

Ref. 0917/5687/MH  
27<sup>th</sup> September 2017

**Jaime Caruana**  
General Manager  
Basel Committee on Banking Supervision  
Bank for International Settlements  
CH-4002  
Basel  
Switzerland

Dear Mr. Caruana,

**CIBAFI response to the Basel Committee’s Consultative Document “Simplified alternative to the standardised approach to market risk capital requirements”**

The General Council for Islamic Banks and Financial Institutions (CIBAFI) presents its compliments to the Basel Committee on Banking Supervision (BCBS) and takes this opportunity to express its appreciation of the work that the BCBS is doing to provide a simplified alternative to the standardised approach to market risk capital requirements.

CIBAFI is an international body representing Islamic financial institutions globally, who offer financial services and products complying with Islamic rules and principles (Shariah). CIBAFI acts as the voice of the Islamic finance industry, and has a membership of over 120 banks and non-bank financial institutions, both large and small, from 32 countries and jurisdictions.

We welcome this opportunity to offer our comments and recommendations on the BCBS’s Consultative Document (CD) “Simplified alternative to the standardised approach to market risk capital requirements”. While the CD is largely devoted to the technical details of the proposed reduced sensitivities-based method (R-SbM), CIBAFI’s

comments are primarily related to the high-level question of whether the R-SbM represents a sufficient level of simplification, or whether retaining the Basel II standardised approach, subject to a high-level recalibration, would serve as a better alternative. The comments contained in this letter represent the views of CIBAFI Secretariat and feedback received from our members.

Firstly, Islamic banks are, for the most part, relatively small by global standards and are mainly based in emerging markets. For that reason alone they would be likely to take very little market risk. The fact that they are Islamic, however, means that for Shariah reasons, they will be very restricted in their ability to take short positions or to use derivatives. This is likely to make their market positions simpler still, and those positions are likely to remain simple in the longer term.

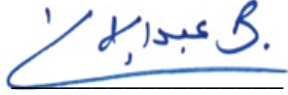
Secondly, although the R-SbM does make the simplifications from the SbM that are described in the Background section of the paper (and in more detail later) these simplifications will not necessarily produce a material reduction in the new processes for calculation, portfolio and data management processes, and reporting processes that will need to be implemented. Furthermore, the design of the reduced sensitivities-based method (R-SbM) is significantly different from the design of the already widely-used Basel II standardised approach. CIBAFI is therefore concerned that the implementation of this method may pose substantial implementation challenges and costs for banks that already use Basel II approach. In addition the benefits of implementation are uncertain and yet to be clarified.

Thirdly, our members are concerned that the information required for the R-SbM calculation might not be available given the maturity and depth of some of the emerging markets vis-à-vis the advanced markets.

Therefore, the view of CIBAFI is to prefer a recalibrated Basel II approach, but of course subject to the details of the way this proposal is developed and its implications for capital.

We remain at your disposal should you need any further clarifications on the above.

Yours sincerely,



**Abdelilah Belatik**  
Secretary General