Main Comments

General approach:-

(1) Para 18 - It should be borne in mind that successive revisions to standards and guidance issued by the Committee will be designed to strengthen the regulatory regime. Supervisors are encouraged to move towards the adoption of updated international supervisory standards as they are issued.

I fully support adoption of these core principles, however, I would like to mention that, this adoption should be in line with Basel III; therefore the implementation should be according with different standards.

(2) In the aftermath of the crisis, much attention has been focused on SIBs, and the regulations and supervisory powers needed to deal with them effectively. Consideration was given by the Committee to including a new Core Principle to cover SIBs. However, it was concluded that SIBs, which require greater intensity of supervision and hence resources, represent one end of the supervisory spectrum of banks. Each Core Principle applies to the supervision of all banks. The expectations on, and of, supervisors will need to be of a higher order for SIBs, commensurate with the risk profile and systemic importance of these banks. Therefore, it is unnecessary to include a specific stand-alone Core Principle for SIBs.

I also support this approach in part. I do believe that SIBs failures will affect the banking sector severely. Therefore greater focus and stringent regulations on SIBs will prevent, or at least will reduce, the impact of any potential crisis. IFSB realize that having multiple core principles in some cases can lead to conflict of interests, which in turn can lead to instability, However, dealing with SIBs in the same way as rest of regular banks will not elaborate the peculiarities of SIBs in proper manner. Furthermore dealing with SIBs as regular institution could result in a situation which unsafe and unsound SIBs continue to operate, thus eroding confidence in banking system and undermining financial stability.
Macroprudential issues and systemic risks

(3) This broad financial system perspective is integral to many of the Core Principles. For this reason, the Committee has not included a specific stand-alone Core Principle on macroprudential issues.

I endorse these efforts but I would like to caution that, through not standardizing macroprudential tools that will give incentives to each jurisdiction to design their own regulations and interpretation, which in way or another will lead to divergence the way these tools and issues should be functioning and elaborating, especially in related to cross-boarder issues and the level of co-operation.

Consistency and implementation

(4) The banking sector is only a part, albeit an important part, of a financial system and in conducting this review of its Core Principles, the Committee has sought to maintain consistency, where possible, with the corresponding standards for securities and insurance (which have themselves been the subject of recent reviews), as well as those for anti-money laundering and transparency. Differences will, however, inevitably remain as key risk areas and supervisory priorities differ from sector to sector. In implementing the Core Principles, supervisors should take into account the role of the banking sector in supporting and facilitating productive activities for the real economy.

I fully support this principle, but I would like to add the importance of strong nexus between Capital Market and banking sector, and the mutual impact especially in related to liquidity issue during stress time.

(5) A high degree of compliance with the Core Principles should foster overall financial system stability; however, this will not guarantee it, nor will it prevent the failure of banks. Banking supervision cannot, and should not, provide an assurance that banks will not fail. In a market economy, failures are part of risk-taking.
I agree with this concept, however, this Para is redundant since supervisors as well as Banks knowing that the probability of failures are part of their risk taking in their daily work, thus no need to explicit this concept.

(6) **Preconditions for effective banking supervision**

The preconditions include:

- **sound and sustainable macroeconomic policies**;
- **a well established framework for financial stability policy formulation**;
- **a well developed public infrastructure**;
- **a clear framework for crisis management, recovery and resolution**;
- **an appropriate level of systemic protection (or public safety net)**; and
- **Effective market discipline**.

I support these preconditions where available and stress the sound and sustainable macroeconomic policies, and level of harmonisation between fiscal policy and monetary policy through continuous communication. The precondition should be ranked based on importances, and it would also be useful here if the BCBS could address the issue of (bailing out) when some financial institution become no longer viable among **an appropriate level of systemic protection (or public safety net)**. Specifically in jurisdiction when deposit insurance is not available.

(7) **Assessment methodology**

Although Committee members individually collaborate in assessment missions, these are conducted primarily by the IMF and the World Bank. The Committee has decided not to make assessments of its own to maintain the current division of labour between the Committee’s standard-setting and the international financial institutions’ assessment functions. However, the Committee, together with the Financial Stability Institute, is prepared to assist in other ways, for example by providing training.
I support this methodology. I do note that assessment function is not the BCBS mandate and it will lead to sort of diversion from the role of BCBS as standard setting organization. In our view it is most important to note that each international organization tackling their issue in line with other organizations objectives.

(8)Assessment of compliance

*For assessments of the Core Principles by external parties, the following four grade scale will be used: compliant, largely compliant, materially non-compliant, and noncompliant. A “not applicable” grading can be used under certain circumstances as described in paragraph 62.*

It would be helpful if the Basel committee could clarify the definition of “external parties” as it is currently uncertain which organization can be assessor, and hence can do this assessment, is it WB or IMF or any rating agencies? It certainly will not be an easy task specially the assessor must have free access to any range of information which may include not the published one only, but also more sensitive information.

(9)Supervisory powers, responsibilities and functions

*Principle 1 till principle 13 address supervisory powers, responsibilities and functions, focusing on effective risk-based supervision, and the need for early intervention and timely supervisory actions.*

I fully support these principles, as it’s essential for supervisor to do their job, as under *(principle 2: Independence, accountability, resourcing and legal protection for Supervisors)* point (d) and (e) can be merging in one point since both of them are seeking to raise the level of knowledge and training.

Moreover under *(Principle 6: Transfer of significant ownership)* IFSB fully spurt this principle and suggesting adding this part ;In the case of foreign banks having a branch or subsidiary, the supervisors from the host country should be inform before transferring any significant ownership in the parent institution at the home country.

At *(Principle 11: Corrective and sanctioning powers of supervisors)* in point number 4 BCBS can add one more Para to extend the restrictions when the bank doesn’t complied with supervisory regulations and laws to include; restriction or suspending the managers remunerations and staff bonuses.
Prudential regulations and requirements

From principle 14 till principle 29 covering supervisory expectations of banks, emphasising the importance of good corporate governance and robust risk management, as well as compliance with supervisory standards.

I fully support these principles, hence they are addressing many of the significant risk management areas and enhancing corporate governance and other vulnerabilities as highlighted in the last crisis.

Moreover recent experience (Financial crisis & Euro crisis) highlighted the significant risk arising from building Leverage Ratio at banking level (reference documents; BIS Quarterly Review March 2012 International banking and financial market developments), as we seen from (Principle 15: Risk management process) this issue hasn’t been elaborated in sufficient way, even though it has been slightly mentioned at principle 16, In our view assessing and managing Leverage Ratio, it has to be in line with the comprehensive risk management process.

Also I noted the importance of having forward –looking stress testing program at banking level in order to address banks tolerance, however, this program should not be the solely source for assessing banks risk tolerance.

For principle (Principle 16: Capital adequacy) we as supervisor fully support this principle, however, we noticed that there is no mentioned to Internal Capital Adequacy Assessment Process ICAAP as an essential part of Capital Adequacy Process in this Para. Is that means BCBS recant the importance of this process??

In (Principle 19: Concentration risk and large exposure limits) at additional criteria BCBS stated that; Minor deviations from these limits (25% of total bank capital) may be acceptable, especially if explicitly temporary or related to very small or specialised banks. Our view on that is; this statement can be construed as an implicit approval to exceed the limits. Therefore any deviations from these limits should articulate the reasons for these deviations and should be approved from supervisory authority.

(Principle 24: Liquidity risk) I endorse this principle but would like to mention that the recent experience in Euro area showed that there is a significant rapport between
sovereign debt and liquidity conditions; therefore supervisor has to give special attention to this issue.