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20<sup>th</sup> March 2018

**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 "Stress Testing Principles"**

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 stress testing principles for banks and bank supervisors.

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 120 Islamic banks and non-bank financial institutions, both large and small, from over 30 jurisdictions.

We welcome this opportunity to offer our comments and recommendations on the BCBS's Consultative Document (CD) "Stress Testing Principles". The comments contained in this letter represent the views of CIBAFI's Secretariat and feedback received from our members.

**Firstly**, the Principles have been “formulated with a view towards application to large, internationally active banks... in Basel Committee member jurisdictions” but are intended to be used on a proportionate basis by smaller banks and their supervisors in all jurisdictions. Some CIBAFI members would like to see the BCBS provide more clarification on the the regulators role in such application and the application of the principles by smaller banks to assist less sophisticated supervisory authorities and smaller banks in their implementation.

**Secondly**, in addition to stating the high-level principles, the BCBS is planning to publish descriptions of stress testing practices. CIBAFI members welcome this, and believe that it will be particularly helpful to smaller banks and less sophisticated supervisory authorities. The Committee may take into consideration in its further publications not only the application to smaller banks in non-member jurisdictions (referred to above), but also (i) different stress testing methodologies and scenarios to be adopted for each of the risk silos; (ii) guidance on the choice of macroeconomic parameters in scenario-setting, and (iii) guidance on an appropriate frequency for testing and review in particular contexts.

**Thirdly**, there are some risks that are specific to Islamic banks, for example Shariah non-compliance risk, and others which impact Islamic banks much more than their conventional counterparts, for example inventory risk. It is particularly important to our members to have guidance on how to treat such risks. The Islamic Financial Services Board (IFSB) has done very helpful work in this area, notably in its Guiding Principles for Stress Testing (IFSB-13) in 2012 and the supporting Technical Note (TN-2) in 2016. It is hoped that the BCBS will continue to work with the IFSB as it produces further material, noting in particular that many of our members still need to address these risks within a conventional banking framework.

**Fourthly**, one area which the Principles could usefully treat in more detail is how regulatory stress testing should be approached for banks located across multiple

jurisdictions, or dealing with counterparties located across such jurisdictions. Members are concerned both about the consistent setting of scenarios and macroeconomic assumptions in such situations, and to avoid performing multiple stress tests based on different regulatory assumptions. The guidance on the setting of macroeconomic assumptions requested above would be helpful in this context, but would not necessarily address the issue of liaison between supervisors, which we see as important to this process.

**Fifthly**, some CIBAFI members believe that the Committee’s future publications should provide generic fully-worked examples of a stress testing exercise for a hypothetical bank or banks, which would help in standardizing the disparate stress testing methodologies being practiced all over the world. We believe that smaller banks particularly will benefit from these examples as they try to come up the curve in terms of identifying applicable risks, defining associated controls and selecting and developing stress testing scenarios.

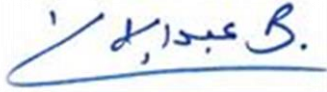
**Sixthly**, the CD provides some information about the disclosure of results and finding of stress tests, whether by banks or authorities (in principle 9, p. 14). However, CIBAFI members believe that the Committee should provide more detail by specifying the format of disclosure requirements relating to stress testing as a part of the Pillar 3 disclosures (which at present tend in this area to be couched in qualitative terms). Additionally, some CIBAFI members have suggested that the Committee should consider the impact that disclosures could have on clients/counterparties’ interests and give guidance to supervisors on not unilaterally disclosing information that would not otherwise be required to be disclosed.

**Finally**, the Committee has published its “[range of practices](#)” report, which describes and compares supervisory and bank stress testing practices and highlights areas of evolution. CIBAFI members have suggested that the Committee should include the testing of Islamic banks in its future reports with the stress test methodologies and results of the Islamic Banking sector separately. Moreover, some CIBAFI members highlight that IFIs have specific risks, different ranges of stress testing scenarios and severities which raise particular concerns and challenges in using these principles. The BCBS may

take into consideration certain specificities of IFIS in its further guidelines and publications.

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

Yours sincerely,



**Abdelilah Belatik**  
Secretary General