Consultation for Proposed Domestic Systemically Important Banks - DSIBs Module (DS)

Industry Comments and Feedback

June 2018

General Comments:		
Comments	**REF**	**CBB Response**
A Bank: Although the document indicates the criteria and factors to assess the Banks to be considered D-SIB or not; however, the exact measurement is missing in the documents, i.e. the total amount of assets threshold or the exact percentage level in comparison to total local banks assets.	GR-1	This is an assessment by the CBB and it considers the systemic score for each bank which is calculated in a manner similar to that in the Basel Committee's G-SIB assessment methodology. The CBB shall compute the scores and share the same with banks.
A Bank : On volume 2, DSIB consultation paper, we recommend CBB to use following weightages for DSIB assessment approach • Size 40% • Interconnectedness 30% • Substitutability 20% • Complexity 10% a) In our view size of the financial institution should be considered to be the most important measure along with interconnectedness. b) Also we have noted that for the designated D-SIBs there is no Higher Loss Absorbency (HLA) capital surcharge in the form of additional Common Equity Tier 1 (CET1).	GR-2	a) The weights used currently are in-line with Basel Committee's G-SIB assessment methodology. b) HLA is there in draft consultation
An Audit Firm: a) We note that regulation internationally is more prescriptive with more guidance, which allows for ease of comparison across banks. For example, the EBA Regulatory Technical Standard published in July 2014 describes the criteria for assessing the completeness of a recovery plan, criteria describing for review of the quality of a recovery plan and factors to assess. b) The EBA also published a report on Recovery planning in December 2015 comparing the approach taken on recovery plan scenarios based on a sample of 19 banks, investigating whether the recovery scenarios meet a number of features, feasibility of recovery options, recovery indicators and appropriateness of trigger levels for the options to be executed. c) The CBB may provide guidance on choice of scenarios, structure of the recovery plan, and narrow the range of (possible/feasible) capital options allowed to execute the plan in each of the scenarios. **d)** CBB may provide further guidance on phasing out of DSIB charge over a specific number of years.	GR-3	a. EBA guidelines were considered during the drafting of the Module. However, the mentioned reference covers the technical requirements for recovery plan apart from a combined RRP. b. The module covers the minimum requirements to be covered in the RRP, in order for banks to develop a best fit RRP in line with its activities, rather than introducing one-size fits all requirements.

Also, CBB may wish to clarify the applicability of DSIB at consolidated and/or solo level.		c. Banks must tailor the RRPs based on their specific circumstances. d. The HLA must be applied on consolidated basis.
A Bank : Understand that being a branch of a foreign Bank and not incorporated in Bahrain, this module is not applicable to the foreign Branch. Request clarity on this when the consultation is circulated as a regulation.	GR-4	The Module is applicable to locally incorporated Bahraini Banks only.
A Bank : a) Banks in Bahrain are required to maintain a total minimum capital adequacy ratio of 12.5% as compared to the Basel III requirement of 10.5% (including the 2.5% Capital Conservation Buffer). This higher 2% stipulated capital requirement in Bahrain, in essence, acts as an additional buffer for Bahraini banks. Considering this existing capital cushion, it is recommended that the CBB limits the Higher Loss Absorbency (HLA) charge to a maximum of 1.5% of RWA. a. It should be noted that the maximum HLA charge actually imposed on the identified D-SIBs by other GCC regulators ranges from 0.5% to 2.0% by the Central Bank of Kuwait; 1.0% by the Central Bank of Oman (applied only on 1 bank); 0.1% to 1.25% by the Qatar Central Bank; and 0.5% to 1.5% by the Central Bank of UAE. b) CBB should consider a tiered implementation approach and impose HLA requirements on identified D-SIB bank(s) based on the degree of systemic importance to the Bahraini economy of individual banks instead of a flat HLA charge for all designated D-SIB banks. a. Banks designated as D-SIBs should be allowed a 5 year transition period to comply with the additional HLA requirement. b. It should be noted that most major regulators, regionally and internationally, have followed the tiered approach to impose HLA requirements and have also provided a transition period to their identified D-SIBs to ensure a smooth non-disruptive transition for the incremental capital load. c) As a D-SIB assessment framework aims to assess the degree to which banks are systemically important to the local financial system and to the domestic economy, the quantitative scores of D-SIBs assessment framework should be calculated based on a bank's stand-alone (Solo) exposure only in Bahrain as a bank's offshore exposure and its businesses outside Bahrain do not impact Bahrain's financial system and its economy. d) In order to enable banks in Bahrain to include D-SIB self-assessment in the RRP as required under DS-3.1.2 (a), it is kindly requested that the CBB provide guidance on the threshold levels at each of	GR-5	Please refer to the Specific Comments on DS-1.2.1. a) The CBB agrees to limit the HLA charge to a maximum of 1.5%. b) Refer to GR-3(c). c) The assessment will be done at a legal entity level and at the consolidated level as well. Bahraini conventional bank licensees that have a minimal amount of exposure to clients in Bahrain and a low percentage of their deposits base from clients in Bahrain will be excluded from the D-SIB assessment. d) Refer to GR-1 and GR 2.

<table>
<tr>
<td>the four quantitative factors included in DS-1.3.3 and/ or at the overall quantitative score, as a basis for a bank to be designated as a D-SIB.
Your positive review and adoption of the above recommendations is strongly advocated given their far reaching implications for the Bahrain banking sector, particularly multi-country banking groups such as a Bank whose offshore exposure comprise over 82% of its total assets and over 86% of its profitability.</td>
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<td>A Bank :
New para –
Initial Assessment and Periodic Review of D-SIBs:
The framework should short list a bank as D-SIB only if it meets the D-SIB criteria for a continuous period of two years (implemented by key regulatory authorities such as Monetary Authority of Singapore).

<u>Proposed New para –</u>
A bank will be designated as a D-SIB, if it meets the D-SIB criteria for a continuous period of two years.
Thereafter, CBB will assess banks' systemic importance on an annual basis. This will take into account changes in their systemic importance as a result of changes in their risk profiles or business models over time.
For the subsequent annual assessment, two years of data will be taken into account before confirming subsequent changes in a bank's D-SIB status.</td>
<td>GR-6</td>
<td>The framework is driven by quantitative and qualitative measures.

The CBB will add additional guidance in the Module to state:
"The CBB shall conduct the D-SIB assessment every two years and shall inform the banks the relevant thresholds or cut off and shall provide the DSIBs the guidance for implementation"</td>
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<td>A Bank :
With reference to the consultation paper issued on DSIBs, the Bank has the following concerns:
a) Clause DS-1.2.1: A strict 'High Loss Absorbency (HLA)' expressed as Common Equity Tier 1 Capital ("CET 1") at 2.5% has been stipulated.

Reference to the list published by the financial stability board in November 2017, the globally systemically important banks had been classified into buckets, with only one bank "Bank" had been required to meet a HLA of 2.5%, four banks required to meet 2.0% and all the other banks are below 2.0%, as per the below schedule:
<table>
<tr><th>Buffer %</th><th>Bank name</th></tr>
<tr><td>3.5%</td><td>None</td></tr>
<tr><td>2.5%</td><td>XYZ Bank</td></tr>
<tr><td>2.0%</td><td>WXY Bank / Bank A / Bank B / Bank C</td></tr>
<tr><td>1.5%</td><td>Bank L / M /N / O / P / Q / R /S</td></tr>
</table></td>
<td>GR-7</td>
<td>a. As mentioned in GR-5 (a) The CBB will limit the HLA charge to a maximum of 1.5% of RWA.
b. The CBB is aiming to ensure that DSIB banks target a total capital requirements will be broadly in line with FSB/BCBS which expects the total loss absorbency capital reaches 18% for GSIFIs.
c. See above.
d. Specific issues to be discussed with the CBB.
e. The reviews stipulated in the Module are important to ensure integrity of the RRPs. The rule to be reworded to</td>
</tr>
</table>

1.0% | Bank G / Bank H / I / J /K /L / M /N /O /P /Q /R /S / T / U / V / W The above list can be access from the below link. http://www.fsb.org/wp-content/uploads/P211117-1.pdf b) We believe that requiring DSIBs in Bahrain to maintain a capital buffer that is higher than the required by internationally identified systematic important banks, would not only put Bahraini banks, and the overall banking system in Bahrain at a disadvantage, but also will limit its ability to compete in the region and internationally. Furthermore, this buffer will put the DISBs in Bahrain at a disadvantaged position in comparison to smaller banks, and to international banks operating in Bahrain with less capital requirement, which in turn will reflect negatively on their performance and the banking system as well as the general economy in Bahrain as overall. c) We believe that the buffer which should be imposed on Bahrain's Domestic Systemically Important Banks (D-SIBs) shall not exceed 1%, taking into consideration that some of the global giant financial institutions classified as (G-SIBs) have been imposed a buffer on 1%, some of which are also operating in Bahrain. Moreover, we suggested that a tiered approach, might provide incentive for some DSIBs to grow bigger as there won't be additional penalty in form of higher capital charge. d) We also believe that the buffer shall be phased out at least over two phases, to enable the banks adjust their capital positions to the requirement over a reasonable period of time without disruption to the business. e) **Clause DS-3.1.1 -** Banks must ensure that the recovery and resolution planning framework is subject to independent review by the internal auditor, on an annual basis, and a third party consultant, other than the external auditor, every 3 years as required under HC-6.6. f) We believe that CBB could consider a lower frequency, say 2 years for internal audit and 4 years for external consultant as detailed in the Annexure pertaining to HC Module.		the following: Please see revised Rulebook. f. Frequency of review not changed due to the importance of RRPs.
A Bank : CBB is kindly requested to give more guidance on the quantitative measures that would result in a Bank being classified as a DSIB i.e. what market share thresholds will result in DSIB classification The DSIB classification should be based on the systemic importance to the Bahrain banking system and not by segregating the system between Islamic and conventional.	GR-8	Refer to GR-1
A Bank : The Bank is not a D-SIB as the Bank is neither systemically important to the local financial system nor to the domestic economy. The Bank has very negligible reliance for funding within Bahrain, has limited lending to the local economy and is not a major participant in the domestic payment system. Nevertheless, the Bank complies with many of the guidelines set out in this module, especially	GR-9	Noted. However, designation as D-SIB or otherwise will be determined upon assessment in-line with the guidelines.

relating to RRP. We note that the CP is broadly in line with international standards.		
A Bank: **Communication of DSIB designation:** We recommend that the DSIB module also make it clear on how the DSIB designation is communicated to banks and the time provided by the CBB for banks to develop their recovery and resolution plans on being designated a DSIB.	GR-10	a. CBB will notify the banks upon completion of the D-SIB assessment methodology (based on the frequency mentioned in the Module). b. Banks must submit their RRPs within due dates to be specified by the CBB.
A Bank: Addressed to locally incorporated banks?	GR-11	See GR-4
A Bank: This is not applicable to us as it refers to all Bahraini conventional Bank licenses.	GR-12	See GR-4

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
DS-1.2.1 Banks designated as D-SIBs must hold designated HLA expressed as Common Equity Tier 1 ('CET1') capital at 2.5 percent of the total Risk-Weighted Assets ('RWA'), as calculated for the purposes of capital adequacy.	<u>**A Bank:**</u> • Banks in Bahrain are required to maintain a total minimum capital adequacy ratio of 12.5% (including 2.5% of Capital Conservation Buffer "CCB") as compared to the Basel III requirement of 10.5% (including 2.5% of CCB) i.e. 2.0% higher total capital adequacy ratio requirements for banks in Bahrain. This higher stipulated capital requirement in Bahrain also acts as an additional buffer for Bahraini banks. Considering this, it is recommended that CBB limit the HLA charge to 1.5% of RWA • It should be noted that the maximum HLA charge imposed on the identified D-SIBs by other GCC regulators ranges from 0.5% to 2.0% by the Central Bank of Kuwait; 1.0% by the Central Bank of Oman (applied only on 1 bank); 0.1% to 1.25% by the Qatar Central Bank; and 0.5% to 1.5% by the Central Bank of UAE. • Proposed consultation paper imposes a flat HLA charge. However, the HLA requirement for an identified bank should be determined based on the degree of systemic domestic	SP-1	Refer to GR-5 (a).

Specific Comments:		**REF**	**CBB Response**
Reference to the draft Directive:	**Comments**		
	importance of the bank (as computed based on quantitative score calculation given D-SIB assessment framework). • CBB should follow a tiered approach and impose maximum HLA requirement of up to 1.5% based on the degree of systemic importance of the bank • Proposed HLA requirement does not provide any transition period to allow a D-SIB bank to comply with the additional HLA requirement. Proposed Clause DS-1.2.1 • HLA requirement applicable for the bank will be commensurate with the degree of systemic domestic importance of the bank with a maximum HLA requirement of 1.5% of Total Risk-Weighted Assets ("RWA"). Banks designated as D-SIBs must hold designated HLA expressed as Common Equity Tier 1 (CET1) capital of a maximum up to 1.5 percent of the Total Risk-Weighted Assets. Proposed Addition to Clause DS-1.2.1 • Additional HLA requirement will be implemented over a 5 year transition period i.e. 20% of HLA requirement in Year 1, 40%		

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	in Year 2, 60% in Year 3, 80% in Year 4 and 100% in Year 5.		
	<u>A Bank:</u> **DS - 1.2.1** The capital add-on for a D-SIB should be based on a comprehensive assessment of governance and risk management standards and should be not a one-size fit all add-on as this does not differentiate a well-managed institution with superior risk management.	SP-2	Refer to GR-5 (a).
	<u>A Bank:</u> We suggest that prior to the CBB setting the rule of maintaining 2.5% of CET1 as Higher Loss Absorbency ('HLA'), it can request the banks qualifying as Domestic Systemically Important Banks (D-SIBs) to conduct an impact assessment and share with the CBB the assessment. Also, banks should be given a grace period to realign their capital uses with this requirement.	SP-3	Refer to GR-5 (a) and GR-3 (c)
	<u>A Bank:</u> **Higher loss absorbency (HLA) buffer:** Section DS-1.2.1 requires all banks designated as DSIBs to have a HLA buffer equal to 2.5% of total RWAs. We recommend that it be made	SP-4	a. The revised HLA buffer is above the 1.5% minimum CAR. b. Rulebook amended.

Specific Comments:			
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	clear that the minimum required HLA buffer is over above the minimum capital adequacy ratio of 12.5%. Section DS-1.2.5 requires all designated DSIBs to disclose their "specific" HLA requirements suggesting that each designated bank may have a different HLA buffer requirement. If all designated banks are required to have a 2.5% HLA buffer (as provided in DS-1.2.1), we recommend removing the word "specific" in para DS 1.2.5.		
	<u>A Bank</u>: DS-1.2.1 • In order for licensees to understand the quantitative assessment conducted by the CBB to classify licensees as DSIBs, we respectfully suggest that the CBB share with the licensees, as part of this consultation process and in subsequent years, the figures that are used to make such a determination. • We also wonder whether it is more appropriate to consider weighting the four quantative factors differently rather than equally (on a 25% basis) and whether the CBB can provide greater guidance on how it	SP-5	a. Agree b. Weights applied are in-line with Basel Committee's G-SIB framework. c. Difficult to do this technically as the process will be complicated. d. The HLA is amended to 1.5%.

Specific Comments:			
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	weights the qualitative indicators in DS-1.3.5. We would suggest that much greater weighting should be applied to the quantative factors and less to the qualitative ones suggested and consider that it is most appropriate for a DSIB to meet both the quantative indicators and then also a material number of the qualitative indicators as well for it to be considered as a DSIB • We suggest that the size of HLA should be determined on a case by case basis for each DSIB as the risk profile of each such Bank may be different. • We will also like to highlight that in case the HLA is set at 2.5%, any exposure risk weighted at more than 666.67% would require the DSIB to maintain more than dollar for dollar capital for such exposures which will be very punitive.		
DS-1.2.3 Banks designated as D-SIBs will be subject to an annual inspection by the CBB and two prudential meetings per year.	**<u>A Bank:</u>** Having annual inspection will exhaust the resources of the Bank, as the scope of an inspection is comprehensive. Therefore, we suggest the CBB to specify two scopes, as follows: Year 1 – Limited scope (high level).	SP-6	The CBB will be proportionate in its inspection approach.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	Year 2 – Comprehensive scope.		
Recovery and Resolution Plans **DS-1.2.6 Banks designated as D-SIBs must develop and maintain Recovery and Resolution Plans (RRPs) specific to their circumstances and reflect the nature, complexity, interconnectedness, level of substitutability and size of the bank in question. The RRPs must be approved by the CBB.**	**A Bank:** **DS-1.2.6:** Specific time line to be provided for the formulation of the Recovery and Resolution Plan (RRP) by the Bank once it has been designated as D-SIB. Further, the RRP should ideally be reviewed by the Board of the Bank prior to its submission to the CBB.	SP-7	Refer to GR-10 (b)
DS-1.3.3 The D-SIBs assessment is based on the following four factors: (a) Size 1. Size is a key measure of systemic importance. The larger the bank, the more widespread the effect of a sudden withdrawal of its services and, therefore, the greater the chance that its distress or failure would cause disruption to the financial markets and systems in which it operates, and to the broader functioning of the economy. The size factor broadly measures the volume of a D-SIB's banking activities within the local banking system	**A Bank:** Under DS – 1.3.3. (a) 2, it is mentioned total assets; we suggest this to be changed to total assets within Bahrain as the main focus of the document is to measure the impact on Bahrain financial markets and systems.	SP-8	Refer to GR-5(c)
	A Bank: - The Module did not set a clear measurement criteria/threshold on total assets for a bank to qualify as D-SIB - Section DS-1.3.3 (a) 2 does not specify	SP-9	Refer to GR-1 and GR-5(c)

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
and economy and, therefore, provides a good measure of the potential systemic impact in case a bank should fail. 2. The quantitative indicator used in the D-SIBs framework to measure a bank's size is its total assets, as disclosed in the balance sheet.	whether the total assets pertain to Bahrain operations only		
	A Bank: Total Assets as a quantitative indicator used for assessing a bank's size (1.3.3(a)2). It is recommended that Total Assets in Bahrain should be used as an indicator of bank's size as the designating an institution as a D-SIB refers to its operations within the Kingdom. An offshore licensee with most of its assets outside the country may not be appropriate to be classified as 'Domestic' Systematically Important Bank. We also feel that 'size of domestic customer deposits' should also be a quantitative indicator. An institution which attracts higher level of domestic customer deposits is more significant than another institution (with same level of total assets) which has foreign depositors.	SP-10	Refer to GR-5(c). The below paragraph will be added: DS-1.3.7 Bahraini conventional bank licensees that have a minimal amount of exposure to clients in Bahrain, and a low percentage of their deposits base represents clients in Bahrain, will be excluded from the D-SIB assessment.
(b) Interconnectedness 1. This measure captures the extent of a bank's interconnections with other financial institutions, which could give rise to externalities affecting the	**A Bank:** Under DS – 1.3.3. (b), bank's interconnections with other financial institutions; we suggest to make it more specific to be with other **local** financial institutions.	SP-11	The Rulebook has been amended to further emphasise the linkage to Bahraini customer base.

Specific Comments:			
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financial system and domestic economy. 2. The quantitative indicators used to capture interconnectedness are interbank activities (represented by intra-financial system assets, and intra-financial system liabilities) and securities outstanding. 3. Intra-financial system assets comprise lending to financial institutions (including undrawn committed lines), holding of securities issued by other financial institutions, gross positive current exposure of Securities Financing Transactions and exposure value of those Over the Counter ('OTC') derivatives which have positive current market value. Intra-financial system liabilities comprise deposits by other financial institutions (including undrawn committed lines), gross negative current exposure of Securities Financing Transactions and exposure value of those OTC derivatives which have negative current market value. The total marketable securities issued by the bank comprise debt securities, commercial paper, certificate of deposit and equity issued by the bank. The total marketable securities issued by the bank with the data on maturity structure of these securities will give an indication of the reliance of the bank on wholesale funding markets.			
	<u>A Bank:</u> **DS-1.3.3.(a) (2) –** The quantitative indicator used in the D-SIB's framework to measure a bank's size is its total assets, as disclosed in the balance sheet. As D-SIB assessment framework is to assess the degree to which banks are systemically important to the local financial system and domestic economy, the total assets as an indicator should only include total assets <u>resident in Bahrain at a bank's stand-alone (Solo) level</u> and not on its Consolidated assets. Below parameters should also be included in measurement criteria to assess the size of the Bank: • Size / share of total resident non-bank advances • Size / share of the resident-non-bank deposits Bank's contribution to domestic Deposit Protection Scheme **<u>Proposed DS-1.3.3.(a) (2) –</u>** The quantitative indicators used in the D-SIB's	SP-12	Refer to GR-5(c).

Specific Comments:			
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	framework to measure a bank's size are its • total **resident** assets • **total resident non-bank advances** • **total resident non-bank deposits** • **total insured domestic deposits** **resident in Bahrain on a stand-alone (Solo) basis**, as disclosed in the ~~balance sheet~~ **statistical returns or specific data submitted to the CBB for domestic Bahraini exposure**.		
	A Bank: DS-1.3.3.(b) (2) – • Intra Financial System is not clearly defined in the consultation paper. This should include interbank activities of a bank only in Bahrain. • Interbank placements or borrowings should not be considered on a gross basis but on a net basis per counterparty, as applicable. • Net interbank placements or borrowings per counterparty on a spot basis do not provide an accurate measure as they greatly fluctuate depending on the liquidity position and needs of any bank at any given point of time. • It is recommended that the average, not spot,	SP-13	Refer to GR-5(c)

Specific Comments:			
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	net interbank placements or borrowings per counterparty within Bahrain, is considered for the reporting period (one year) as it provides a fairer indication on the size and criticality of this measure. Proposed DS-1.3.3.(b) (2) – • The quantitative indicators used to capture interconnectedness are interbank activities in Bahrain (represented by intra financial system assets in Bahrain, and intra-financial system liabilities in Bahrain) and securities outstanding in Bahrain. • Such positions to be measured using net average interbank placement or borrowings per counterparty during the reporting period (one year) excluding any placements or borrowings from Central Bank of Bahrain. CBB may issue specific template to the banks to submit above information as a part of their required statistical returns.		
	<u>**A Bank:**</u> With regards to the point 2, we suggest the CBB to assess the geographical concentration of the assets and the geographical sources of its borrowers/liabilities, as if the liabilities are	SP-14	Refer to GR-5(c)

Specific Comments:			
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	mainly not domestic, then the impact is not as great as those by retail banks with borrowers/liabilities from local depositors.		
DS-1.3.5 The CBB's indicative list of qualitative indicators that will typically be considered are: (a) Anticipated business expansion/contraction; (b) Anticipated mergers and acquisitions; (c) Analysis of exposures to a particular banking group; (d) Settlement institution for any payment or clearing system; (e) Extent of retail banking network; (f) Number of local and overseas branches; (g) Extent of non-banking business exposure and income; (h) Amount and number of non-plain vanilla products/portfolios held; (i) Amount of off-balance sheet exposures; (j) Complexity of the group structure; and (k) Reputational risk.	This section has certain quantitative indicators such as (g) extent of non-banking business exposure and income, (i) amount of off-balance sheet exposures and (e) extent of retail banking networks All the above quantitative measures are recommended to be moved to **DS-1.3.3.** • **Recommend amending this section to include only qualitative measures and move quantitative measures (e) (g) and (i) based on resident/domestic positions only, to section 1.3.3.**	SP-15	Although the indicators are quantitative, the CBB is performing a qualitative analysis. However, wording changes now made to reflect the term "analysis" in relevant sub bullet points.
Assessment Approach DS-1.3.6 A weight is assigned to each of the 'size', 'interconnectedness', 'substitutability' and 'complexity' factors. The CBB applies 25 percent equally to all factors towards the final aggregate score.	<u>**A Bank:**</u> <u>**DS-1.3.6:**</u> An example of the assessment to be provided including the scoring methodology.	SP-16	Refer to GR-1
	<u>**A Bank:**</u> Section DS-1.3.6 specifies the weighting assigned to each criterion in assessing whether a bank is a DSIB or not. Since the objective of	SP-17	Refer to GR-5(c). Refer to SP-10 above.

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<tr><th colspan="2">Specific Comments:</th><th></th><th></th></tr>
<tr><th>Reference to the draft Directive:</th><th>Comments</th><th>REF</th><th>CBB Response</th></tr>
<tr><td>
<table>
<tr><th>Category (and weighting)</th><th>Individual indicator</th><th>Indicator weighting</th></tr>
<tr><td>Size</td><td>Total assets</td><td>25%</td></tr>
<tr><td rowspan="3">Interconnectedness</td><td>Intra-financial system assets</td><td>8.33%</td></tr>
<tr><td>Intra-financial system liabilities</td><td>8.33%</td></tr>
<tr><td>Securities outstanding</td><td>8.33%</td></tr>
<tr><td rowspan="3">Substitutability</td><td>Assets under custody</td><td>8.33%</td></tr>
<tr><td>Payments activity</td><td>8.33%</td></tr>
<tr><td>Underwritten transactions in debt and equity markets</td><td>8.33%</td></tr>
<tr><td rowspan="3">Complexity</td><td>OTC derivative notional value</td><td>8.33%</td></tr>
<tr><td>Level 3 assets</td><td>8.33%</td></tr>
<tr><td>Trading and available-for-sale securities</td><td>8.33%</td></tr>
</table>
</td><td>the D-SIB framework is to identify banks that could cause significant disruption to the domestic financial system, we recommend that banks that have a minimal amount of exposure to Bahrain and a low percentage of their deposit base from Bahraini customers be excluded from the DSIB assessment.</td><td></td><td></td></tr>
<tr><td>DS-2.1.4 Banks must develop a robust governance structure and sufficient resources to support the recovery and resolution planning process. This includes clear</td><td><u>A Bank:</u>

<u>DS-2.1.4: </u>In addition to having a senior level executive being made responsible for the</td><td>SP-18</td><td>DS-2.1.4 requires banks to determine, designate and communicate responsibilities for RRP, from business units, up to and including Board.</td></tr>
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Specific Comments:			
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responsibilities of business units, senior management up to, and including, board members. A senior level executive must be made responsible for the overall RRPs. This person must be responsible for ensuring the bank is, and remains in compliance with, the requirements of the RRPs and for ensuring that recovery and resolution planning is integrated into the bank's overall governance processes.	overall RRPs, it is suggested that a Committee of select senior level executives of the Bank to be set up with the responsibility of ensuring that the Bank remains compliant with the provisions of the RRP and ensures that recovery and resolution planning is integrated into the bank's overall governance processes.		Banks may designate some of the RRP responsibilities to committees (Whether, Senior Management or Board) that commensurate with the level of the committee's seniority and authority.
DS-2.1.6 Banks must engage in periodic simulation and scenario exercises to assess whether the RRPs are feasible and credible. Banks must report to the CBB on an annual basis, before 30th April, the results of the exercise and changes required to the RRPs, if any.	**A Bank:** **DS-2.1.6:** It is provided that banks must report on an annual basis, before 30 April, the results of the RRP exercise and changes required to the RRP, if any. Here it needs to be specified that the annual period refers to a calendar year.	SP-19	Yes it is a calendar year.
DS-2.1.11 Banks must use two to four stress scenarios, both systemic and idiosyncratic, for the purpose of recovery planning.	**A Bank:** **DS – 2.1.11** We believe that the banks must choose appropriate number of scenarios that would potentially threaten a business model viability rather than prescribe the number of scenarios. Typically, the scenarios should cover idiosyncratic and systemic stress events covering capital and liquidity.	SP-20	Regulation amended to the following: "DS-2.1.10 Banks must use three stress scenarios at a minimum, i.e. systemic, idiosyncratic and a combination of both for the purpose of recovery planning."
Resolution Plan **DS-2.1.14 Banks must establish Resolution**	**A Bank:** **DS – 2.1.14** We believe that the Banks	SP-21	The Resolution plans drafted by the Banks will be the basis for the CBB to

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
Plans intended to facilitate smooth resolution making it feasible without severe market disruption. It must include a substantive resolution strategy approved by the Board and agreed with the CBB, and an operational plan for its implementation and identify, in particular: **(a) Financial and economic functions for which continuity during the resolution process is critical;** **(b) Suitable resolution options to preserve those functions, or wind them down in an orderly manner;** **(c) Data requirements on the bank's business operations, structures, and systemically important functions;** **(d) Potential legal, strategic or technical barriers to effective resolution and actions to mitigate those barriers; and** **(e) Actions to protect insured depositors and ensure the rapid return of segregated client assets.**	must produce Resolution **'Pack' and not 'Plans' (Resolution Pack)[1]** that should contain information for a regulator to step in and execute an orderly wind down. In such a scenario, the resolution plan will be driven by the regulator and not by the Bank.		take any potential actions/steps if needed.
DS-2.1.16 Banks must ensure that key Service Level Agreements (SLAs) can be maintained in crisis situations and in resolution, and that the underlying contracts include provisions that prevent termination triggered by recovery or	**A Bank:** **DS-2.1.16**: It is provided that key SLAs and contracts must include provisions that prevent termination triggered by recovery or resolution	SP-22	This is meant to prevent termination from the 2nd party and not the licensee.

[1] http://www.prarulebook.co.uk/rulebook/Content/Part/211646/10-12-2017

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
resolution events, and facilitate transfer of the contract to a bridge institution or a third party acquirer.	events. This requirement may be reviewed in light of CBB outsourcing rules stipulated under the Operational Risk Management Module, specifically under Sub-paragraph OM-3.5.1(e), which states: "Licensees must have the right to terminate the agreement should the outsourcing provider undergo a change of ownership (whether direct or indirect) that poses a potential conflict of interest; becomes insolvent; or goes into liquidation or administration. In addition, guidance may be provided as to what is considered to be "Key" SLAs for more clarity.		
DS-3.1.2 In addition to the requirements under HC-6.6, such reviews must test compliance by banks with the requirements of this Module and ensure the coverage includes the following: **(a) Assessment of systemic importance of the bank as per the requirements of this Module;** **(b) Adequacy of management oversight and approval of the RRPs;** **(c) Adequacy of documentation supporting the RRPs;** **(d) Integration of ICAAP and stress testing into RRP process;** **(e) Sufficiency of the trigger framework and**	**<u>A Bank:</u>** **DS – 3.1.2 (a)** Though the proposed D-SIB Assessment Framework lays down a broad framework to identify D-SIBs in Bahrain, it does not provide any specific quantitative scale/ scores which will be used by the Central Bank of Bahrain to shortlist a bank as D-SIB. Furthermore, the D-SIB consultation paper also requires a bank to include its DSIB self-assessment in the RRP.	SP-23	See GR-1.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
the process for implementing and monitoring them; **(f) Escalation process and the integrity of the planned actions against the triggers;** **(g) Authorisation for, and implementation of, significant changes to the RRPs;** **(h) Alignment of the RRPs to the bank's business strategies, group and organisational structure;** **(i) Due consideration of the legal and external environment;** **(j) Verification of the quality of data sources used to run the stress tests (e.g. in terms of accuracy, consistency, timeliness, completeness and reliability).**	In the absence of specific quantitative scale/ scores, it will be difficult for a bank to perform self-assessment for its likely designation as a D-SIB (initially or an on-going basis) for inclusion in the RRP. Proposed by the bank: CBB should provide guidance on the threshold levels at each of the four quantitative factors included in DS-1.3.3 and/ or at the overall quantitative score, which would make a bank to be identified as a D-SIB. **e.g. if total assets will be used as a quantitative criteria to assess systemic importance of the Bank then CBB should specify that if bank's share of total assets resident in Bahrain on a standalone basis is more than [x%], and/ or if a bank's total score is [y%] or higher in D-SIB assessment framework, it will be designated as a D-SIB.**		