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Mr. Jose María Roldán
Chairman
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Basel Committee on Banking Supervision
Basel, Switzerland

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Re: IIF Comments on BCBS Consultative Document *Good Practice Principles on Supervisory Colleges*

Dear Mr. Roldán:

The Institute of International Finance (IIF) and its members believe that supervisory colleges have a crucial role to play in building a more effective, efficient and well-coordinated supervisory oversight of cross-border financial institutions. Therefore, the Institute welcomed the opportunity to meet in London to discuss the Basel Committee's (BCBS) consultative document on *Good Practice Principles on Supervisory Colleges* and appreciates the opportunity to provide written comments with this letter. We fully support the BCBS efforts aimed at making such Principles an important tool by which international firms can be effectively supervised and interact with their relevant supervisors.

The recent crisis has put the debate around the role of Colleges into a completely new perspective: the G20 and FSB have foreseen a stronger role for colleges in crisis management, in macroprudential supervision; and in achieving consistency of international supervision. At a time when the G20 is committed to convergence of international rule-making, yet there is also a strong tendency to autonomous, nationally focused regulatory initiatives, the urgent need for global coordination and consistency in financial regulation indicate the need for a high degree of ambition in the BCBS' initiatives in this area.

In its Report "*Restoring Confidence, Creating Resilience*"[1], the IIF has underlined the concept of colleges of supervisors as a powerful one and stressed the key role of colleges, working with supervised firms, in achieving greater coordination and convergence of regulation and cooperation among supervisors as well as in ensuring a substantial increase in supervisory efficiency and effectiveness by aligning the efforts of multiple supervisors, allocating tasks and responsibilities among them, avoiding duplications and ensuring consistent common interpretations of the rules.

Moreover, well-functioning colleges of supervision can also play an important role in implementing the micro-prudential aspects of macroprudential oversight.

[1] "*Restoring Confidence, Creating Resilience: An Industry Perspective on the Future of International Financial Regulation and the Search for Stability*" – IIF, July 2009 - http://www.iif.com/download.php?id=/11YetxP3hE

As recently highlighted by the IIF in its two Reports – "*Systemic Risk and Systemically Important Firms: an Integrated Approach*"[2] and "*A Global Approach to Resolving Financial Institutions: an Industry Perspective*"[3] – recently shared with the G20, the Financial Stability Board, and other policymakers, the response to the challenges posed by large, cross-border, systemic firms, should be a holistic and integrated one: it should seek to establish a virtuous cycle involving enhanced regulation, sound industry practices, effectively functioning markets, and strong supervision.

While it is essential to strengthen the rules, excessive reliance on regulation which is not supplemented with appropriately strong supervision may lead to missed issues and regulatory arbitrage, and a diminution of both efficiency and effectiveness of the overall regulatory scheme. Therefore, the Institute believes that strong supervision through colleges of supervisors will be a central component of an effective response to the crisis.

Importantly, the IIF membership has therefore committed to dedicate the necessary resources and engage with their colleges of supervisors on a high priority, fully committed basis.

The positive role that colleges can play in ensuring consistent interpretation of the rules, avoiding duplication of reporting requirements as well as achieving supervisory efficiency, is highlighted in IIF comments[4] on BCBS Consultative Documents '*Strengthening the resilience of the banking sector*' and '*International framework for liquidity risk measurement standards and monitoring*'.

Under the guidance of the G20, important progress has been made in recent months, with the establishment of the core supervisory colleges for the cross-border internationally active institutions

[2] IIF, May 2010 - http://www.iif.com/download.php?id=65SLPhiO1ds

[3] IIF, May 2010 - http://www.iif.com/download.php?id=Oq+9y23X4Us

[4] IIF, April 2010 - http://www.bis.org/publ/bcbs165/ioif.pdf In particular in paragraph 18 of the executive summary (as well as in paragraph 14 of the Capital Response) the Institute underscores that "*The difficulty of the trade-off between the goal of harmonization and the differences of legal regimes across jurisdictions should not lead the BCBS to accept rigid or arbitrary solutions. Rather, the Institute would urge the Committee to use colleges and the processes of the Standards Implementation Group (SIG) and FSB to assure international consistency with the necessary degree of elasticity*". In paragraph 64 of the Executive Summary (as well as in paragraph 69 and 70 of the Capital Response), the Institute highlights that "*unless the very serious doubts as to the practical effectiveness of the proposed capital buffers are addressed, the BCBS should consider providing additional guidance, on the use of currently available Pillar 2 tools (and role of colleges) for the purposes of capital conservation at individual banks, in order to achieve results that are globally consistent but also sensible for the situation of each institution*". In paragraphs 57 and 58 of its Liquidity Response, the IIF maintains that "*consistent adoption, implementation, and interpretation across the major markets will be critical to the success of any new regime. A patchwork of country-specific liquidity regimes and reporting requirements would in many ways be the worst possible outcome, as indeed the G20 principles calling for global standards recognize. This is important for level playing-field issues, but equally important to assure consistent, high-quality and effective standards across the global system".* Moreover: Paragraph 58: "*Some of the concerns reflected in the Consultative Document that, as seen above, can appear troublesome to the industry, ought to be attenuated by good coordination of supervision through the colleges of supervisors of major international firms. While the role of colleges in supervision of liquidity is not yet fully developed, it is clear that that role is of fundamental importance for supervisors not only to develop a clear picture of the liquidity profile of an international banking group but also to foster consistent implementation, as envisioned by the FSB and the Basel Committee's Standards Implementation Group. As discussed above, it is essential that the NSFR be put on a more "Pillar-2" type of basis, and this in turn should involve a substantial role for colleges in review of banks' liquidity-risk management, stress testing and general implementation of the Basel Principles*"; Paragraph 59: "*Consistent supervision through well-functioning colleges could contribute to the overall liquidity of the global system by creating conditions that would permit expanding the scope of group-wide liquidity-risk management within firms, under the supervision of home supervisors, while giving assurances to host supervisors that the group as a whole would be well-supervised*"; Paragraph 60: "*Colleges should both foster and benefit by greater harmonization of liquidity reporting requirements, on a globally consistent basis, but with firm-specific information and metrics appropriate to the group, perhaps based where appropriate on a selection of parameters from a commonly agreed menu. As noted elsewhere, the most appropriate metrics and parameters will vary from firm to firm depending on its markets and businesses, but colleges should be able to manage this process with banks on a transparent and comprehensible basis.*"

identified by the FSB, and the development of guidelines and principles both at regional (in particular through CEBS) and sectoral levels (with initiatives promoted by the IOSCO and the IAIS). However – while in a number of cases supervisory colleges are well-established and have improved the supervision of firms and made an important contribution to the management of home-host issues – actual experience with colleges, to date, is still mixed. Some colleges of supervisors are observed to be working well and further developing good practices and procedures while others less so. This reality, in our view, underscores the need for the BCBS to continue focusing on this important issue and promoting better and more efficient colleges for internationally active banking groups.

General Observations

- The BCBS paper – while recognizing that over time, in particular after the introduction of Basel II, colleges are becoming more integrated and structured bodies - envisions colleges almost exclusively as information-sharing entities. The IIF believes that through enhanced information exchange, cooperation and increased mutual trust, they can help both home and host supervisors make their decisions. While recognizing that colleges are not formal decision-making bodies and that their outputs are not legally binding, the IIF underlines the need to ensure that an "evolutionary" approach to colleges is adopted in order to continue and, insofar as possible, to strengthen their role, under the strong leadership of the home supervisor.

- Accountability should be established as a Principle in regard to the functioning of colleges. In particular, colleges need to include in their responsibilities follow-up on work done through the colleges and this should include moral suasion to assist members of colleges insofar as possible to remain consistent with positions taken by the colleges or measures undertaken by the bank in reliance on college decisions or discussions. On the one hand, if colleges are not seen merely as a loose arrangement for information exchange or even a sort of educational tool, but on the contrary as a body with a clear objective of making supervision more effective and efficient, this would create the right incentives for supervisors to be fully involved and committed to the activities of the college; these incentives are, obviously, particularly important in times of crisis, when commitment to cooperation and mutual trust may become vulnerable. On the other hand, this would provide the supervised groups with certainty about the follow-up on colleges' deliberations and maximize the extent to which banks can rely on the outputs of colleges for all jurisdictions.

- The Institute believes there should clearly be a strong emphasis on the role of the home supervisor. Such supervisor must be the process leader, ensure the efficient management of the core and the general college and be the central point of contact. Its privileged access to information and unique perspective represent crucial elements in the supervision of a banking group and should, therefore, correspond to a central responsibility in the effective functioning of the colleges. At the same time the IIF recognizes the importance of host supervisors' roles and concerns, and believes that in the colleges' priorities, emphasis should be put not only on relevant group level issues, but also on highly important issues for host level supervisors. This will give host countries a bigger stake in the colleges and incentives to contribute to its activities and improve coordination between college members.

- The Institute considers the establishment of an effective collaborative work in the college a key issue where the BCBS could be able to set and achieve ambitious targets. In fact, constant drive

towards collaboration, coordination, joint work and allocation of tasks amongst college members would greatly improve the effectiveness and efficiency of the oversight of international banking groups, in particular allowing a more efficient use of supervisory resources.

- It is essential to have a two-way flow of information between the college and the bank. While colleges can be seen as mostly serving the needs of supervisors, the supervised firm can and should benefit from enhanced supervision through colleges. For those benefits to materialize, the flow of information should necessarily go also in the direction of the supervised firm. A close dialogue between the supervised firm and the consolidating supervisor is essential in ensuring both a good preparation of college meetings and an effective follow-up of their outcomes.

- The Principles seem to focus more on information sharing, while equally important should be the need to ensure confidentiality information that is particularly sensitive (e.g. capital and liquidity plans, strategic plans). The Institute recommends putting a strong emphasis on the development of stringent confidentiality standards and information security arrangements. This is a key issue not only in order to protect sensitive information but also to facilitate an effective exchange of information and promote an open discussion between college members.

- The Principles should aim at making colleges more effective also beyond their traditional scope of action (i.e. the typical areas of Basel II implementation such as model validation or stress testing). In fact, the current crisis should be a watershed moment for colleges as it shows the need for a set structure of cooperation between supervisors to monitor the risks across global firms as well as be able to work together when there is an individual or system-wide crisis. In this regard, the establishment of ad-hoc coordination mechanisms and procedures is necessary (e.g. to ensure that colleges link in a structured way into recovery and resolution processes).

- Colleges should be flexible and tailored to the operations and legal structure of the supervised firm. At the same time a clearer definition of a number of structural issues – and ultimately, of what a college, in its different configurations, is - might be needed in order to avoid the 'mushrooming' of different colleges' sub-structures, an outcome that would create overlapping mandates and redundancies, making coordination harder and undermining their efficacy.

- A key function that colleges should carry out is, to the maximum degree possible given legal constraints, the development of common interpretations of the rules. As the Institute has underscored in its comments on the BCBS Consultative Documents "*Strengthening the resilience of the banking sector*" and "*International framework for liquidity risk measurement, standards and monitoring*", whether for the liquidity, capital or any other such far-reaching regimes, a significant risk to any internationally active firm is inconsistent, asynchronous, or asymmetric implementation across jurisdictions. Thus, consistent adoption, implementation, *and interpretation* across the major markets will be critical to the success of any new regime. This is important not only for level playing-field issues, but also to assure consistent, high-quality and effective standards across the global system. Some of these concerns ought to be attenuated by good coordination of supervision through the colleges of supervisors.

- Given the evolutionary nature of the guidance and its Principles, it would be highly beneficial if the final document could expressly indicate the commitment by the BCBS to take stock of progress made with colleges at the international level after an adequate amount of time (e.g. two

years) in order to evaluate the need for further refinements or even more significant changes to the guidance and the Principles. The IIF and its members are committed to collaborate with the BCBS in such stocktaking exercise.

Specific Comments

In addition to the general observations outlined above, the Institute would like to formulate the following specific comments in regard to the proposed principles:

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.***

The IIF fully supports the objectives outlined in the consultative document. However, we also believe that the description of the objectives could be enhanced by making reference not only to "effectiveness" of supervision but also to efficiency and consistency (i.e. "Supervisory colleges should enhance information exchange and cooperation between supervisors to support the effective, efficient and consistent supervision of international banking groups"). As already mentioned, the consistent, harmonized and efficient supervision of cross-border banking groups are objectives in which colleges can and should play an essential role.

As "multilateral working groups" of supervisors, colleges often – at least outside the EU – lack a clear legal foundation and rely on its members' commitment to cooperation. Nonetheless, as explained in the BSCS paper, this feature has not hampered the evolution of colleges towards an "increasingly important role" and their becoming "more integrated with supervisory cooperation and coordination".

Consequently, the IIF believes that the evolutionary nature of colleges' role should be equally reflected in an "evolutionary approach" to colleges' objectives, where colleges' activities and objectives could over time cover all the following areas:

- avoiding duplication of efforts;
- allocating tasks among members;
- rationalizing and making more efficient the information-gathering process;
- developing better and more consistent information for both home and host supervisors about large groups;
- harmonizing reporting formats and requirements;
- coming to common understanding about important matters such as model validation governance standards, and the Pillar 2 Supervisory Review Process;
- assessing overall regulatory effectiveness;
- contributing to the macroprudential oversight;
- contributing to an effective crisis management;
- promoting and achieving reliable and convergent interpretation of the rules as well as cross-college consistence.

In this "evolutionary" context, colleges should become more business as usual, meet regularly and more frequently, with proper, reliable and consistent procedures.
Moreover, a further clarification of the objectives of the different college structures (college vs. college*s*) would be opportune and could help avoiding the mushrooming of colleges and redundant or overlapping mandates.

Principle 2: College Structures
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.

The IIF welcomes the Basel Committee's attention to the need to avoid a 'one-size-fits-all' approach and to tailor the college structure to the needs of the relevant supervisors and to the specifics of the banks being monitored – activities, geography, legal and organizational structure. In this regard, a certain degree of flexibility – or "variable geometry" – in colleges' structures is appropriate.

However, IIF members believe that the number of colleges structures and sub-structures should be limited as much as possible, as the coexistence of multiple layers could lead to overlapping mandates and additional complexity, undermining the effectiveness of the coordination efforts.

Another crucial structural element is the size of colleges: college membership should be limited in number, in order to avoid the risk of over-crowded discussions where efficiency is lost. In this respect, the IIF invites the BCBS to clarify further the membership criteria for the different college structures and for the 'core' college in particular. In particular, more explicit guidelines on the definition of the concepts mentioned in the background section to the Principle, such as 'material supervisory oversight of part of the banking group', 'significant proportion of group risk-weighted assets' or 'materiality of the banking group in the host jurisdiction', would be opportune.

In this regard, the criteria outlined in CEBS's draft Guidelines for the operational functioning of colleges (Section 2, Guidelines 7-10), represent a useful benchmark.

The IIF stresses the fact that home supervisors - having the best view of the operations of the firm - should play a pivotal and lead role in defining the structure of the college, with the help of hosts and the firm itself. The leadership and responsibility of the home supervisor should therefore be further emphasized and clearly highlighted in the Principle itself.

In fact, the solution to the structural issues mentioned in the previous paragraphs can only rely upon a clear and strong leadership of the home supervisor, able to reach – in compliance with the BCBS Principles - case-by-case solutions. A strong leading role for the home supervisor is also essential to avoid duplicate requests and consistency of reporting.

While welcoming the BCBS's concern with ensuring adequate transparency of the college structure, with a particular attention to the need to inform the banking group, the Institute wishes to underline the need to involve the bank - through specific recurrent consultations carried out by the home supervisor - in the process aimed at designing the college structure. This dialogue is particularly

important for the identification of vulnerabilities and of those areas where college oversight might be streamlined and improved. Moreover, as more in detail explained in our comments to Principle 6, it is important to grant firms access to the main points of the college meeting minutes as this can contribute not only to a more effective dialogue between colleges and firms (and in this regard, this point is related to letter (i) of Principle 6) but also to a more effective follow-up of colleges' activities. In this respect, firms' access to that information is also an important structural issue.

As far as the "Mechanisms to facilitate the college's operational functioning" are concerned, the IIF believes that the Home supervisor should ensure an additional function: the monitoring and recording of the implementation of the outcomes of colleges' activities. This represents an important element in order to improve the coordination between supervisors and encourage a progressive convergence on the methods used to supervise firm's activities.

As to the representation in relevant college structures, an additional structural element that the Institute wishes to highlight is the need to ensure that representatives of college member have the appropriate level of seniority needed to allow the college to reach actionable determinations on which firms can actually rely as well as to make the activities and decisions of the colleges more credible and ensure full cooperation at the national level.

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.

Information sharing is clearly the key area for ensuring the effectiveness of colleges, as a well-functioning information exchange is absolutely necessary in order to develop a good understanding of the risk profile of the banking group. At the same time particular attention should be devoted to what types of information should be shared at the level of the core college or at the level of the universal college. In this regard, the application of a principle of proportionality and materiality is of critical importance.
Moreover, it should be taken into account that local legal constraints (e.g. data protection, confidentiality) might prevent the sharing of some information.

As appropriately highlighted by the consultative document, an effective information sharing can only result from, and should be underpinned by, strong mutual trust and the guarantee of high confidentiality and information security requirements.

IIF members appreciate the BCBS' effort aimed at outlining, through the table containing the 'Illustrative example of information exchange in colleges' a workable information sharing arrangement. Although adaptable on a case-by-case basis, the table is extremely helpful in providing a clear example of the type of information to be shared among relevant supervisors and the banking group.

In this respect, the IIF wishes to draw the BCBS's attention to the following (non-exhaustive) list of items concerning extremely detailed and market-sensitive information, where well-justified

reluctances to exchange information may emerge and which, consequently, should be shared only at the level of the core college and subject to stringent confidentiality agreements and information security procedures[5].

- Capital position / plan
- Liquidity position / plan
- Stress tests
- Strategic plan
- Recovery and resolution plan
- ICAAP plan

Moreover, the IIF fully supports the home supervisor's being invested with the responsibility to identify and decide, in the case of colleges with variable structures, the information that should be delivered to each layer of members.

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.

The IIF fully supports the emphasis put on effective communication and on the central role that the home supervisor should have in ensuring the availability of a wide range of communications channels and procedures.

We also underline the need to ensure that these communication tools are equally available both for an effective communication between the colleges' members and for the communications towards the supervised group.

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.

The Institute welcomes this Principle and encourages the Basel Committee to set and promote the achievement of ambitious targets and be proactive in defining its guidance on collaborative work. In fact, while information sharing is crucial, it will not by itself improve the effectiveness and efficiency of the oversight of international banking groups without a constant drive towards collaboration, coordination, joint work and allocation of tasks amongst college members. An effective collaborative work will lead to a more efficient use of supervisory resources and to a reduced burden both for supervisors and for banks.

[5] Confidentiality undertakings should also bind the college itself (e.g. in the form of college specific confidentiality agreement). Additionally, a protocol should be set up for sharing and protecting meeting minutes and action points.

The promotion and the achievement of these objectives call for a strong and committed 'driver' of this collaborative work. The IIF considers that the responsibility for fulfilling this crucial role should be taken by the Home supervisor. It should take the lead and promote cooperation between college members, aiming for a collaboration based on mutual agreement.

While recognizing national legal constraints, host supervisors - who often have weak incentives to collaborate and tend to focus more on tight local regulation, potentially to the detriment of group safety – should recognize the assumption that the main responsibility of the college is to assess the soundness of the group as a whole and that, consequently, supervision at entity level should contribute to this overarching objective. Moreover, as there is strong 'solidarity' between the different parts of a group, this should be equally reflected in corresponding 'solidarity' among supervisors and in effective collaborative work.

In addition to the useful examples provided in the consultative document, the IIF would like to underscore the need to promote stronger collaborative work and coordination in the following areas:

- Reporting and documentation: Harmonizing reporting templates would make communication between regulators easier and allow the information to be compiled in a much more timely and efficient fashion. A valuable approach could be to agree on a 'common menu' of reporting requirements which would – in an institution specific way – allow regulators to choose those requirements that better fit the specificities of the group. Moreover, in order to increase the efficiency of the college and to reduce burdensome and overlapping reporting requirements, regulators should converge towards a fixed timing of reporting. For instance, cross-border firms currently face a multitude of overlapping and uncoordinated liquidity reporting requirements: colleges should reduce these duplications.

  Such convergence would obviously have the potential to create efficiencies for colleges as well as firms, and reduce the chance of compliance errors being created by multiple somewhat-differing requirements (e.g. CEBS's liquidity 'ID card' is certainly a step in the right direction).

- A further area where a stronger collaborative work is needed is ICAAP, where firms have experienced a lot of duplication, as hosts want the reports reproduced for each country. Several groups have been faced with a number of requests from various supervisors to enter into dialogue on their ICAAPs simultaneously. The most rational and effective approach, on the contrary, would see the bank undertaking a close dialogue with its home regulator on Pillar 2, which, when it reached the appropriate point of development, could serve as the basis for an effective and efficient discussion through the colleges[6]. Therefore the IIF believes that it would be most helpful if the colleges of supervisors were involved by the home supervisor in adequate sharing of information on the Pillar 2 solution of the group.

[6] Otherwise, such discussions are at best difficult, and necessarily incomplete and inefficient, where the group and its home supervisor have not yet completed its ICAAP assessment at the home country level. It is difficult and disruptive for groups to be put in a position where they are required to enter into multiple bilateral discussions of Pillar 2 issues. Indeed, most large global groups have a limited number of people who work on development of the group economic capital models, and these people are diverted from their primary tasks if required to travel extensively to cope with the multiple requests.

This would enable the host supervisors to have sufficient information on the global assessment of the group ICAAP and would, therefore, enhance the comfort of the hosts by giving them a role in global assessments, enabling them more comfortably to accept a local Pillar 2 implementation that would be well grounded on the processes, procedures, economic capital concepts, and approaches of the group, as accepted by the home supervisor (including any phasing-in of that acceptance).

- Stress testing is an important example of an issue that can and optimally should be handled within each group's college. It is possible for firms to share thinking about stress-test design and group results with all of the relevant supervisors in a college situation. Certainly, although this is not the place to discuss stress testing in detail, many groups feel strongly that the Pillar 2 stress test should be at the group level and used to inform subsidiary ICAAPs with the means to downstream capital to the subsidiary level to be worked out as appropriate for each group's situation.

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.

The IIF stresses the importance of good communication with the banking group and the need to strengthen the Principle in order to set clear guidance on the type of information that should be shared with the institution and on the practical aspects aimed at ensuring an effective two-way dialogue. A well-functioning and constant dialogue with the bank is instrumental also to a good preparation of college meetings as well as to an effective follow-up of their outcome. In particular, the Principle should ensure that colleges provide feed back on college outcomes to firms on a timely basis (for example by sharing with the firm relevant sections of the exit memo produced at the end of the college session).

As to point (ii), a more coordinated process would make college members act more responsibly and effectively regarding information sharing and details of bank operations. As well, as different regulators ask for different information at different times, increased coordination will ensure that standardized, timely data is shared amongst college members to improve their discussions and understanding of the firms' operations. This closer coordination could be seen on an 'evolutionary basis', aiming at an increasingly formal interaction between college members.

For this interaction to be successful, the following two principles must be solidly established and emphasized further in the Basel Principles:

Firstly, the role of home supervisor as coordinator of the college process and 'one-stop-shop' for requests of information from the banking group should be clearly and strongly affirmed; this implies that host regulators can ask group-level information only through the home supervisor. Secondly, requests for information from host supervisors should be subject to solid relevance, materiality and proportionality conditions.

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.

The IIF welcomes the explicit inclusion of the college in the crisis management planning.

As stated in our recent report, *A Global Approach to Resolving Failing Financial Firms*, the IIF considers that an effective framework for resolving cross-border financial firms is a key component of resilient financial system supporting sustainable economic growth. It is important that every firm, no matter what its size or activities is able to exit the market in an orderly manner without causing undue trauma to the system or the economy.

Supervisory colleges have a key role to play in bringing this about. This encompasses not only ensuring that the group as a whole is strongly supervised in a well-coordinated manner in respect of all its elements therefore reducing the likelihood of failure, but also in making the appropriate crisis management preparations so that if the group gets into difficulties, strongly-coordinated and effective actions can be taken to assist in the group's recovery or to bring about its resolution. In such circumstances and in the context of such preparations it would be necessary to expand the membership of the college (in another example of the "variable geometry" principle) to form crisis management groups (CMG) representing the other authorities that will be involved in the context of a firm's failure beyond supervisory authorities.

More generally, the IIF believes that the Principle requires more detail regarding the interaction between the crisis management group and the supervisory college.
The Crisis Management Group and the college are "distinct but complementary"; however clearer guidance is needed on the respective responsibilities and powers in a crisis situation and on how the supervisory college operate during crisis.

The IIF is very supportive of well-considered recovery and resolution planning. The IIF believes that this can play an important role in enabling firms to be effectively resolved should the need arise. The Institute has developed views on this issue in some detail in our *Resolving Failing Financial Firms Report*. However it is highly desirable that, for cross-border firms, recovery and resolution planning be carried out under the auspices of the college / crisis management group in a well-coordinated and integrated fashion. This applies at all stages of the process. The area of recovery and resolution planning is one that can benefit greatly from the sharing of ideas and thinking between the official and private sector. There is a need for an open and transparent dialogue between the official and private sectors as the modalities and details of recovery and resolution planning generally are further developed.

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.

The Institute's recent report, *Systemic Risk and Systemically Important Firms: An Integrated Approach* considered at length the issue of systemic risk and how it should best be addressed, and also the question of an appropriate approach to systemically important firms.

That document notes the multifaceted, complex, and mutating nature of systemic risk and the need for an integrated, sophisticated, and dynamic response. It cautions against unidimensional approaches which seek to address a highly complex issue with overly simple instruments. It presents in detail the economic benefits that result from the activities of large cross-border financial firms.

The Institute cautions strongly against approaches that for example seek to restrict the size or geographic structure of financial firms, or to restrict their activities, or to apply additional Pillar 1 charges based on formulaic calculations. It does however recognize and share the legitimate concerns of authorities in respect of the potential impact of the failure of large firms. This concern should be met by means of strengthened supervision, which takes account of the full range of risks, including the potential systemic risks associated with large and complex firms. More intensive supervision represents the optimal approach to this issue as it is able to take account of the nature and degree of different risks and also of the manner in which and the extent to which they are mitigated by other factors such as high-quality management, good recovery and resolution planning etc. Consistently with the positions expressed above on the general role of colleges, the Institute very much agrees with the important role of supervisory colleges in addressing issues of systemic risk in respect of large, complex, cross-border firms.

The report, *Restoring Confidence, Creating Resilience: An Industry Perspective on the Future of International Financial Regulation and the Search for Stability*, discusses the importance of developing enhanced structures, processes, and instruments for carrying out effective macroprudential oversight. An important lesson of the crisis has been the need to identify emerging risks to financial stability at an early stage and to take the appropriate actions to address those risks.[7] Colleges can play an important role both as a source of information concerning the development of risks and in the microprudential implementation of macroprudential risks.

In order to ensure the effective "bridging" of macroprudential oversight and microprudential practice, *Restoring Confidence* suggested that the FSB should:

- Develop and regularly review within a joint international framework the ways in which macroprudential concerns can be addressed through microprudential actions;

[7] The IIF has established a Market Monitoring Group co-chaired by Jaques de Laroisière and David Dodge and consisting of senior industry practitioners from a diversity of backgrounds to contribute to the process of early risk identification.

- Implement these strategies through coordinated horizontal and, as appropriate, thematic work across the peer group and across the responsible national microprudential regulators; and

- Ensure close coordination and cooperation within and, importantly, consistency across the supervisory colleges set up for the multinational institutions in the peer group.

Concluding Remarks

The Institute of International Finance stresses the important role of supervisory colleges. They can strengthen the coordination and convergence of regulation as well as of supervisory practices and foster cooperation among supervisors, reducing duplications, optimizing the use of supervisory resources and ensuring consistent common interpretations of the rules. In this process, an effective dialogue with supervised firms will be crucial. Moreover, well-functioning colleges can also play an important role in implementing the microprudential aspects of macroprudential oversight.

The IIF therefore welcomes the opportunity to submit its comments to the draft Principles on Supervisory Colleges and looks forward to continuing a constructive dialogue with the Committee on this important issue.

Yours truly,