

Basel Committee on Banking Supervision
Bank for International Settlements
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Dear Sirs,

Good practice principles on supervisory colleges

This is the British Bankers' Association's response to the above consultative document; we welcome the opportunity to comment.

As we have made clear to you on many occasions we are strong supporters of the use of colleges of supervisors and welcome that fact that they have been put at the centre of proposals to enhance the regulation and supervision of cross-border banks by the G20. It is clearly right that guidelines such as these for the operation of colleges are developed at the global level. However, many of our members are subject to both 'global' colleges and regional variants, most notably in the EU. We believe that it is in the interests of both financial institutions and their supervisors that these arrangements fit together as seamlessly as possible with the minimum of overlap.

The principles rightly, in our view, stress the need for college arrangements to be flexible and to reflect the fact that no two groups are the same. To us, however, this also means that there is an important role for the Basel Committee or Financial Stability Board to play in identifying and promulgating examples of best practice. Colleges do not need to operate in the same way but when individual colleges are particularly successful it is important that the reasons for this are understood and others have the opportunity to replicate the formula if desired.

Our comments on the individual principles follow below.

Principle 1: College objectives

Supervisory colleges should enhance information exchange and cooperation between supervisors to support the effective supervision of international banking groups. Colleges should enhance the mutual trust and appreciation of needs and responsibilities on which supervisory relationships are built.

We agree with the way in which the overarching objective of a college is described and concur that colleges should not be seen as decision-making bodies or be used to replace the individual responsibilities of supervisors. Nevertheless, colleges should be used to facilitate the development of a coherent approach to the supervision of the consolidated banking group and inform the decision-making process of individual supervisors. We therefore believe that the objectives outlined in the principle could be a more ambitious than is currently proposed. For example, the objective could specify that colleges should be used to exchange information on the institution's risk profile and

strategies in place to mitigate those risks, develop unified positions on the evaluation of group wide tasks and provide a focal point of contact with the institution's senior management.

Principle 2: College structure

Supervisory colleges should be structured in a way that enhances effective oversight of international banking groups, taking into account the scale, structure, and complexity of the banking group and the corresponding needs of its supervisors. Whilst a college is a single forum, multiple or variable sub-structures may be used as no single college structure is likely to be suitable for all banks.

We welcome the flexibility implied by this principle. It can only be right that the different college structures should be used to reflect the different supervisory requirements of different groups. We agree that the home supervisor should take overall responsibility for designing the college arrangements which properly reflect the nature, scale and complexity of the banking group. As is noted, this should be done in consultation with host supervisors and the group's management. We favour the use of different college structures where this is appropriate, believing the use of dual and core structures can promote efficiency and effectiveness. It does, however, underline the importance of the home supervisor ensuring that effective cooperation and coordination measures are in place. We agree that the home supervisor should be responsible for the governance of the college and for coordinating its work programme.

It is important that the home supervisor acts as a central point of contact for any matter related to the organisation and agree with the list of common functions identified which the home supervisor should ensure are performed.

Lastly, we welcome the acknowledgement that supervisors attending the college need to be of sufficient seniority to facilitate the efficient and effective functioning of the college.

Principle 3: Information sharing

College members should make their best efforts to share appropriate information with respect to the principal risks of the banking group. Mutual trust and relationships are key for effective information sharing. Nonetheless, formal confidentiality agreements, such as contained in memoranda of understanding (MoUs), among college members facilitate this process.

We believe that the willingness of supervisors to share information within the college is one of the key factors in determining their success. Nevertheless, our members place the highest priority on the confidentiality of their data being preserved and therefore wish to see appropriate safeguards utilised. Whilst confidentiality agreements (as set out in Annex 2) can go some way towards this, some data is so sensitive that we believe it would be inappropriate for it to be shared, for example, outside the core college. To help safeguard information security we would expect regulators and supervisors to apply best practice information risk management principles and processes around information which they receive via the colleges

We are somewhat concerned by the illustrative example of information to be exchanged in the college. For example, we are highly doubtful over whether it would be appropriate for a group's capital or liquidity position and plan to be shared widely in the universal college.

Principle 4: Communication channels

Communication channels within a college should ensure the efficiency, ease of use, integrity and confidentiality of information exchange. The home supervisor should make sound communication channels available to the college and host supervisors should use them appropriately and continuously.

We fully agree that the home supervisor should take steps to develop secure communication channels to facilitate the work of the college.

Principle 5: Collaborative work

Supervisory colleges should promote collaborative work between members, as appropriate, to improve the effectiveness of the oversight of international banking groups. Collaborative work should be based on agreement between supervisors and should recognise national legal constraints.

We agree that colleges should first and foremost focus on coordinating and planning supervisory activities but there should be a presumption that this should lead to the college members, under the auspices of the home supervisor, undertaking joint activities. We agree that risk assessment, stress testing and model validation are all areas where joint work is important. To this we would add the coordination of requests for information and the alignment of common reporting formats, requirements and deadlines. There is also a strong case for the submission of ICAAP reports being synchronised and their content aligned.

Principle 6: Interaction with the institution

Interaction between the college members and the banking group should complement the interaction that individual supervisors (both home and host) have with the specific entity they supervise.

Whilst communication between the college and senior management must not replace existing dialogues between the firm and local supervisors we believe it is essential to making the college process work effectively. We agree that the home supervisor should take responsibility for communication with the group and for coordinating requests for information. We strongly agree that if host supervisors are unable to obtain relevant information from local management they should address requests for group level information to the home supervisor.

Principle 7: Crisis management

Supervisory colleges and crisis management structures are distinct but complementary. The work of a banking group's supervisory college should serve as one of the building blocks for crisis management planning.

We agree that colleges should be viewed as distinct but complementary to crisis management arrangements, not least as crisis management involves the participation of a broader range of authorities. That being said, it is right that the college infrastructure should be used to facilitate the work of the crisis management group.

Principle 8: Macroprudential work

Supervisory colleges can help ensure that the intensity of supervision of large, complex, internationally active banking groups is tailored to their systemic importance. Supervisory colleges should facilitate the process of identification and dissemination of information relevant to macroprudential analysis.

Although the macroprudential framework is still under development, we believe that macroprudential work should, and will, be an important task of the college. The consolidated group level is the most obvious location to communicate and coordinate national measures designed to identify market-wide and firm specific vulnerabilities.

