February 25, 2011

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements, CH-4002
Basel, Switzerland

Re: Basel Committee on Banking Supervision's Consultative Document, *Sound Practices for the Management and Supervision of Operational Risk*

Dear Sirs,

BBVA appreciates the opportunity to comment on the Basel Committee on Banking Supervision's Consultative Document entitled *Sound Practices for the Management and Supervision of Operational Risk*.

We offer the following comments:

BIS CONSULTATIVE DOCUMENT DECEMBER 2010

Sound Practices for the Management and Supervision of Operational Risk

Fundamental principle of operational risk management

Principle 1: The board of directors should take the lead in establishing the "tone at the top" which promotes a strong risk management culture. The board of directors and senior management should establish a corporate culture that is guided by strong risk management and that supports and provides appropriate standards and incentives for professional and responsible behaviour. In this regard, it is the responsibility of the board of directors to ensure that a strong operational risk management culture exists throughout the whole business.

BBVA Comment:

Guidance would be useful as to what the tone at the top is, and how it can be evidenced.

Principle 4: The board of directors should approve and review a risk appetite and tolerance statement for operational risk that articulates the nature, types, and levels of operational risk that the bank is willing to assume.

BBVA Comment:

Guidance would be useful as to how the risk appetite to operational risk can be defined in practical terms, and an example of a risk appetite and tolerance statement for operational risk, and how it can be anchored in objective issues that enable a follow up over time. Some aspects of operational risk due to their external origin may not be measured in terms of appetite but in terms of response to the risk (for instance contingency plans in relation to disasters).

22. The board should establish a code of conduct or an ethics policy that sets clear expectations for integrity and ethical values of the highest standard and identify acceptable business practices and prohibited conflicts. Clear expectations and accountabilities ensure that bank staff understand their roles and responsibilities for risk, as well as their authority to act. Strong and consistent senior management support for risk management and ethical behaviour convincingly reinforces codes of conduct and ethics, compensation strategies, and training programmes. Compensation policies should be aligned to the bank's statement of risk appetite and tolerance, long-term strategic direction, financial goals and overall safety and soundness. They should also appropriately balance risk and reward.

BBVA Comment:

Guidance would be helpful as to how are compensation policies aligned to the bank's statement of risk appetite and tolerance, long-term strategic direction, financial goals and overall safety and soundness. Given the somewhat intangible nature of the matters to be aligned, unless specific guidance is given it is unlikely that banks will be able to do so in an appropriate manner for the supervisors.

Risk Management Environment

40. Business activities can become misaligned with risk management when the price of risk is not understood and considered in the pricing of products, the measurement of risk exposure, and the cost of risk management. The bank should ensure the identification, consideration, and incorporation, as appropriate, of the operational costs and risks of operational loss in the internal pricing, performance measurement and new product approval process for all significant business lines, thereby aligning the risk-taking incentives of individual business lines with the operational risk exposures their activities create for the bank as a whole.

BBVA Comment:

Ensuring the identification, consideration and incorporation of the operational costs and risks of operational loss in the internal pricing, performance measurement and new product approval process for all significant business lines and costs, apart from being very difficult to demonstrate can be seen as an interference in strategic matters that does not appear to be reasonable.