International Banking Federation

Pinners Hall
105-108 Old Broad Street
London EC2N 1EX

**tel:** + 44 (0)20 7216 8947
**fax:** + 44 (2)20 7216 8928
**web:** www.ibfed.org

# GOOD PRACTICE PRINCIPLES ON SUPERVISORY COLLEGES

## Preliminary Observations

The International Banking Federation appreciates the effort of the Basel Committee to clearly outline expectations for supervisory colleges while keeping a flexible approach that can evolve over time in response to experiences of banks and their supervisors in implementing college arrangements.

To ensure a robust underpinning of supervisory colleges, all major regulatory regimes should - under the encouragement of the Basel Committee and FSB - allow a bank's consolidating supervisor to establish and operate supervisory colleges and above all, endeavour to remove any legal restrictions that would prevent the establishment and effective operation of colleges

The standards for the governance and operation of colleges should be set at a global level. More particularly, the Basel Committee and FSB has an important role to play to ensure consistency, cooperation and a level playing field across colleges and across jurisdictions on the basis of a pragmatic, evolutionary approach. Enhanced supervisory cooperation and coordination at a regional level should remain possible.

Whilst in a first stage, the oversight of colleges could be based on indirect means (e.g. oral or written reporting by the consolidating supervisors), it may be appropriate on occasion for the Basel Committee and FSB to observe colleges sessions (subject to adequate confidentiality requirements).

IBFed believes that efficient supervision is a two-way street that calls for a significant degree of commitment on the side of the industry. As the Basel Committee and FSB continues to coordinate the engagement of the supervisory community in colleges and to monitor their functioning, the Basel Committee and FSB could also formalise its ongoing dialogue with the industry to facilitate closer cooperation and coordination of supervisory activities at the operational level and to exchange views on pragmatic solutions with regard to the set-up and continuously improving operation of colleges.

**1. Principle 1: Colleges Objectives**

We agree that Colleges cannot be intended to become decision-making bodies taking over supervisory responsibilities which are incumbent on colleges' members. Obviously, however, colleges should be able to take binding decisions concerning organisational and administrative matters to facilitate efficient operations (setting of agendas and meeting dates, agreements on the use of communication channels and processes, etc.).

More importantly, colleges should not be a mere forum for the supervisors concerned to exchange views amongst each other as we believe it to be crucial that colleges aim at effectively contributing to and facilitating adding to the decision making process of the competent supervisors.

The Paper should spell out the following objectives of colleges:

(i) to exchange information and analysis on risks being run by the group in different locations and on the supervisory assessment of the bank's approaches to offset risk;
(ii) to develop a consensus view on the evolution of group-wide risks; and
(iii) to agree, where possible, on coordinated messages to senior management of the firm.

Against this backdrop, we would like to suggest that the Paper specify that colleges need to reach those objectives by:

(i) monitoring the coordinated application of prudential requirements across key entities within the banking group;
(ii) cooperating in the planning and conduct of the Supervisory Review and Examination Process at both consolidated and solo/sub-consolidated levels in order to release a coordinated view covering the whole Group structure;
(iii) establishing joint supervisory plans and conducting joint on-site examinations;
(iv) taking, whenever possible, coordinated and consensus decisions ;
(v) jointly communicating findings to the parent companies and relevant subsidiaries and affiliates;
(vi) establishing, to the extent possible and practicable, common reporting formats, deadlines and requirements.

We fully agree that the home supervisor should take the lead in the colleges' activities by drawing-up the organisation of the college, its agenda, timeline and action plans. Assigning leadership to the home supervisor properly recognises its jurisdiction and is likely to facilitate efficiency of supervision.

Draft objectives for colleges' meetings and meetings' organisational arrangements such as duration and the proposed split between confidential and non-confidential supervisory deliberations (i.e. open to the bank) parts should be timely circulated to host supervisors. Host supervisors should be given sufficient time to provide input to the agenda.

The bank should be permitted to respond to supervisory concerns in an exit meeting and invited to raise concerns with the members of the college – e.g., with regard to inconsistent supervisory approaches. The final agenda and administrative details of the exit meeting should be shared with the bank in a timely manner so that it is made aware of supervisory concerns and can efficiently prepare for, and arrange for the participation of appropriate staff in, the meeting.

As direct exchanges between supervisors and banks in a typical college's session are relatively time-constrained, care should be taken to ensure that the number, seniority and technical preparation of attendees is conducive to the fulfilment of the meeting objectives.

Feedback to the bank should be provided in a systematic way subsequent to each college meeting, coordinated, timely and in written form, on the basis of an agreed template of a Supervisory Report.

**2. Principle 2: College Structures**

The use of multiple or variable sub-structures has the potential to promote more effective supervision. However, such an approach also requires enhanced cooperation and coordination among competent authorities with a view to avoiding increasing burdens on the firms with regard to the time and other resources needed to prepare for and participate in multiple college structures and to make the collegial arrangements operate in as effective and efficient a manner as possible.

IBFed agrees that guidance on colleges' membership need to be flexible, with the home supervisor Chair having a large say in the final setting.

We agree that it should be possible to include non-supervisors on an exceptional basis provided that their presence has been timely communicated to the parent company and the related legal entity and concerns about confidentiality and information sharing have been addressed.

**3. Principles 3: Information Sharing**

We strongly welcome the emphasis which is being put on confidentiality requirements. Clear and equal confidentiality agreements encourage information exchange and facilitate an open discussion between supervisors and a consistent message to the bank.

It would be particularly useful for the Basel Committee and FSB to commission an assessment of confidentiality and information sharing standards prevailing in the major regulatory regimes that would permit a comparison of their equivalence. This could facilitate the development of written protocols governing information sharing by college members.

**4. Principle 4: Communication Channels**

The home supervisor should indeed serve as a single point of contact in organising communication lines – including information requests to the supervised institution - in order to achieve more efficient and less burdensome communications. More particularly, each request for information to the banking group should be directed to the home supervisor and the

information acquired should be stored in a database managed by the home supervisor and shared between college members as needed.

Against this backdrop, we strongly support the creation of website platforms. In order to facilitate the communication between the college and the supervised group, the latter should also have access to this website, as appropriate.

**5. Principle 5: Collaborative Work**

Whilst we agree that a delegation of responsibilities cannot possibly be organised within the framework of colleges in the absence of an appropriate legal framework, this should not impede the sharing and delegation of supervisory tasks within colleges (subject to appropriate confidentiality requirements) as such a process may be beneficial to all parties involved.

Without wishing to prejudice to the conclusions to be drawn by supervisors, we believe that the guidelines should endeavour to achieve more commonality amongst the supervisors in this area.

**6. Principle 6: Interaction with the Institution**

We welcome a dialogue between bank group management and the college covering the key activities of the college. The better the group is informed on the activities and discussions of the college, the better it will be in a position to cooperate and provide the information that is asked for. Moreover, when the group receives feedback on the areas of supervisory concern, it can work on these issues.

Coordination of college members' information requests is strongly welcomed as it avoids duplication of requests and thus relieves an unnecessary burden from supervised institutions. We fully agree that inviting bank's management to participate at colleges' meetings would contribute to the efficiency the process and we appreciate CEBS for having acknowledged that the scope of these meetings does not need to be limited to certain areas.

It is indeed essential that meetings provide the group with feedback. Our understanding is that the group will receive information on areas of supervisory concerns in advance of the meeting to allow a proper exchange of views during the meeting.

**7. Principle 7: Crisis Management**

We welcome the proposal that colleges be used for facilitating the cooperation between supervisory authorities, central banks and finance ministries or through networks whilst observing confidentiality requirements.

**8. Principle 8: Macro-prudential Work**

We agree that colleges should play an important role to incorporate macro-prudential analysis and insights into the micro-prudential supervision of supervised firms. The cross-institutional, top-down analysis that characterises a macro-prudential supervisory structure is a useful complement to micro-prudential supervision.

---