



GUIDELINES FOR ISLAMIC BANKS
GUIDELINES NO. BU/G-2/2022/23

GUIDELINES ON OPERATIONAL RISK MANAGEMENT



1. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems including internal frauds, or from external events including external frauds. This definition includes legal and Syariah non-compliance risk, but excludes strategic and reputational risk.
2. These Guidelines on Operational Risk Management [**“these Guidelines”**] set forth the Authority’s supervisory expectations on operational risks and the key elements of effective operational risk management.
3. These Guidelines further articulate sound principles and practices that should be embedded in the operational risk management framework of Islamic banks and cover areas such as risk culture, governance, risk management environment, business continuity planning, information and communication technology and role of disclosure.
4. For the purpose of these guidelines and in determining the relative significance of an operational event or exposure, Islamic banks may take into account both qualitative and quantitative factors that are relevant to their own circumstances and assess both the current and future impact of such factors on their capital, earnings, franchise or reputation.
5. The Operational Risk Management Guidelines as elaborated upon further in **ANNEX 1** are issued pursuant to section 126 of the Islamic Banking Order, 2008 and applies to all Islamic banks in Brunei Darussalam (hereinafter referred to as “bank(s)”).
6. The broad principles and standards under these Guidelines are aligned with the publications issued by the Basel Committee on Banking Supervision [“BCBS”] such as “Principles for the Sound Management of Operational Risk” (June 2011) and also publication issued by the Islamic Financial Services Board (IFSB) such as IFSB-1: Guiding Principles of Risk Management for Institutions (other than Insurance Institutions) Offering Only Islamic Financial Services (December 2005).
7. These Guidelines are not exhaustive and subject to revision from time to time as deemed necessary by the Authority.
8. These Guidelines take immediate effect.

MANAGING DIRECTOR
BRUNEI DARUSSALAM CENTRAL BANK

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