Dubai Financial Services Authority

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

Via Email:baselcommittee@bis.org

Dear Basel Committee Secretariat:

We are pleased to submit our response to the Basel Committee's Consultative Document on the "*Core Principles for Effective Banking Supervision*." While we have been represented on the Core Principles Working Group, we believe there are some issues which we feel should be highlighted. These have in part been identified in the course of our own self-assessment against the new Core Principles in preparation for an FSAP review expected later this year.

Proportionality Concept

We appreciate the need to raise the bar of banking supervision in the post-crisis era. Likewise, we are pleased that the Committee now believes that this set of Core Principles will stand the test of time and changing environments.

We must point out that the most recent crisis did not originate in emerging markets, yet emerging markets might need to make the largest sets of changes to show compliance with the new Principles. In this light, we wish to emphasise the need for the "proportionate approach" for assessment of compliance with the Core Principles. Asking emerging market supervisors to make large-scale, complex changes to their laws, rules, or supervision practices might introduce a suite of unintended consequences, if the changes are not managed well, and if the assessors do not practice the concept of proportionality that is desired in the new Principles.

Our cost benefit analysis might show negative outcome for emerging markets.

Assessment methodology

Following from the above, we note the comments in the consultation paper in relation to application of judgement for jurisdictions with differing levels of complexity and risks. In this regard we agree that the methodology adopted should be cognisant of the differing nature, scale and complexity of emerging market financial centres. We note that the new

methodology will focus on the demonstration of supervisory practices in order to achieve full compliance with respective principles. However it should be noted, once again in line with the proportionality principle, that newer financial jurisdictions may have limited depth and scope of activities making it difficult to demonstrate the effectiveness of its regulatory framework for all principles as would be the case in more established jurisdictions. This would simply be as a result of lack of activity in certain areas rather than any weaknesses arising from the regulatory framework or supervisory practices. Assessments should be mindful of these limitations without impacting ratings.

<u>Applicability of the BCP</u>

Further to the above we also note that both Principles and Essential Criteria place obligations on regulators to address certain elements through regulatory requirements as well as supervisory practice. We consider that these two elements cannot be mutually exclusive. It should be considered within the assessment methodology that Regulators can achieve compliance through a number of supervisory tools, not necessarily solely through the application of rules, laws or regulations but also through the application of supervisory practices.

<u>Resolution Frameworks</u>

We certainly agree that crisis management and resolution frameworks were part of the problem in the recent crisis. This core weakness was particularly heightened due to the fact that the crisis manifested in mark-to-market portfolios, causing supervisors to react quickly to changing circumstances. Crisis management and resolution frameworks are necessary for global systemically important banks and financial institutions in the near term; however, similar to our words of caution regarding proportionality, we would like to recommend a degree of patience with emerging market countries in this regard. International standards have not addressed the peculiarities of resolution frameworks in the past, and resolution frameworks can be excruciatingly local in their nature. Widespread change to resolution frameworks will take years to implement, particularly since resolution frameworks are not always within the purview of banking supervisors.

Sincerely,

Paul Koster
Chief Executive