COUNTRY AND TRANSFER RISK REGULATION
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**COUNTRY AND TRANSFER RISK REGULATION**

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<th>Circular No.: 154/2018</th>
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<tr>
<td>Date: 27 May 2018</td>
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<td>To: All Banks</td>
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**INTRODUCTION**

The Central Bank seeks to promote the effective and efficient development and functioning of the banking system. To this end, banks exposed to country and transfer risks are required to have appropriate policies, processes, procedures, systems and controls to identify, monitor and mitigate such risks.

In introducing this Regulation and the accompanying Standards, the Central Bank intends to ensure that Banks' approach to managing country and transfer risks are in line with leading international practices.

The Regulation and the accompanying Standards are issued pursuant to the powers vested in the Central Bank under the Central Bank Law.

Where the Regulation, or their accompanying Standards, include a requirement to provide information or to take certain measures, or to address certain items listed at a minimum, the Central Bank may impose requirements that are additional to the list provided in the relevant Article.

**OBJECTIVE**

The objective of the Regulation is to establish the minimum acceptable standards for banks' approach to managing country and transfer risks with a view to:

1. Ensuring that Banks' approach to managing country and transfer risks is in line with leading international practices.
2. Providing a framework for Banks to identify, monitor and mitigate country and transfer risks.
3. Promoting the effective and efficient development and functioning of the banking system.

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The objective of the Regulation is to establish the minimum acceptable standards for banks' approach to managing country and transfer risks with a view to:

1. Ensuring that Banks' approach to managing country and transfer risks is in line with leading international practices.
2. Providing a framework for Banks to identify, monitor and mitigate country and transfer risks.
3. Promoting the effective and efficient development and functioning of the banking system.
1. Ensuring the soundness of banks; and

ii. Contributing to financial stability.

The accompanying Standards supplement the Regulation to elaborate on the supervisory expectations of the Central Bank with respect to the management of country and transfer risks.

**SCOPE OF APPLICATION**

The Regulation and the accompanying Standards apply to all Banks. Banks established in the UAE with significant Group relationships, including subsidiaries, affiliates, or international branches, must ensure that the Regulation and Standards are adhered to on a solo and group-wide basis.

The Regulation and Standards must be read in conjunction with the Risk Management Regulation and Standards, which establish the requirements for Banks’ overarching approach to risk management.

**ARTICLE 1: DEFINITIONS**

1. **Affiliate:** An entity that, directly or indirectly, controls, is controlled by, or is under common control with another entity. The term control as used herein shall mean the holding, directly or indirectly, of voting rights in another entity, or the power to direct or cause the direction of the management of another entity.

2. **Bank:** A financial entity which is authorized by the Central Bank to accept deposits as a bank.

3. **Board:** The Bank’s board of directors.

4. **Central Bank:** The Central Bank of the United Arab Emirates.

5. **Central Bank Law:** Union Law No (10) of 1980 concerning the Central Bank, the Monetary System and Organization of the Central Bank.

 بنفس المعنى، يطبق هذا النظام والمعايير المرفقمة عليه كله البنوك. يجب على البنوك المؤسسة في دولة الإمارات العربية المتحدة من مديحتها لديها علاقات هامة بمجموعات، بما في ذلك أي شركات تابعة أو شركات شقيقة أو فروع دولية، أن تحقق من الالتزام بالنظام والمعايير، من جانب كل كيان على حدة. أو على مستوى المجموعة ككل.

يجب أن يقرأ هذا النظام والمعايير بالارتياط مع نظام ومعيار إدارة المخاطر الذي تحدد متطلبات النهجية الشاملة للبنوك في إدارة المخاطر.

**المادة 1: تعريفات**

1. **شركة شقيقة**: كيان يكون، بصورة مباشرة أو غير مباشرة، مسيطرة، أو مسيطر عليها، أو تحت سيطرة مشتركة مع كيان آخر. ويعني مصطلح السيطرة المستخدم هذا الإمتلاك المباشر أو غير المباشر لحقوق التصويت في كيان آخر، أو السلطة لتوجيه أو التسبب في توجيه إدارتهما. كيان آخر.

2. **البنك**: منشأة مالية مصرف لها من قبل المصرف المركزي الذي بقبول الودائع كبنك.

3. **مجلس الإدارة**: مجلس إدارة البنك.

4. **المصرف المركزي**: مصرف الإمارات العربية المتحدة المركزي.

5. **قانون المصرف المركزي**: القانون الإتحادي رقم (10) لسنة 1980 بشأن المصرف المركزي، والنظام النقدي، وتنظيم الهيئة المصرفية.
banking as amended or replaced from time to time.

6. **Central Bank regulations**: Any resolution, regulation, circular, rule, standard or notice issued by the Central Bank.

7. **Country risk**: The risk of loss caused by events in a foreign country, which may include changes in economic, social, political or regulatory conditions that affect obligors in that country and, potentially, obligations denominated in that country’s currency.

8. **Group**: A group of entities that includes an entity (the 'first entity') and:
   a. any Parent of the first entity;
   b. any Subsidiary of the first entity or of any Parent of the first entity; and
   c. any Affiliate.

9. **Parent**: An entity (the 'first entity') which:
   a. holds a majority of the voting rights in another entity (the 'second entity');
   b. is a shareholder of the second entity and has the right to appoint or remove a majority of the board or managers of the second entity; or
   c. is a shareholder of the second entity and controls alone, pursuant to an agreement with other shareholders, a majority of the voting rights in the second entity;

   Or;

   d. if the second entity is a subsidiary of another entity which is itself a subsidiary of the first entity.

10. **Risk governance framework**: As part of the overall approach to corporate governance, the framework through which the Board and management establish and
make decisions about the bank’s strategy and risk approach, articulate and monitor adherence to the risk appetite and risk limits relative to the bank’s strategy; and identify, measure, manage and control risks.

11. **Risk limits**: Specific quantitative measures that may not be exceeded, based on, for example, forward-looking assumptions that allocate the bank’s aggregate risk appetite to business lines, legal entities or management units within the bank or group in the form of specific risk categories, concentrations, or other measures, as appropriate.

12. **Risk management function**: Collectively, the systems, structures, policies, procedures and people that measure, monitor and report risk on a bank-wide and, if applicable, group-wide basis.

13. **Senior management**: The executive management of the bank responsible and accountable to the Board for the sound and prudent day-to-day management of the bank, generally including, but not limited to, the chief executive officer, chief financial officer, chief risk officer and heads of the compliance and internal audit functions.

14. **Subsidiary**: An entity (the 'first entity') is a subsidiary of another entity (the 'second entity') if the second entity:

   a. holds a majority of the voting rights in the first entity;

   b. is a shareholder of the first entity and has the right to appoint or remove a majority of the board or managers of the first entity; or

   c. is a shareholder of the first entity and controls alone, pursuant to an agreement with other shareholders, a majority of the voting rights in the first entity.

Or;
d. if the first entity is a subsidiary of another entity, which is itself a subsidiary of the second entity.

15. **Transfer risk:** The risk that a borrower will not be able to convert local currency into foreign exchange and so be unable to make debt service payments in foreign currency.

**ARTICLE 2: RISK GOVERNANCE FRAMEWORK**

1. A Bank’s risk governance framework must include policies and procedures for the identification, measurement, monitoring and reporting on country and transfer risk in the Bank’s international funding, lending and investments on a timely basis.

2. The risk governance framework must provide a bank-wide, or if applicable, group-wide view of country and transfer risks, including, where relevant, intra-group exposures.

3. For Banks with material exposure to country and transfer risks, the risk governance framework must, at minimum, provide for the following items:
   a. Country and transfer risk limits established in the board-approved risk appetite statement;
   b. Documentation of the roles and responsibilities of the different parts of the Bank involved in managing country and transfer risk;
   c. Definition of material country and transfer risks taking into account the size and nature of cross-border exposures relative to the total business of the Bank;
   d. Policies and procedures to ensure that all material country and transfer risks are identified, measured, managed, mitigated and reported upon in a timely and comprehensive manner;

   مخاطر التحويل: مخاطر عدم ممكن المقترض من تحويل العملة المحلية إلى عملة أجنبية، وبالتالي عدم قدرته على أداء دفعات خدمة الدين بالعملة الأجنبية.

المادة 2: إطار حوكمة المخاطر

1. يجب أن يتضمن إطار حوكمة المخاطر بالبنك سياسات وإجراءات التحويل، وفيض ومراقبة مخاطر الدول والتحويل ورفع التقارير حولها، في عمليات التمويل والإقراض والاستثمار الدولية للبنك في المواقيت المحددة.

2. يجب أن يوفر إطار حوكمة المخاطر نظرة حول مخاطر الدول والتحويل على مستوى البنك ككل، وعلى مستوى المجموعة ككل، حسب متعرض الحال، بما في ذلك حالات التعثر ذات العلاقة ما بين كيانات المجموعة.

3. بالنسبة للبنوك التي يكون لديها تعرض جوهري لمخاطر الدول والتحويل، يجب أن يتضمن إطار حوكمة المخاطر البنود التالية، كحد أدنى:
   a. حدود مخاطر الدول والتحويل المحددة في البيان المرتبط بالمخاطر المعمد من مجلس الإدارة;
   b. توثيق الأدوار والمسؤوليات للجزء المختلفة من البنك المتعلقة بإدارة مخاطر الدول والتحويل;
   c. تحديد مخاطر الدول والتحويل الجوهرية مع الأخذ في الاعتبار حجم حالات التعثر عبر الحدود وطبيعتها، بالنسبة إلى إجمالي أعمال البنك;
   d. السياسات والإجراءات المتبعة للتحقق من تحديد جميع مخاطر الدول والتحويل الجوهرية، وقياسها وإدارتها وتحريرها وإعداد التقارير حولها في الأوقات المحددة لذلك، وعلى نحو شامل;
e. Policies and procedures to ensure that developments affecting country and transfer risks are monitored, and where required, appropriate countermeasures such as reducing exposure limits or other techniques are employed; and

f. Policies and procedures to ensure that provisioning reflects prudent minimums based on internal standards for exposure to each relevant country or through explicit consideration of country and transfer risk in the provisioning for individual exposures.

ARTICLE 3: RISK MANAGEMENT FUNCTION

1. The risk management function must include policies, procedures, systems and controls for monitoring and reporting to ensure that country and transfer risk exposures are aligned with the Bank’s strategy and business plan and consistent with the board-approved risk appetite and individual risk limits.

ARTICLE 4: STRESS TESTING

1. A Bank with material country and transfer risks exposure must include in its stress testing program appropriate scenarios reflecting potential shocks such as introduction of capital and exchange controls in relevant foreign jurisdictions, taking into account the impact on all exposures, domestic or cross-border, affected by such shocks.

ARTICLE 5: INFORMATION SYSTEMS AND INTERNAL REPORTING

1. A Bank must have information systems that enable it to accurately aggregate, monitor and report country exposures. Reports must be provided on a timely basis to the Board
ARTICLE 6: REPORTING REQUIREMENTS

1. Banks must report to the Central Bank on their country and transfer risks exposure in the format and frequency prescribed by the Central Bank.

2. A Bank must provide upon request any specific information with respect to country and transfer risks that the Central Bank may require.

3. A Bank must immediately notify the Central Bank when it becomes aware of a significant deviation from the country and transfer risk limits established in its board-approved policies, or becomes aware that a material country or transfer risk has not been adequately addressed.

ARTICLE 7: ENFORCEMENT

1. Violation of any provision of this Regulation and the accompanying Standards may be subject to supervisory action as deemed appropriate by the Central Bank.

ARTICLE 8: INTERPRETATION OF REGULATION

1. The Regulatory Development Division of the Central Bank shall be the reference for interpretation of the provisions of this Regulation.

ARTICLE 9: CANCELLATION OF PREVIOUS NOTICES

1. This Regulation and the accompanying Standards replace all previous Central Bank Regulations with respect to country and transfer risks.
ARTICLE 10: PUBLICATION AND APPLICATION

1. This Regulation and the accompanying Standards shall be published in the Official Gazette, in both Arabic and English, and shall come into effect one month from the date of publication.

Khalifa Mohammed Al Kindi
Chairman of the Board of Directors - Central Bank of the UAE