



BY E-MAIL

Secretariat of the Joint Forum (BCBS Secretariat),
Bank for International Settlements,
CH-4002 Basel,
Switzerland

1 February 2012

Dear Sir or Madam,

PRINCIPLES FOR THE SUPERVISION OF FINANCIAL CONGLOMERATES

The Dubai Financial Services Authority (DFSA) is grateful for the opportunity to comment on the revised Draft Principles.

Our response reflects our position as largely a host supervisor, in a region where corporate governance is generally less advanced than in some others, and draws on our experience of specific group supervision issues, albeit mainly concerning smaller firms who mainly conduct intermediary business. We are an integrated regulator operating in an international jurisdiction, and issues of international supervisory co-ordination are therefore much more important to us than co-ordination within a single jurisdiction.

In general, we welcome the revisions, which would establish a much stronger framework for conglomerate supervision. At many points, the revised Principles would be equally applicable to the supervision of a single-sector group, and we have therefore read them against the background that they are likely to inform the sectoral group supervision standards of the member bodies.

We begin with three general points.

- The first concerns the structure of the Principles. At some points, the Explanatory Comments read less like explanations than like Implementation Criteria. That is, they seem to add to the requirements rather than explain them. A good example is 10.6, requiring each conglomerate to have a code of ethical conduct; another is 11.3. We recommend a further structural review of the text to ensure that all the substantive requirements are captured within the Principles and Implementation Criteria, and that the Explanatory Comments genuinely clarify, rather than supplement, what has gone before.
- When discussing supervisory co-operation, the Principles shift focus from time to time between collaboration between sectoral regulators in a single jurisdiction, and collaboration internationally. Whilst at some points this is both explicit and appropriate, at others the focus has to be inferred. An instance would be Principle 5, where the Implementation Criteria would be much more difficult to apply in a cross-jurisdictional context. For example, an agreed-upon co-ordination process covering all plausible combinations of jurisdictions would require a degree of global standardisation which (regrettably) has not yet been achieved.

- There is quite a lot of overlap, particularly between the Principles in Section V, on risk management. The number could readily be reduced, for example by combining 27 and 28, and some overlap at lower level could be eliminated. For example, Implementation Criterion 29(b) is almost identical in its drafting to Explanatory Comment 26.2.

At a more detailed level:

- While Implementation Criterion 1(e) discusses access to the Board and senior management of the head of the financial conglomerate, Implementation Criterion 8(d) indicates that supervisors should also interact with the Board of the ultimate parent (which, in a mixed group, may be different). The requirements for legal powers (Principle 1) are thus narrower than those for supervisory practice (Principle 8).
- As already indicated, Implementation Criterion 5(a), on identifying the Group-level Supervisor, cannot be fully delivered at jurisdictional level, but will require international co-operation between groups of supervisors that will differ from case to case.
- The discussion of individuals exerting a material influence in Principle 12(i) and Explanatory Comment 12.4 places too much emphasis on the financial soundness of individuals. While the integrity of individual controllers is of course an issue, and their sources of funds may be important (but generally for reasons relating to honesty), it seems to us relatively rare in financial conglomerates for individual financial soundness to be an issue, and it is not something that supervisors commonly monitor on a continuing basis. The financial soundness of corporate controllers is a very different matter, but is not what is discussed here.
- Explanatory Comment 14.4 is another example of a comment that reads more like an independent requirement, and it is very difficult to see what it is getting at or how it might realistically be implemented.
- Implementation Criteria 22(c) and (d), on risk management training and whistleblowing, would be relatively difficult for supervisors to apply at individual firm level, and are by no means universal parts of good supervisory practice at that level. It may therefore be premature to seek to require them at conglomerate level. They also appear rather too detailed for inclusion in these Principles.

We should be happy to expand on or clarify any of these comments on request.

Yours sincerely,



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