Frequently Asked Questions - August 2025

Prepared for the Central Bank of Iraq

This document is provided for reference purposes only and is not intended for official use, for formal reference please consult with previously published Arabic version of the document.

Contents

1. Introduction

The purpose of this FAQ booklet is to provide clear, accessible guidance on the Central Bank of Iraq's (CBI) ongoing banking sector reform program. It is intended to be read in addition to the most recent versions of the Standards Booklet, Assessment Guidelines, and Pathways Circular, as it seeks to clarify key questions and explain how those circulars should be interpreted alongside the underlying regulations.

The FAQs are organized by key reform topics, addressing common queries raised by banks during recent meetings, as well as anticipated potential future questions.

This document forms part of the CBI's broader initiative to strengthen the stability, transparency, and efficiency of Iraq's financial system—enhancing governance, modernizing infrastructure, improving risk management, and expanding financial inclusion.

2. Questions

Ownership & Governance: Qualified Institutional Investors (QIIs)

Context: The obligatory requirement for banks to have a QII is one of the most critical reform standards, as it is the strongest means of ensuring credibility for the overall reform effort, especially with international stakeholders. The rigorous definition of a QII is such that this investor will possess the financial strength and expertise to materially professionalize the bank(s) in which it decides to invest.

Q1: Will the CBI support banks in attracting a QII in order to fulfill the requirement?

- Banks are encouraged to be proactive in the search for a QII. However, the CBI will help banks find QIIs by conducting roadshows and communicating the benefits of the reform program to international stakeholders and investors.
- CBI will also stimulate the creation of an Iraqi fund mandated to invest in the banking sector, that can act as a QII as per the reform standards.

Q2: Will banks face challenges to find a QII, due to the financial requirements placed on QIIs? Is the CBI prepared to reduce the minimum assets requirement for banks to be classified as QIIs?

- There are multiple options available to banks seeking to add a QII – one option is an Iraqi fund (with majority Iraqi capital) with lower capital requirements than other options.
- Regarding financial institutions that may be possible partners, many regional banks meet the IQD 4 trillion asset threshold, including a majority of Jordanian, Egyptian and GCC-based banks.
- The CBI will not modify the standard regarding the definition of a QII. The definition was developed in cooperation with relevant international stakeholders. However, if a bank identifies a potential investor that is a large and reputable market player that is close but not quite meeting QII requirements, the CBI is prepared to assess their QII suitability on a case-by-case basis.

Q3: Will CBI provide exceptions in cases where a potential QII meets all criteria except for one?

- If a bank identifies a potential investor that is a large and reputable market player that is close but not quite meeting QII requirements, the CBI is prepared to assess their QII suitability on a case-by-case basis.

Q4: Will potential QIIs be interested in investing, even if they are only needed for a minority stake of 5%?

- Banks are ultimately responsible for making a compelling case for investment to any potential investors, including QIIs. QIIs will likely find the investment opportunity to be compelling, thanks to the outsized Board control they are able to have via their three allotted nominations on the Board, even with a shareholding of only 5%. This will allow them to ensure good governance and steering of the bank in a way that aligns with their vision and values.
- CBI will continue to help banks find QIIs by conducting roadshows and communicating the benefits of the reform program to international stakeholders and investors.

Q5: How many banks will the proposed Iraqi fund be allowed to invest in?

- The Iraqi fund can invest in multiple banks. There is no fixed maximum, but all investments must receive CBI approval and comply fully with shareholding limits and other relevant QII criteria. The CBI will provide further details in due course.

Q6: Is a bank permitted to have more than one QII?

- A bank may have multiple QIIs as shareholders, provided each meets all the QII requirements set by the reform standards.

Q7: Are local banks and non-banking institutions eligible to be classified as QIIs, or not?

- QIIs can be either international or local entities.
- Eligibility depends on meeting all relevant criteria including capital/assets under management, track record, and licensing as defined in the reform circulars.

Q8: Will it be possible for a QII to have three of their nominees pass the Board election, considering they only hold a 5% minority share?

- A QII may have three of their nominees approved, even with a shareholding of only 5%. If a bank's shareholders fail to approve at least three QII nominees, then the CBI will consider the bank to be non-compliant.

Ownership & Governance: Other Topics

Q9: Can the maximum limit for related parties' shareholding (currently set at 10%) be increased?

- According to the Standards Booklet and the Assessment Guidelines, the maximum allowable shareholding of an owner including related parties' is 10% of capital.
- An increase of up to 20% is possible after obtaining a special approval from the CBI and only if a Qualified Institutional Investor (QII) is present
- Further, under the August 28 update, an increase up to 40% is permitted only if the QII's shareholding itself exceeds 40%, also subject to prior approval from the CBI.

Q10: When are shareholder due diligence and enhanced due diligence (EDD) exercises conducted?

- Shareholder due diligence and enhanced due diligence requirements are in place to protect the banking system from reputational, regulatory, and financial risks by identifying and screening influential or politically exposed shareholders before they gain undue control or material influence.
- All shareholders are required to have undergone relevant testing by June 30th, 2027, by which point the bank likely will have made progress with dilution of shareholdings.
- It is important to note that any new shareholders who acquire their share after the aforementioned deadline will be required to undergo separate shareholder due diligence and EDD exercises.

Q11: Are banks required to run shareholder due diligence or EDD processes on current shareholders in cases where the same exercises have been done recently on those individuals?

- All shareholders must undergo due diligence once following the publication of the reform circulars, regardless of any similar checks conducted previously, no matter how recent.

Q12: Is reliance on the Iraq Stock Exchange sufficient to meet shareholder due diligence and identity verification requirements?

- All shareholders must undergo due diligence and identity verification through specialized companies approved by the CBI, as specified in the Assessment Guidelines.

Q13: How can banks that are listed on the Iraq Stock Exchange (ISX) provide consistent updates on ownership structure, given that new shareholders are constantly buying shares? Whose responsibility is it to remove a shareholder who buys more than 1% on ISX, and then does not pass the EDD test?

- For all banks, both listed and unlisted, it is the banks' responsibility to monitor its shareholder structure, and conduct the required EDD testing. If, at any point, a shareholding exceeds the threshold of 1%, an EDD test must be performed, with corresponding action to be taken by the bank if the EDD gives a negative outcome.

Q14: Will current Board members who have served multiple terms be required to step down? What about those in the middle of their second term?

- Board term limits are required to prevent long-term entrenchment board members by enforcing rotation, encouraging fresh oversight capacity.
- The limit is 8 years total service, regardless of when the first term began.

- Board members who are in the middle of their second term, or have already served at least 8 years on the Board, may serve the remainder of their current term but then must step down. Their removal from the Board will ideally take place amidst active transition planning and discussions with CBI.

Q15: Will the CBI observer be required to attend all board meetings?

- Banks must invite a CBI observer to board meetings. However, attendance remains at the discretion of the CBI, and CBI observers will only attend when deemed necessary.

Q16: Can non-independent directors serve on board committees as long as the majority and chair are independent?

- As of now and according to the CBI Governance manual, board committees must be composed of independent members and chaired by an independent director. It is being considered to potentially review this requirement and update the Governance manual accordingly.

Financial Metrics: Capital Requirements

Context: The requirement that banks maintain strong capital buffers is a cornerstone of stability, as it ensures institutions can absorb losses and withstand shocks. Standards related to capital requirements are critical in helping the Central Bank of Iraq to promote systemic resilience and increase confidence of depositors, creditors, and international stakeholders in the banking sector as a whole.

Q17: Is it a common practice internationally for central banks to impose minimum capital requirements on the banking sector?

- There are extensive benchmarks for this practice, as capital thresholds are used globally by Central Banks to ensure scale and resilience of banks. The requirements CBI has included as part of the new reform program are aligned with international examples, including those observed in GCC markets.

Q18: Are the paid-up capital requirements for Stay banks completely new requirements?

- The paid-up capital requirements reflected in the reform standards have been in place since 2023. Capital increases were initially scheduled for completion by December 2024, and were extended for some banks until September 2025.
- The capital requirements and deadlines outlined in the initial Pathways Circular were already extensions of pre-existing deadlines. However, the CBI has provided additional flexibility on timelines for capital requirements (please refer to Section 4.2 of the updated Pathways Circular).

Q19: How can banks attract new shareholders in order to meet capital requirements and ownership dilution requirements?

- Existing shareholders are allowed to participate in increasing the banks' capital, as long as the ownership concentration is eventually decreased as per the reform timelines.
- The CBI anticipated the challenge of having a market value below book value when creating the reform standards. Therefore, the minimum required investment of a qualified institutional investor is only 5%.
- Bank owners have been given over three years from the start of the reform to reduce their stake to the 10% threshold. During this period, banks can, by meeting all reform requirements, work to increase the value of their shares before onboarding new shareholders.
- Additionally, the CBI has modified the standards to allow bank shareholders to hold stakes of up to 40% in cases where the bank also has a QII with a greater share (please refer to Standard A1.1 of the updated Standards Booklet and updated Assessment Guidelines).

Risk and Regulatory Compliance

Context: A strong audit requirement promotes transparency and trust in financial reporting.

Q20: To meet the audit requirement, is clear that one auditor must be CBI-approved. Are there any requirements for the second auditor?

- There are no restrictions on the second auditor.

Pathways: Merger-related questions

Context: The merger pathway applies to banks that transition out of their standalone license to operate as part of a consolidated entity. It is designed for institutions that may not meet reform standards independently, but instead commit to transformation by merging into a more resilient, integrated bank.

Q21: Is there any possibility of flexibility around merger timelines?

- The CBI wants banks on the Merge pathway to have successful merger outcomes. Therefore, based on feedback from banks, the CBI has updated the timelines related to the Merger pathway (please refer to the updated Pathways Circular).

Q22: Will the assessments for merging banks be done on the individual banks or on the merged entity altogether?

- Initial assessments to confirm eligibility for the merger pathway will be carried out on each bank individually.
- Once the merger is complete, the new combined entity will be assessed against the full regulatory standards required.

Q23: Are the fees for the merger path charged separately for each bank, or is there a combined fee for all merged banks?

- Each Merge bank is required to pay the reform fee independently before the merger takes place.
- Fees may not be shared or waived, to maintain transparency and compliance. After the merger is finalized, the new entity will be responsible for paying fees of subsequent reform years as a single Stay bank. Please note that fees will be adjusted in subsequent years according to the participation of banks and progress made during the reform (please refer to the updated Pathways Circular).

Q24: Are banks that select the Merge pathway required to have a minimum paid-up capital?

- Following feedback from banks on this point, the CBI has decided to demonstrate flexibility by removing minimum capital requirements for banks that select the Merge pathway as long as they meet the Capital Adequacy Ratio and Liquidity Ratio requirements.

Q25: What happens if the combined capital after a merger exceeds the minimum of IQD 400 billion?

- If the combined post-merger capital exceeds IQD 400 billion, the CBI will permit shareholders to release excess capital under the applicable laws and CBI guidelines.

Q26: Is it permitted for banned banks to merge with other banned banks, or with sanctioned banks?

- Mergers between banned banks are allowed under the regulations.
- Banks are advised to assess all risks associated with any merger, especially those involving OFAC-listed banks which may represent significant regulatory risks.

Q27: If a bank merges with another bank that turns out to have undisclosed liabilities or legal challenges, who bears responsibility? What measures can be taken to mitigate such risks?

- Both merging banks are responsible for conducting thorough due diligence, which ideally includes detailed legal and financial checks, before finalizing their merger.
- The CBI will not assume liability for any undisclosed issues. Such liabilities rest fully with banks participating in the transaction.

Pathways: Exit-related questions

Context: The exit pathway applies to banks that surrender their license and permanently leave the Iraqi banking market. It is intended for institutions that choose not to continue operations or do not qualify under the Stay or Merge pathways, with the process structured to protect depositors, preserve market confidence, and ensure a smooth transition out of the system.

Q28: What is the process for exiting the market under the Exit Pathway (voluntary liquidation)?

- The bank submits a formal request for license revocation (signed legal form), appoints a CBI-approved third-party liquidator, and submits an exit plan prepared in line with CBI exit plan guidelines. CBI then reviews the exit plan, issues approval, and establishes oversight arrangements for monitoring and reporting.
- Following approval, the liquidator initiates the wind-down by freezing all new business (e.g., investments, deposits) and issuing the required public notices and communications. The process then continues with portfolio sales or transfers (e.g., loans, deposits), disposal of remaining assets, and settlement of outstanding liabilities.
- Progress updates must be provided to CBI throughout the execution phase, in line with forthcoming exit plan guidelines.
- The process concludes when the liquidator submits the final closure report and CBI confirms that all obligations are discharged, formally revoking the bank's license. Further details are set out in Article 68 of the 2004 Banking Law and Article 9 of the accompanying 2010 Instructions (issued by CBI to facilitate the implementation of the Banking Law).

Q29: Will banks on the Exit Pathway still need to comply with the reform standards?

- Once formally admitted to the Exit Pathway, banks are exempt from reform standards.
- Banks must still comply with CBI liquidation procedures, follow the approved exit plan, and meet all regulatory, liquidity and capital requirements during the wind-down.

Q30: How should a bank prepare and submit its exit plan?

- Prepare and submit the plan in line with CBI-issued exit plan guidelines to be published separately.
- Plan must demonstrate that liquidity and capital will remain sufficient to meet all obligations until completion, with supporting financial projections.

Q31: What support will CBI provide to banks during the exit process?

- While banks remain fully responsible for executing their exit, CBI will provide targeted support to ensure the process is clear, efficient, and straightforward.
- Provide guidance on preparing the exit plan and hold technical workshops or one-on-one consultations with the appointed liquidator to clarify regulatory expectations and address operational challenges.
- Review and approve key milestones, and supervise execution through a dedicated CBI oversight committee.

- Enable and approve the transfer or sale of assets and liabilities (e.g., loans, deposits) to other eligible solvent banks where appropriate.
- Facilitate engagement with other banks for the potential full sale of the exiting bank, offering an alternative route to exit.
- Where all obligations are met ahead of schedule, consider requests for expedited closure, subject to CBI review and approval.

Q32: Can a bank in voluntary liquidation sell or transfer its assets (e.g., loan portfolio) or liabilities (e.g., customer deposits) to another bank?

- Such transactions require prior CBI approval, must be disclosed in the exit plan, comply with laws, and ensure fair treatment of all parties.
- In the case of a full sale of the bank as a going concern, the appointed liquidator will manage the process under the approved exit plan, including engaging with potential buyers. CBI may, where appropriate, facilitate introductions to support the transaction.

Q33: What happens if a bank misses key deadlines or milestones during the exit process?

- Missing deadlines or failing to execute the approved exit plan in an orderly manner may result in formal warnings and the granting of a remediation window at the CBI's discretion.
- Persistent non-compliance will result in redirection to forced liquidation under Article 69 of the Banking Law. Once in forced liquidation, the bank loses the ability to manage its own exit process and is permanently ineligible to return to voluntary liquidation.

Other Topics: Reform Fee

Q34: Why must Stay and Merge banks pay reform fees? Is there a guarantee that banks paying reform fees will have a successful reform outcome?

- The reform program is ambitious and therefore requires a major effort from CBI that does not fall within the realm of its “business as usual” activities.
- Banks meeting all reform standards will have the privilege to participate in the Iraqi financial sector and to be integrated with the global financial system. To clarify this point, a corresponding amendment has been made to preambles of all reform circulars.

Q35: Is the contracting of third-party specialist firms, as required by the standards, covered by the reform fee?

- The fees related to third-party specialist firms are the sole responsibility of the banks undergoing the reform process. These fees are not included in the reform fee.
- The reform fee covers costs associated with CBI’s role in reform process.

Q36: Is there an option to pay the reform fees in installments, in case a bank wants to Stay or Merge but is unable to pay before the deadline?

- Banks are not permitted to pay the reform fee in instalments – it must be paid in full on or before September 30th. Failure to comply will result in regulatory action by the CBI in accordance with its authorities under the Banking Law, including but not limited to, redirection to another pathway, imposition of supervisory measures, or revocation of the Bank’s license.

Other Topics, including Timelines & Guarantees

Q37: What commitment can the CBI offer to banks as part of this reform effort?

- The purpose of this reform is to help the CBI fulfil part of its role as a regulator: creating a safe, trusted, and sustainable banking sector, which in turn helps drive economic growth and create greater opportunities for the people of Iraq.
- The banks that fully implement the reforms, in form and spirit, will have the opportunity to participate in and benefit economically from the Iraqi banking sector.
- This reform program was designed together with the most relevant international stakeholders. As such, if a bank meets each reform standard in full and on time, that bank will have no associated designations or restrictions on their ability to integrate with the global financial system. To clarify this point, a corresponding amendment has been made to preambles of all reform circulars.

Q38: Are banned or sanctioned banks expected to commit to the reform program, despite their status?

- The CBI acknowledges the challenges of the reform, especially for some of the banks mentioned. However, the commitment to – and effective implementation of – the reform is the only path to addressing the "blacklist" issue. We encourage banks to focus their concerns and efforts on the successful implementation of the reform.

Q39: Can the CBI offer flexibility on the deadline for banks to choose their reform pathway, given the need – in some cases – to call for an extraordinary general meeting (EGM)?

- Deadlines for selection of reform pathway are necessary to ensure prompt operationalization of the reform.
- It is the position of the CBI that banks selecting the Stay pathway may not need to call a general meeting.
- Due to feedback received from banks that may require an EGM, the CBI has delayed the deadlines for binding commitment to a reform pathway.
- Banks that require an EGM to move forward must submit the request for the EGM as soon as possible, and must inform CBI of the date assigned.
- The CBI expects all banks to submit at least an unsigned version of the filled-out Commitment Letter – including indication of their selected pathway that will be submitted to the EGM – no later than August 31st. A binding decision, including a signed Commitment Letter, is due no later than September 30th.

Q40: Does the signed Commitment Letter Form represent a contract with the CBI or with Oliver Wyman?

- The signed Commitment Letter constitutes an agreement between the bank and the CBI, specifically related to the reform process.
- Oliver Wyman serves solely as a technical advisor to the CBI, and is not a contractual counterparty to the agreement expressed in the Commitment Letter, nor to any other agreement with any individual bank.

Q41: Are banks required to wait until the end of the reform process to be declared compliant, even if they have met all standards prior to that point?

- Banks are not required to wait until the end of the reform process – the CBI will declare a bank fully compliant at any such time they are assessed to be fully compliant with all reform standards.

Q42: Can you provide the list of CBI-approved companies for due diligence and reform implementation?

- The CBI will issue an official list of approved specialized firms for due diligence and reform implementation. This list will be shared with banks once formally approved.

CBI
1947
CENTRAL BANK OF IRAQ