RESPONSE TO THE BASEL COMMITTEE´S REQUEST FOR COMMENTS ON THE CONSULTATIVE DOCUMENT "CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION"

6th October 2023

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements

Ref.: Consultative Document "Core principles for effective banking supervision" - Fit & Proper comments

Dear Committee Members,

We are pleased to submit the following Fit & Proper´s comments and suggestions in response to the Consultative Document "Core principles for effective banking supervision", issued by the Basel Committee on Banking Supervision (BCBS) on July 2023.

Fit & Proper LLC provides advisory and consulting services on issues related to banking supervision and regulation, central banking, financial institutions and financial inclusion and microfinance, among others. On this regard, Fit & Proper provides services to banking financial institutions, supervisors, central banks, deposit insurance agencies, ministries of finance and multilateral organizations, including the Interamerican Development Bank, the International Monetary Fund, and the World Bank. Fit & Proper and its consultants have experience in more than 50 countries. You can find further information in www.fitproper.com.

These comments were prepared by Javier Bolzico, Natalia Teplitz and Marcelo Zárate.

We would like to express our appreciation to the BCBS for the opportunity to provide feedback on this Consultative Document.

Furthermore, we would like to take the opportunity to congratulate the BCBS for the good job that they are carrying on by keeping the core principles updated by addressing global financial developments, emerging risks and structural trends on banks and banking system, and changes to the global regulatory and supervisory landscape. We believe that this document will be an important instrument to guide bank supervisors and banks on ensuring the soundness of the banking system.

We would be pleased to provide more information or further discussion on any of these issues. If you have any comments or questions, please feel free to contact us at info@fitproper.com.

Yours faithfully,

Javier Bolzico
Founding Partner - Fit & Proper LLC
jbolzico@fitproper.com

Natalia Teplitz
Manager - Fit & Proper LLC
nteplitz@fitproper.com

Fit & Proper CONSULTING

COMMENTS / SUGGESTIONS ON CONSULTATIVE DOCUMENT "CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION"

We consider this consultative document is a very timely and useful report, which addresses most of the relevant issues regarding supervisory and regulatory developments since the previous update to the Base Core Principles (BCP) in 2012, global financial developments, and the impact of recent structural trends on banks and the banking system.

From the revision and analysis of the consultative document, we have noted regarding **Principle 4 (Permissible activities)** that the footnote 7 to essential criteria 4 appropriately addresses the issue of the existence of NBFIs that take deposits or retain customers' funds (for example, e-money). In this regard, we consider the BCP should establish that if any institution takes deposits or retains customer funds, it should fulfill prudential regulations similarly to regulated banks, or those funds can't be part of the institution's liabilities (not part of the funding of the institution).

On the other hand, **climate-related financial risks** are a novel issue incorporated in the BCP in a few principles, especially in **Principle 15 (Risk Management Process)**. We consider that, even though climate-related risks could be very relevant, they are just one of the many risks that banks face. Since Principle 15 addresses the risk question in a general manner without listing every risk, we consider it is not consistent to mention just one risk in particular. If the BCBS believes that given its relevance this particular risk should be mentioned, an additional BPC could be created to address climate-related financial risks. That would take the number of principles to 30.

On this regard, we suggest that BCP should:

- Emphasize in Principle 4 that if any institution takes deposits or retains customer funds, it should fulfill prudential regulations similarly to regulated banks, or those funds can't be part of the institution's liabilities (not part of the funding of the institution).
- Remove the mention to climate-related financial risks in principle 15 and create an additional principle to address this risk.