State Bank of Pakistan (SBP) Comments on BIS Consultative Document- Stress Testing Principles

The new principles have been found to be well articulated, succinct and general enough to encompass anticipated developments in the area of stress testing. The SBP comments are as follows:

General Comments: As principles are now being made more high level to provide broader guidance, it would be useful to put some principle specific examples from the practices being followed by various jurisdiction. This will bring about clarity and facilitate jurisdictions in effective application of these principles.

Principle 5: The principle highlights the need for adequacy of resources and structures for stress testing. For banks, it also highlights the need for due diligence, oversight and control if the banks prefer to use *third party services*.

Suggestion: As the outsourcing of such services may involve access to business and customer level data; therefore, in order to avoid any reputational risk, the relevant 3rd party agreements need to include '*confidentiality clause*' to ensure privacy of the data. The explanation to the principle may explicitly emphasize on this aspect.

Principle 8: The principle calls for supervisory challenge and regular review of stress testing models in use at banks, their results and frameworks. The principle as such does not explicitly mention the models and frameworks used by the supervisory/regulatory authorities themselves being used as a part of their top down approach to the stress testing. For example, the authorities usually conduct supervisory/macro-prudential stress tests using internally developed models.

Suggestion: The principle may also provide guidance on how the stress testing frameworks and models being used by the supervisors or Central Banks for performing system wide stress test can be challenged.