEP AS IT IS

- FINANCIAL STABILITY BOARD
- EUROPEAN BANKING AUTHORITY
- EUROPEAN BANKING UNION? REGULATION,  
SUPERVISION, DEP. INSUR, RESOLUTION

- DIFFICULTIES TO ACHIEVE UNIFORMITY AND CONVERGENCE AS WELL AS INTERACTION BETWEEN NATIONAL SUPERVISORS. LEVEL PLAYING FIELD?

18. **SUPPLEMENTARY TOOLS TO ON-SITE SUPERVISION BUT NO REPLACEMENT. WATCH OUT**

- EYEBROW RAISING AND SOFT SKILLS. BANK OF ENGLAND – MAY HELP WITH SOUND BANKS. BUT USELESS AND/OR COUNTERPRODUCTIVE WHEN DEALING WITH PROBLEM BANKS
- OFF-SITE ANALYSIS AND PROJECTIONS. OK. BUT OFTEN PRODUCES THE WRONG PICTURE, WHEN INFORMATION IS UNVERIFIED OR SUBJECT TO FORBEARANCE. A VERY WIDESPREAD SITUATION
- STRESS TESTS: GREAT, BUT MAY PROVE MISLEADING OR COUNTERPRODUCTIVE (FOR SUPERVISORS AND MARKET). IF INFORMATION ON THE CURRENT SCENARIO IS PROVIDED BY THE INSTITUTION AND UNVERIFIED, THE POTENTIAL WORSE SCENARIOS MAY PROVEVE OPTIMISTIC AND MEANINGLESS. ALSO, IF DISREGARD SIZE OF BUSINESS, EVOLUTION OF

PROFITS & FLOWS, AS WELL AS A&L BALANCE. THE CASES OF IRELAND AND DEXIA BANK

- MATHEMATICAL MODELS. A SOPHISTICATED TOOL. BUT UNRELIABLE IF BASED ON PAST TRENDS OF UNRELIABLE INFORMATION (NON EXISTING RECORDS OR PAST-DUE LOANS). ALSO, MAY PROVE UNABLE TO CAPTURE ABRUPT DOWNTURNS / MAY PROVE MEANINGLESS AND DIFFICULT TO UNDERSTAND BY TOP MANAGEMENT... AND SOMETIMES BY SUPERVISORS / ALSO, OFTEN BIASED BY INSTITUTIONS TO REACH LOWER CAPITAL REQUIREMENTS AND EASY TO MANIPULATE
  
- RATING AGENCIES. OLIGOPOLY AND CONFLICT OF INTEREST. WHAT ABOUT THEIR OWNERSHIP, THEIR FINANCIAL OPERATIONS AND THEIR PERFORMANCE IN CURRENT CRISIS?
  
- EXTERNAL AUDITORS: WELCOME. BUT OLIGOPOLY AND CONFLICT OF INTEREST TO KEEP CLIENTS. I WILL ELABORATE LATER.
  
- CODES OF CONDUCT: WELCOME, BUT EASY TO TURNAROUND AND UNLIKELY TO BE APPLIED, IN A CULTURE OF PERVERSE INCENTIVES. SUCH AS EXACERBATION OF SHAREHOLDERS VALUE AND BONUSES

19. **ON-SITE SUPERVISION THROUGH EXAMINATION AND**

**VERIFICATION.** AN INDISPENSABLE TOOL TO PREVENT  
INSOLVENCY AND CRISIS

- FOCUS ON QUALITY VS COMPLIANCE
  
- KEY PROCEDURE
  - FILE-BY-FILE FOR LARGE AND PROBLEM EXPOSURES
  - STRATIFIED SAMPLING → EXTRAPOLATION
  - SCORING METHODS FOR CONSUMER CREDIT.  
BUT WATCH OUT: IN A L.A.C. COUNTRY
  
- DIFFERENT PERIODICITY, BASED ON PREVIOUS SCREENING  
(CAMELS OR OTHER METHODS) 5-6 YEARS IS FREQUENT.  
SOME TIMES LONGER. “IT WILL BE OUR FAULT”
  
- TYPES
  - OVERALL AND/OR TARGETED (THE CASE OF UK)
  - BY OWN STAFF
  - EXTERNAL /IMPLANTS. DANGER OF STOCKHOLM:  
AS IF “IN THE BANKER SHOES”

## 20. EXAMINERS

- WHO PAYS FOR EXAMINATION
- ADMISSION PROCEDURES (COMPETITIVE EXAMS, INCLUDING SPECIAL COURSES)
- QUALIFICATION REQUIREMENTS: BACKGROUND AND SPECIALTIES (INTERDISCIPLINARY)
- NUMBER (IF DOUBT, BETTER MORE THAN LESS)
- ORGANIZATION: GROUPS. ROTATION.
- THE NEED FOR CLOSE INTERFACE AND RECIRPOCAL FEED BACK BETWEEN MACROPRUDENTIAL EXPERTS, ANALYSTS (“INTELECTUALS”) AND EXAMINORS (“POLICEMEN”). OFTEN STRANGERS TO EACH OTHER
- UNCHALLENGED RELIANCE ON THE EXAMINERS VS DISCRETION AT THE TOP?
- TOP DOWN ADVISORS VS BOTTOM UP EXAMINERS

## 21. EXTERNAL AUDITORS. THE 4 EYES PRINCIPLE IS GOOD, BUT A SUPPLEMENT TO SUPERVISION, NO REPLACEMENT

- TYPICAL CASES : THE SWISS/ THE BRITISH/ THE AMERICAN/ THE ARGENTINA AND THE GHANEAN APPROACH

- APPROACH. TRUE AND FAIR VIEW VS ONGOING CONCERN AND SUSTAINABILITY. THE MISLEADING CONCEPT OF “MATERIALITY”
  
- TYPES OF REPORTS: CLEAN / CAVEATS / CONTINGENCIES OR NO REPORT. THE CASE OF FANNY MAE & FREDDY MACK (USA)
  
- TYPES OF AUDITS
  - STATUTORY (OVERALL)
  - TARGETED
  - VENDOR’S DUE DILIGENCE
  - BUYER’S DUE DILIGENCE
  - FORENSIC AUDIT
  - CRIMINAL AUDIT
  
- REGULATIONS APPLIED BY AUDITORS TO SUBSIDIARIES ABROAD. UNIFORM OR OTHERWISE? THE RISK OF ACCOUNTS BLURRING
  
- DISCLOSURE OF FINDINGS AND LONG FORM REPORT TO SUPERVISORS AUTOMATIC? UPON REQUEST? NIL?
  
- THE PROBLEM OF INDEPENDENCE. WHERE WERE THEY IN THE CURRENT CRISIS?
  - OLIGOPOLY

- COMMERCIAL CONFLICT OF INTEREST
  - PRESSURE BY THE CLIENT, SPECIALLY IF DIVERSIFIED ASSIGNMENTS, SUCH AS
    - COMPUTER SYSTEMS/LEGAL ADVICE/  
/TAX ADVICE/MANAGEMENT ADVICE/  
/FINANCIAL ENGINEERING
  - IDENTIFICATION WITH THE CLIENT IN HIS WISH TO BE LESS THAN TRANSPARENT
  - ROUTINE AND BOREDOM
  - COSY RELATIONSHIP
- REMEDIES FOR LACK OF INDEPENDENCE
- AGAIN, JUST EYEBROW RAISING?
  - REQUEST TO CHANGE AUDIT COMPANY
  - PERIODIC ROTATION OF COMPANIES OR TEAMS
  - RESTRICTIONS TO MULTI-PRODUCT
  - LEGAL ACTION:
    - CIVIL: PENALTIES, SUSPENSION,..
    - CRIMINAL

**22. TWO LESSONS TO BE STRESSED ONCE AND AGAIN:**

- **REGULATORY AND SUPERVISORY FORBEARANCE ARE THE WORST ENEMY OF CRISIS PREVENTION.**

THE WRONG MOTTO: "WE HVE TO SAVE THE COUNTRY"

- EFFECTIVE REGULATION AND SUPERVISION ARE INDISPENSABLE FOR A HEALTHY FINANCIAL SYSTEM AND
- CRISIS PREVENTION, BUT THEY ARE OF NO USE IF
  - WEAK REMEDIAL ACTION
  - IF WEAK OR NO INSTITUTIONAL ARRANGEMENTS TO DEAL WITH PROBLEM BANKS AND CRISIS
  - IF LACK OF POLITICAL WILL: PRIORITY TO MONETARY POLICIES, INCOMPETENCE, CHRONYISM OR JUST “DO NOT MAKE WAVES OR ELSE...”

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