

Angola: strengthening its financial institutions

The Angolan foreign exchange regulations for the oil and gas sector are boosting the domestic financial sector. Fears were expressed that the local financial institutions were not able to handle the increased (and still increasing) liquidity in the domestic financial markets. However, the institutions seem to be coping well. In view of the expanding domestic financial market, there are a number of regulatory changes and projects that should strengthen the market and its players.

National Bank of Angola's *Avisos*

On 22 March 2013, the National Bank of Angola (the "National Bank"), the supervisory authority for financial institutions, published a number of new rules as well as amendments to existing rules in the form of *Avisos*. The purpose of the *Avisos* is to strengthen the organisational infrastructure of the Angolan financial institutions.

They are:

- *Aviso No. 1/2013* relating to corporate governance
- *Aviso No. 2/2013* relating to internal controls
- *Aviso No. 3/2013* relating to prudential supervision on a consolidated basis
- *Aviso No. 4/2013* relating to external auditing.

These rules apply to those institutions that are authorised by the National Bank and fund managers that are subject to the National Bank's supervision.

The *Avisos* are based on the Angola Financial Institutions Law of 30 September 2005 (*Lei No. 13/05*). The principles set out in the rules are not completely new and certain financial institutions may currently already be in compliance. Applying these principles to all financial institutions will, however, ensure that there is a level playing field and that all institutions apply best practice.

Corporate governance

Aviso No. 1/2013 describes the general principles that should apply to the institution's corporate governance. As a general rule, this should be adapted to the size, nature and complexity of its activities. The institution's corporate bodies should meet regularly and effectively. The capital structure of a financial institution must be transparent and the institution should know the identity of shareholders with a so-called qualified interest (ie shareholders who, together with related persons or entities, hold more than 10% of the share capital or voting rights in the institution).

Key issues

- Corporate governance
- Internal controls
- Consolidated prudential supervision
- External auditor
- Other regulatory projects

The institution must have an administrative body, consisting of an uneven number of members who must have sufficient expertise and be fit and proper persons. The administrative body has, in the context of its activities, to consider the interests of the institution's shareholders and employees, as well as the supervisory authorities, clients (in particular deposit holders) and the general public, as well as the stability of the Angolan financial system.

The administrative body can establish an executive committee. If it does do so, the other members of the administrative body will become non-executive members. The executive committee can be elected by the general meeting or by the

administrative body and will be entrusted with the daily management of the institution. The non-executive members (with at least one independent member) will control and supervise the activities of the executive committee.

The administrative body should delegate to one or more (preferably independent) non-executive members certain supervisory and monitoring functions in relation to the institution's internal control systems. It should further delegate to a body established for this purpose, and consisting equally of executive and non-executive members, (high level) tasks in relation to risk management and control. Another body, constituted on a similar basis, should define employment policies and recommend persons for key management positions.

The institution is obliged to develop and implement remuneration policies, both for its employees in general as well as those of members of the institution's corporate bodies. The rules also require the administrative body to establish a code of conduct for themselves and the employees of the institution, and to set up policies and processes for the identification, monitoring and mitigation of conflicts of interest. The rules describe in detail the matters that need to be addressed in these policies, codes and processes.

The *Aviso* requires financial institutions to become more transparent. The public should have access to information (through the institution's website) about the institution's capital structure and holders of qualified interests, financial information, information about the members of the corporate bodies, material risks to which the institution

is subject as well as corporate governance and training policies.

The institutions are to report annually to the National Bank on their corporate governance. The holding company of a financial group must report in relation to its group as a whole.

The above rules must be implemented by 31 December 2014. The financial institutions are required to prepare an action plan within 90 days of the publication of the *Aviso*, which occurred on 19 April 2013.

Internal controls

Aviso No. 2/2013 replaces the National Bank's internal control rules that date from 2006. It sets out detailed rules about the policies, mechanisms and procedures that the institution must develop and implement in relation to internal controls.

The rules describe the obligations in respect of internal control policies and require the administrative body to define, implement and review, on a regular basis, the institution's internal control systems. The rules set out the matters that the internal control systems should, as a minimum, address.

The institutions are required to establish a risk management system. This system should, on a permanent basis, identify, assess, monitor, control and provide information about the risks to which the institution is subject. The *Aviso* describes in detail the actions which the institution should take in this respect and requires the appointment of a dedicated compliance officer. The *Aviso* also describes the criteria that apply to the information and communication processes of the institution and the internal audit function within the institution.

A holding company of a finance group must ensure that the internal control policies that apply to its group are coherent and consistent, and that there are appropriate policies and processes in place in relation to intra-group transactions.

The financial institutions must report on an annual basis to the National Bank about their internal control systems. The rules should be implemented by 31 December 2014 and within 90 days after the publication of the *Aviso*, which occurred on 19 April 2013, the institutions must have prepared an action plan.

Consolidated prudential supervision

Aviso No. 3/2013 enables the National Bank to establish specific requirements relating to consolidated supervision. It further makes the holding company of a financial institution subject to the National Bank's consolidated prudential supervision. The National Bank can extend its consolidated supervision to other companies that, from a control, organisational or functional perspective, could be considered to be part of the group. It can also exclude entities from its consolidated supervision. The consolidated prudential supervision rules came into force on 22 April 2013.

External Auditor

Aviso 04/2013 obliges the administrative body of a financial institution to engage an external auditor. The auditor should meet the qualifications, in terms of expertise as well as fit and properness, that are set out in the rules. The external auditor must be independent and the rules define the circumstances under which an auditor can no longer be considered independent. They also prohibit the external auditor from undertaking activities that would adversely affect his independence, such as him or his relations having, direct or indirect financial interests in the financial institution he is auditing.

The *Aviso* describes the tasks of the auditor in relation to the financial institutions and its financial information. It also obliges the auditor, once aware, to report to the National Bank on any material infraction or fraud committed by or within the institution, as well as material problems in relation to the entity's liquidity or solvability. The provisions of this *Aviso* came into force on 22 April 2013.

Other regulatory projects

The rules form part of a number of legislative and regulatory projects that are intended to strengthen and modernise the Angola financial market and the institutions operating in this market. Angola currently has comprehensive anti-money laundering and anti-terrorism financing regulations, that are aligned with, and meet international standards and requirements. Considerable attention has been given to detection and enforcement, both from a regulatory as well as a more practical perspective.

The Angola Capital Markets Commission (*Comissão do Mercado de Capitais*; "CMCs") is currently preparing for the establishment of an Angolan capital market. It is defining the rules, and setting up the supervisory bodies and procedures that will be required for a proper operation of this market.

The CMC has already published a number of proposals for presidential legislative decrees in respect of, amongst others, real estate funds and investment funds, fund management companies and fund intermediaries, the sovereign debt market as well as participation rights issued by governmental bodies and public companies.

It can therefore be expected that the coming years will see important developments in the Angolan financial market, both in terms of activities as well as regulations.

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