

UNOFFICIAL TRANSLATION

**Central Bank of the Islamic Republic of Iran (CBI)**

**General Management, Banking Regulations, Licensing & Anti-Money Laundering**

**Department of Banking Studies & Regulations**

# **Guideline for large exposures and liabilities**

**September 2013**

## **Guideline for large exposures and liabilities**

In order to implement paragraph 4 of article 34 and article 44 of the Money and Banking Law and based on clause 1 of paragraph D, article 97 of the Law of 5-year Development Plan of the Islamic republic of Iran, the Money and Credit Council has ratified the **Guideline for large exposures and liabilities**, hereafter called Guideline. It aims at allocation of banking resources to larger proportion of the society, diversification of credit baskets of credit institutions, and mitigation of the losses resulting from concentration of resources of credit institutions.

### **Chapter one: Definitions**

**Article 1:** The following terms are used in the Guideline as defined below;

- 1-1 Central bank: the central bank of the Islamic republic of Iran (CBI)
- 1-2 Credit institution: Bank or non-bank credit institution established based on the law and licensed and regulated by the CBI. Branches of foreign banks are also included in this definition.
- 1-3 Branch of a foreign bank: an operational unit of a foreign bank which is operating in Iran in accordance with the framework of executive guideline for establishment and operation of foreign bank branches in Iran, ratified by cabinet members in 2009.
- 1-4 Single beneficiary: an “independent legal or real entity” or “two or more legal or real entities that share ownership, management, finance, or control and may endanger a credit institution in a way that the problems of one entity may spill over to others and result in their default or delay in repayment of their facilities or liabilities”.
- 1-5 Dependents: Boys below 18 and unmarried and unemployed girls
- 1-6 Facilities and liabilities: those above and below line items of the balance sheet which potentially lead to imposition of risks on the credit institution by the single beneficiary
- 1-7 Base capital: as defined in the Guideline for the base capital of banks and credit institutions, ratified in 1013<sup>th</sup> meeting of Money and Credit Council in 2013
- 1-8 Large exposures and liabilities: net sum of facilities granted to and liabilities created for a single beneficiary of which the amount is at least 10% of the base capital of the credit institution. For branches of foreign banks, this amount equals 3% of their total assets.
- 1-9 Subsidiary unit: a legal entity of which more than 50% of shares or capital belongs to another entity either directly or indirectly.
- 1-10 Affiliated unit: a legal entity of which minimum 20% and maximum 50% of shares or capital with voting rights belong to another entity either directly or indirectly.

## **Chapter two: Single beneficiary**

**Article 2:** While granting facilities or creating liabilities; the credit institution is required to identify the single beneficiary as defined below;

2-1 An independent legal or real entity

2-2 Legal or real entities that hold ownership relations, including;

2-2-1 Real entity and their spouse and dependents as well as affiliated and subsidiary units

2-2-2 Legal entity with their affiliated and subsidiary units

2-2-3 Affiliated or subsidiary units of a real or legal entity provided that the multiplication of their ownership by that entity is at least 20%.

2-3 Legal entities with management relations, including;

2-3-1 Legal entities of which at least two third of the board members are the same.

2-3-2 Legal entities that share the same chairman

2-4 Legal entities with financial relations, including;

2-4-1 Real entity with their spouse and dependents

2-4-2 Guarantor with the guaranteed provided that the amount of the guarantee is at least equal to 75% of the annual income/ assets of the guarantor. The opposite relation holds true when those entities have mutual guarantees.

2-4-3 A with B provided that more than 50% of the annual gross income of A is provided by B. the opposite relation does not exist.

**Note:** Those with employment relations are exempted.

2-4-4 Entities that own at least 20% of shares or capital with voting right of a legal entity.

2-4-5 Entities that more than 50% of their annual gross income is gained from a single resource.

**Note:** Those with employment relations are exempted.

## UNOFFICIAL TRANSLATION

2-5 Legal entities with controlling relations, including;

2-5-1 Real entity together with their spouse and dependents with a legal entity in a way that it has a voting right more than 20% of the votes of that legal entity

2-5-2 A legal entity with another legal entity in a way that the first one possesses the voting right more than 20% of the votes of the second.

2-5-3 A real or legal entity with another legal entity in a way that the first one is able to lead the financial and operational policies of the first one including decisions related to dividends.

2-5-4 A real or legal entity with another legal entity in a way that the first one is able to appoint and dismiss the majority of board members of the second.

### **2-6 Others**

Other relations which, in nature, are similar to those mentioned in 2-1 to 2-5 items.

## **Chapter three: Facilities and liabilities**

**Article 3:** While calculating the net sum of granted facilities and created liabilities related to a single beneficiary, the credit institution is required to include the following items;

3-1 Facilities including above the line items in the balance sheet of the credit institution as below;

- Granted facilities in Rial or foreign currencies including the principal, interest, and the fund secured for delay in redemption (in accordance with the nature of the contract for facilities)
- Facilities granted to other credit institutions
- Protested bills and documents in Rial
- Debtors for paid documentary credits
- Debtors for paid letters of guarantee
- Debtors for paid credit cards
- Debtors for term documentary credits both in Rial and in foreign currencies
- Debtors for term documentary bills both in Rial and in foreign currencies
- Prepayments for purchase of transaction items
- Properties purchased upon contract

## UNOFFICIAL TRANSLATION

- Work in progress according to Joalah
- Customers' debt in the account held for temporary debtors
- Customers' debt due to the difference in exchange rate
- Debtors for paid documentary bills
- Debtors for facilities paid through National Development Fund
- Debtors for facilities paid through foreign resources (finance, refinance, etc.)

3-2- Liabilities including below the line items in the balance sheet of the credit institution as below;

- Liabilities related to various types of documentary credits
- Liabilities related to issued letters of guarantee and acceptances both in Rial and in foreign currency
- Liabilities related to credit cards
- Guarantees for the issued participation bonds and liabilities related to positions of the listed shares
- Liabilities related to signed contracts for deals
- Accepted term documentary bills
- Liabilities related to facilities granted through National Development Fund
- Liabilities related to facilities granted through foreign resources (finance, refinance, etc.)
- Liabilities related to documentary credits of other credit institutions

**Note 1:** Facilities and liabilities include those granted/ created by overseas branches of credit institutions.

**Note 2:** Interests for coming years, funds received through Mozarabah, joint account for civil partnership, and managed funds are not included in calculation of net facilities. Besides, it is required to deduct the cash advance payment for documentary credits and the cash deposit for letter of guarantee from the liabilities before calculating the net liabilities.

**Article 4:** In order to calculate the sum of net facilities and liabilities for each single beneficiary, the amount of facilities is weighted as 1 and the liabilities are weighted according to the weights specified in clause 2-5 of the Guideline for Capital Adequacy.

**Note:** While calculating the sum of net facilities and liabilities for a single beneficiary, those facilities granted through National Development Fund and foreign resources (finance, refinance, etc.) will receive a weight of 0.5.

**Article 5:** for those companies whose shares - totally or partially - belong to the credit institution, the cost price of the shares will be included in the calculation of the sum of their net facilities and liabilities.

## **Chapter four: Limits for large exposures and liabilities**

**Article 6:** Maximum sum of facilities and liabilities related to a single beneficiary shall not exceed 20% of the base capital of the credit institution.

**Note:** For branches of foreign banks, the limit mentioned in this article is 5% of the total assets.

**Article 7:** Maximum sum of large exposures and liabilities of a credit institution is 8 times its base capital.

**Note:** For branches of foreign banks, the above-mentioned limit equals 60% of their total assets.

**Article 8:** In cases when the single beneficiary applies for facilities higher than the limits specified in this guideline, the credit institution may take advantage of joint facilities (syndicated, consortium, and the like) while observing the limits.

## **Chapter five: Internal control**

**Article 9:** Granting/ creating facilities or liabilities regarded as macro to/ for a single beneficiary require the prior approval of the board of directors of the credit institution.

**Article 10:** In order to identify and record all large exposures and liabilities and to monitor them with regard to their compliance with credit policies of the credit institution, the board of directors is required to devise and implement a comprehensive guideline including administrative and accounting procedures as well as mechanisms for appropriate internal control. Such guideline shall be devised in a way so that it monitors any new connection between entities and identifies the single beneficiary.

**Article 11:** In three months after this guideline is declared, the board of the credit institution is required to assign one of its departments to implement its terms. The process should be informed to the central bank.

**Article 12:** The board should require the assigned department (subject to article 11) to produce a data bank related to the information about the single beneficiary in 6 months after the declaration of this guideline. The data bank should include the specifications of each single beneficiary, position of facilities and liabilities related to each single beneficiary, the kinds of relations between entities recognized as the single beneficiary, and those facilities and liabilities which are exempted from the limits.

**Article 13:** Branches of credit institutions and other related bodies are required to make inquiries about the single beneficiary from the “System of comprehensive customer data” in the central bank and the assigned department (subject to article 11) before granting or making facilities or liabilities.

## **Chapter six: Reporting requirements**

**Article 14:** The credit institution is required to provide the central bank with all information related to facilities and liabilities recognized as macro (based on this guideline) in monthly intervals and maximum one week after each month. The reports should follow the framework dictated by the central bank. Such information should at least include any change in positions, data related to the single beneficiary, as well as type and amount of the received collaterals.

**Article 15:** When in force majeure such as default in facilities or failure to implement liabilities by the single beneficiary, creation of new relations between entities, and reduction of the base capital of the credit institution the limits set by this guideline are breached, the credit institution is required to refrain from granting/ making facilities or liabilities to/ for the single beneficiary until the limits are satisfied. Such cases should also be separately reported to the central bank by the credit institution in its report on large exposures and liabilities (subject to article 14). The report should at least include the information about facilities and liabilities which exceed the limits, the related single beneficiary, the excess amount, and the date of the breach.

**Article 16:** Where facilities are granted jointly (syndicated, consortium, etc.), each participating credit institution is required to report the facilities proportionate to their participation.

## **Chapter seven: Others**

**Article 17:** The credit institution should avoid granting/ making new facilities and liabilities to/ for those real and legal entities that have already been granted/ made facilities and liabilities more than the limits set in this guideline.

**Article 18:** “The guideline for large exposures and liabilities” subject to directive 91/122342 dated 27 July 2012 as well as all other resolutions of the Money and Credit Council which contradict this guideline can be made void upon discretion and declaration of the central bank.

The Guideline for Large exposures and Liabilities includes 18 articles and 7 notes and was approved in the 1166<sup>th</sup> meeting of the Money and Credit Council in 2013. It is binding from declaration date.