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04 November 2020

Agustin Carstens
General Manager
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002
Basel
Switzerland

Dear Mr. Carstens,

**CIBAFI Response to the Basel Committee’s Consultative Document “Revisions to
the principles for the sound management of operational risk”**

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 revisions to the principles for the sound management of operational risk.

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 our members comprise more than 130 Islamic banks and non-bank financial institutions, both large and small, from 34 jurisdictions.

We welcome this opportunity to offer our comments and recommendations on the BCBS's Consultative Document (CD) "Revisions to the principles for the sound management of operational risk".

In addition to the appropriate and comprehensive revisions to the principles contained in the CD, we would like to present the below comments for further enhancement and consideration. The comments contained in this letter represent the views of CIBAFI's Secretariat and feedback received from our members. Although our membership is diverse, they can be seen as reflecting largely the concerns of smaller banks, mainly in emerging markets.

Islamic banks have a particular aspect of operational risk, which is Shariah non-compliance risk. This has distinctive management arrangements, often involving a Shariah board within the bank's governance structure. We do not, however, suggest that these features should be discussed within the BCBS document; they are treated extensively in standards from both the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

First: under the first Principle, which deals with the necessity to adopt a strong risk culture as well as the implementation of a code of conducts/ethics, the CD recommends that the code of ethics, after being reviewed and approved by the board, should be publicly available and that its implementation should be overseen by a senior ethics committee or another board-level committee. However, the CD gives no recommendation or guidance on the structure, role and responsibilities of the senior ethics committee. Some CIBAFI members consider that it would be helpful to give some recommendations in this regard, including to what extent it would be appropriate to combine the functions of the ethics committee with those of other standard committees such as a risk management committee.

Second: the CD under the first Principle highlights the importance of conducting training programmes regarding the risk culture for the staff. CIBAFI members welcome this and consider that it also needs to extend upwards. They believe that the board of directors and senior management, as an integral part of the organizational structure, must be informed and updated regarding new trends, threats and processes related to operational risk management in order to be able to construct an updated risk culture that adapts to the changes.

Third: Principle 4 of the CD provides recommendations regarding a risk appetite and tolerance statement, including its establishment, review and communication. While the Operational Risk Management Framework (ORMF) discussed in Principle 2 is broader in its scope than this statement, Principle 2 does appear to indicate (notably in Paragraph 22(d)) some points which should be covered in the risk appetite and tolerance statement but which are not mentioned or addressed in Principle 4. Thus, CIBAFI members recommend expanding the text in Principle 4 to ensure that it covers all the points on the content of the risk appetite and tolerance statement that have been made in Principle 2.

Fourth: under the same Principle 4, although the CD refers to the need for the BOD to monitor senior management adherence to the risk appetite and tolerance statement, it does not provide any details or examples of best practices in this respect. These are, however, discussed in the BCBS principles on corporate governance, notably Principle 1, and a cross-reference to these may be helpful.

Fifth: again under Principle 4, there is a reference to periodic review of the risk appetite and tolerance statement, but a review may also be triggered by major emergent risks (of which the current pandemic may be an example). Broadly similar comment may also be applicable to the ORMF discussed in Principle 2.

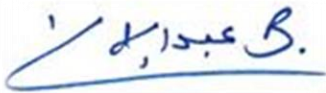
Finally, the CD introduces a new principle, Principle 10, regarding Information and Communication Technology (ICT). The CD highlights the importance of ICT and the necessity to adopt a robust ICT governance and an appropriate risk management process. CIBAFI members consider that this Principle should also mention the need to provide training for the bank's staff to ensure they are capable to deal with new trends and threats in technology since this is an area in which the operational risks can change rapidly.

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

The General Council for Islamic Banks and Financial Institutions takes this opportunity to renew to the Basel Committee on Banking Supervision (BCBS) the assurances of its highest respect and consideration.

With kind regards and best wishes.

Yours sincerely,



Dr. Abdelilah Belatik
Secretary General