CENTRAL BANK OF BARBADOS

COMMENTS ON REVISED BASEL CORE PRINCIPLES (BCPs)

<u>General Comments</u>

The re-organisation of the Principles into supervisory requirements and prudential requirements for financial institutions is a positive change. This results in an easier flow and assimilation of the concepts. In addition, we welcome the comment on proportionality in Paragraph 31 which is supported by Paragraph 42 allowing for different approaches to supervision. We encourage this approach since a criticism on past assessments could be that such a view has not translated into assessments conducted for small jurisdictions with special peculiarities.

It has been noted however that most of the former Additional Criteria (AC)s have been elevated into the Essential Criteria (ECs) in the current revisions. This has raised the baseline for jurisdictions. Evidently, the 2006 ECs proved challenging for a number of jurisdictions to achieve full compliance because of resource and other constraints, and the elevation of the ACs into ECs will further exacerbate and further challenge supervisors to reach the compliance goal. While it is acknowledged that a jurisdiction can opt to be assessed on the ECs only, the number of ECs is significantly greater, with only 11 ACs remaining.

A specific Principle on Corporate Governance is long overdue, but we wonder whether the coverage of this area should be amplified. Principle 14 focusses more on ensuring that banks have governance policies and procedures in place. Interestingly, failed banks undoubtedly had good governance policies and procedures but the exercise of sound corporate governance was lacking.

Most of the Principles include the need for crisis resolution. We question the heavy emphasis on this as a universal standard since not all regions have been equally affected by the recent crisis. We also wonder whether a specific core principle is required in this regard, which would provide more guidance and differentiation for jurisdictions depending on the impact of crises on their financial systems.

The emphasis on SIBs/SIFIs underscores the need for regulators to have Financial Stability Units to perform ongoing macro-economic assessments. This presupposes that the regulator is a Central Bank which is not always the case. In the case of regulators who are not Central Bank, this may necessitate an expansion of their mandate. This would have implications for additional resources, both quantitatively and qualitatively, and would lead to a commensurate increase in supervisory costs.

The separation of the former BCP 1 is a positive development as the coverage of the former BCP 1 was too wide. This resulted in a negative rating although a jurisdiction might have met the majority of the criteria but could not meet the independence criteria which tended to dominate the outcome of the rating.

The separation of former BCP 22 is also positive and better focusses on the two distinct aspects of external audit and transparency.

The revised Principles use the phrase “the supervisor determines” rather than “the supervisory must be satisfied”. It is unclear of the intention behind this rephrasing. We wonder whether it would be accurate to infer that this change places more emphasis on the intensity of the supervision and of the follow up of non-compliance at institutions.

<u>Specific comments</u>

Executive Summary

Paragraph 37 - Given the overlap between BCP 29 and the FATF Evaluations we question the value in retaining BCP 29. Alternatively, if BCP 29 is to be retained, the comment that assessors “may” rely on the Mutual Evaluation should be re-examined. We are of the view that the FSAP assessors “should” rely on the Mutual Evaluation assessment, in light of the fact that the Mutual Evaluation assessors are specifically trained to conduct these assessments.

Paragraph 61 - With regard to assessing a BCP as material non-compliant, more clarity should be provided as it relates to the definition of the following terms, “without any significant deficiencies” and “only minor shortcomings”.

BCP 4 EC 4 - The footnote states that non FI deposits should not be a “significant” proportion of deposits of financial system which leaves the term “significant” open to interpretation. There may be a need to clarify.

BCP 8 EC 4 – As noted in our general comments, the requirement to take a macroeconomic view assumes that the supervisor is a central bank with the requisite resources to undertake this quality of assessment which is not always the case.

BCP 18 - This revised BCP has not clarified the previous Principle 9. It continues to make reference to problem assets in some areas but focusses on loans specifically. There is need for clarity in this regard as other types of assets will also necessitate classification.

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