

TERMS OF REFERENCE
GAP Analysis of Basel II & III (Independent 3rd Party Assurance)
&
Automation of the Stress Testing Process
Reference No: NG-DBN-289282-CS-CQS

Hiring of a consulting firm to perform a GAP Analysis of Basel II & III, with a view to close gaps identified in line with regulatory requirements. The firm will also Review the DBN Stress Testing Framework and Automate the Stress Testing Process for the Bank.

I. Background

The World Bank-funded US\$500 million Development Finance Project supports the establishment of the Development Bank of Nigeria (DBN), a wholesale development finance institution licensed and supervised by the Central Bank of Nigeria, with the objective of addressing the access to finance gaps of underserved Micro, Small and Medium Enterprises (MSMEs) in Nigeria. The DBN provides private sector lenders with longer term financing in local currency and partial credit guarantees (through its wholly-owned subsidiary Impact Credit Guarantee Company – “IMPACT”) in order to expand their outreach to MSMEs. With business and governance models based on internationally recognized good practice and substantial commitment of capital, the DBN is to perform a catalytic role with potentially transformational impact by facilitating financially sustainable and transparent access to finance for underserved MSMEs.

In addition to the World Bank, the DBN is also being supported by funding provided by other development partners, namely: the African Development Bank, the German Development Bank (KfW), the French Development Agency (AFD) and the European Investment Bank (EIB). Together with the World Bank these partner institutions are providing contributions in the form of debt, equity, and technical assistance for a combined value of over US\$1.3 billion.

The Central Bank of Nigeria has developed and issued guidelines for Basel III implementation by all Banks in 2020. However, due to the outbreak of COVID-19 pandemic, the implementation was suspended to minimize the regulatory compliance burden on the Banks. Following the gradual global economic recovery, the CBN released the following guidelines for implementation:

1. Guidelines on Regulatory Capital.
2. Guidelines on Leverage Ratio (LeR).
3. Guidelines on Liquidity Coverage Ratio.
4. Guidelines on Liquidity Monitoring Tools (LMT).
5. Guidelines on Large Exposures (LEX).
6. Guidelines on Liquidity Risk Management and Internal Liquidity Adequacy Assessment Process (ILAAP).



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The DBN requires a consulting firm to perform a review of the Bank’s level of compliance with the requirements for BASEL III implementation, identify the gaps and work to close the identified gaps in line with regulatory requirements.

The Bank also has in place, an excel based Stress Test Model which is used to estimate the Bank’s likely losses under adverse conditions and enables the Bank to be better prepared for such unforeseen situations. The firm shall perform a review of the Stress Testing Framework and Automate the Stress Testing Process for the Bank.

2. Objective of the Assignment & Scope of Work

GAP ANALYSIS OF BASIL II & III

The purpose of the assignment is to carry out a GAP Analysis of the implementation of Basel II and III, with a view to closing these gaps in line with regulatory requirements

The broad scope of work will include the following:

- a. Define and engage key stakeholders, define project governance, and set up the project steering committee.
- b. Map all stakeholders’ requirements, review criteria for the project.
- c. Develop associated project plan, in alignment with the PMOs overall project plan.
- d. Determine best approach for the review and define KPIs for project implementation.
- e. Develop the required reporting templates for Basel III
 - Reporting template for Capital Adequacy (TR-GCAR/TR-SCAR)
 - Reporting template for Leverage Ratio (TR-LeR)
 - Reporting Template for Liquidity Coverage Ratio (TR-LCR)
 - Reporting Template for Liquidity Monitoring Tools (TR-LMT)
 - Reporting Template for Large Exposures (TR-LEX)

The following are Key Updates from Regulatory Changes that will be considered for the project:

S/N	New Guideline	Key Changes
I	Revised Guidelines on Regulatory Capital	<ul style="list-style-type: none"> • Introduction of Common Equity Tier I (CET I) Capital Ratio and what qualifies • Introduction of Additional Tier I Capital and definition of what qualifies • Introduction of Capital Conservation Buffer (CCB 1) of 1% of Total Risk Weighted Assets and Introduction of Counter Cyclical Buffer (CCB 2) of 0 to 2.5% of Total Risk Weighted Assets. • Introduction of conditions for the payment of bonus to Directors and employees



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		<ul style="list-style-type: none"> • Introduction of conditions for the payment of Dividends to shareholders
2	Guidelines of Leverage Ratio	<ul style="list-style-type: none"> • Introduction of Leverage Ratio and a minimum ratio of 4% at all times • Introduction of additional Leverage buffer for Domestic Systemically Important Banks (DSIBs)
3	Guidelines of Liquidity Coverage Ratio	<ul style="list-style-type: none"> • Introduction of Liquidity Coverage Ratio (LCR) for FCY and LCY. • Minimum LCR of 100%. • ILAAP (Internal Liquidity Adequacy Assessment Process)
4	Guidelines on Liquidity Monitoring Tools	<ul style="list-style-type: none"> • Requires banks to have appropriate monitoring tools to manage the following: <ul style="list-style-type: none"> ✓ Contractual maturity mismatch ✓ Concentration of funding ✓ Available unencumbered assets ✓ Liquidity coverage ratio by significant currency ✓ Market related monitoring tools
5	Guidelines of Large Exposures	<ul style="list-style-type: none"> • Requires banks to report Large Exposures to the CBN on a monthly basis. • Specified limits for large exposures. • Introduces the definition of connected counterparties
6	Guidelines of Liquidity Risk Management and Internal Liquidity Adequacy Assessment Process (ILAAP)	<ul style="list-style-type: none"> • Introduction of Internal Liquidity Adequacy Assessment Process (ILAAP) • ILAAP to be updated quarterly • ILAAP report to be submitted to the CBN twice a year, not later than one month after the end of the period • Requires banks to define Liquidity Risk Appetite Statement (RAS) in the Risk Appetite Framework • Requires the definition of liquidity limits • Consideration of funding costs in New Products
7	Revised Guidelines on Supervisory Review Process of Internal Capital Adequacy Assessment Process (ICAAP)	<ul style="list-style-type: none"> • Requires the CBN to challenge the Pillar 2 computation of banks by introducing a Pillar 2 Capital Add-On Assessment which include: <ul style="list-style-type: none"> ✓ Risk Based Supervision Composite Risk Rating ✓ Bank's Risk Profile ✓ Bank's Risk Management Capacity ✓ Compliance with the provisions of Pillar 2 Guidelines (this includes the introduction of an Interest Rate Risk in the Banking Book Model) • Update of the CAR Template • Introduction of ILAAP and Recovery and Resolution Planning (RRP), the later for Domestic Systemically Important Banks (DSIBs) • Requires the alignment of ICAAP, ILAAP and RRP

AUTOMATION OF THE STRESS TESTING PROCESS



The purpose of the assignment is to:

- a) Assist the DBN in carrying out a review of the Stress Testing Framework and automate the Stress Test Process in line with leading practices.
- b) Ensure the automation has the ability to carry out stress tests in line with documented policies and procedures.

The broad scope of work will include the following:

- Carry out a Gap Analysis of the DBN Stress Testing Framework, close identified gaps and update the framework in line with leading practices.
- Automation of the Stress Test process through the design and development of a system for the stress test model.
- Perform a System quality test which will be approved by the Bank, and thereafter handover of the system to the Bank.
- Carryout a training session on System usage for the Bank.

3. Project Deliverables and Reporting

The Consultant shall work with relevant departments of the Bank in line with job specific milestones that will be agreed upon based on the following reporting deliverables:

- An Inception Report (including project governance structure).
- Monthly project status update reports.
- Final Project Report upon completion of the project.

The following tasks are expected to be carried out in completing the different phases which will also serve as milestones in the reporting and payments:

Phase I – Pre-implementation (To be completed 4 weeks post contract signing)

- Planning and Project Governance
- Gap Analysis of Basel II & III
- Gap Analysis of the DBN Stress Testing Framework
- Based on the Bank's current practices, estimate the impact of CBN Basel II and III requirements.

Phase 2 – Implementation of Basel II and III, Automated Stress Testing System design, programming, and development (To be completed within 5 months post contract signing)

- Update and Development of Policies based on gaps identified in Phase I
- Basel II and III Reporting template development

Automation of the stress testing and process documentation. **Phase 3 – System finalization and trainings (To be completed 8 months post contract signing)**



- System quality test and approval, system handover
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- Develop and perform quality assurance on review on Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports.
- Development of models to enable ICAAP and ILAAP reporting, such as Behavioural liquidity model, cashflow forecasting and Interest Rate Risk in the Banking Book model.
- Develop training programs that meets DBN need.
- Submission of ILAAP and Recovery and Resolution Planning (RRP) reports, and models to enable ICAAP and ILAAP reporting.

4. Payment Schedule:

The firm will be paid upon timely submission and approval of deliverables as stated below. The firm shall provide bi-weekly project update and monthly progress reports and other deliverables as defined for each of the identified milestones, which will be reviewed by relevant stakeholders and approved by the DBN's appointed Project Supervisor.

Payment of contract sum will be made with respect to each deliverable as follows:

Phase 1 – 10% payment to be made upon submission of the Inception Report, and thereafter 20% payment to be made upon completion of the Pre-implementation phase. Gap Analysis and Impact Assessment reports shall be provided at the end of the phase.

Phase 2 – 40% payment to be made upon satisfactory completion of the Implementation phase. This includes completion of the Automated Stress Testing System and design and automation of the following reporting templates for Basel II & III:

- Reporting template for Capital Adequacy (TR-GCAR/TR-SCAR)
- Reporting template for Leverage Ratio (TR-LeR)
- Reporting Template for Liquidity Coverage Ratio (TR-LCR)
- Reporting Template for Liquidity Monitoring Tools (TR-LMT)
- Reporting Template for Large Exposures (TR-LEX)

Phase 3 – 40% payment to be made upon successful completion of the entire project. This entails conducting of Basel III trainings and workshop, the training on Automated Stress Testing system usage and submission of final project reports for both projects.

5. Timeframe

The assignment will be over a period of **eight (8) months** from the agreed commencement date.

6. Qualification and Experience:



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The Firm must have proven experience to deliver the services outlined in the Scope of Work and should show evidence of the following:

- i. Evidence of at least 10 years of experience in implementing regulatory standards and developing risk and capital management solutions for at least three (3) top Financial Institutions. The experience should include Basel II & III implementation and automation of Stress Test processes.
- ii. Evidence of at least five (5) years' demonstrated experience with the successful development and implementation of similar process automation projects for top financial institutions.
- iii. Documented evidence of carrying out automated stress testing framework in at least two (2) Finance institutions in the last ten (10) years.
- iv. Documented evidence showing experience in system quality testing within the financial industry in the last five (5) years.

For items 1-3 above, interested consultants are expected to provide copies of letter of award as documentary evidence, while for item 4, interested consultants are expected to provide list of similar assignments executed including a brief description of the scope of the projects, the dates of implementation, budget, and the funding organization.

In addition to this, the firm must provide a team of at least four (4) experts who are Risk Management and Accounting professionals with a minimum of 5 years' experience in the following fields:

- Capital Management
- Project Management and Change Management
- Consulting, Risk Management and Risk Advisory.

The team should consist of experts with the following qualifications

- a. Team Lead – A minimum of Advance degree in Finance, Economics, or Accounting, with at least 10 years of experience in Banking, with professional certification of any recognized Accounting and/or Risk Management body such as CIBN, ACCA, CFA/FRM, Risk and Compliance Management professional, etc.
- b. Project Director – A Bachelor's degree in Accounting, Economics, Banking and Finance or any related discipline. A minimum of 7 years of experience in Banking. The project director should also have evidence of experience in provision of Basel II/III implementation, Financial Risk Management and Corporate Governance services.

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- c. The project team members should consist of individuals with backgrounds in Accounting, Economics, Business Administration or any related discipline, and experience in carrying out similar projects such as development of Internal Capital Adequacy Assessment Processes, implementation of Basel II/III, development of Stress Test Models etc.

The firm must also have a team of experts to deliver on both implementation of Basel II and III and Automation of the Stress Testing Process, and provide evidence of the following:

- v. Project manager – Evidence of at least five (5) years of experience in developing, evaluating, and advising on IT systems for Business Operations and development of Financial Solutions.
- vi. Team Lead – At least 5 years’ experience of monitoring & managing the ICT systems and infrastructure for IT projects including database management, firewall, cloud administration etc. (Storage Area Network is an added advantage).
- vii. Lead Developer should have a master’s degree in computer science or post graduate professional qualification in computer science or a related field.