

Secretariat of the Basel Committee on
Banking Supervision, Bank for
International Settlements

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Dear Sirs

Response to the consultative document Good Practice Principles on Supervisory Colleges

Nordea welcomes the opportunity to comment on the consultative document Good Practice Principles on Supervisory Colleges, see [appendix](#).

Nordea finds that information exchange and co-operation are key for the effective supervision of cross-border groups. However, this principle must then serve as a starting point for further developments towards a fully co-ordinated and consistent supervision of the groups, including establishment of a timely and responsible decision-making process and fully harmonised reporting, which duly takes into consideration the group-wide risks and interests. In order to ensure effective and efficient supervision of groups the roles and responsibilities of each supervisor must be clearly identified and agreed among the supervisors. The introduction of colleges is to facilitate the execution of such roles and responsibilities. It should be a home supervisor task to design and co-ordinate the work of the various college structures. It is then very important that the home supervisor also is ensured the necessary tools and mandates to carry out this responsibility.

Efficient supervision of groups requires increasing supervisory collaboration. This should be seen as a development process that is proactively designed under the lead of the home supervisor and implemented over time. In that context the importance of harmonisation of the regulatory framework, including the supervisory standards and practises, must be emphasised. Finally, Nordea believes that enhancing financial stability in the global system requires improved co-operation between supervisory colleges of different sectors (e.g. banking and insurance). Changing regulation may create incentives for regulatory arbitrage which should be adequately assessed and monitored by the relevant authorities and open dialogue used to convey any cross-sector concerns.

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Yours faithfully

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Appendix

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.

Nordea finds that information exchange and co-operation is key for the effective supervision of cross-border groups. However, this principle must then serve as a starting point for further developments towards a fully co-ordinated and consistent supervision of the groups. Of major importance in this context, especially for cross-border groups organised along business lines and run as integrated organisations, would be that a timely and responsible decision-making process is established and fully harmonised reporting, duly taking into consideration the group-wide risks and interests of the group. Focus must then be set on the colleges' and the consolidating "home" supervisor's decision-making tools.

Containment of systemic risk requires that cross-country supervisory co-operation is significantly strengthened and division of roles and decision-making process clarified to efficiently cater the needs of supervision in normal times as well as detection of early indicators of stress and potential crisis situations cross-border.

In order to ensure effective and efficient supervision of groups the roles and responsibilities of each supervisor must be clearly identified and agreed among the supervisors. The introduction of colleges is to facilitate the execution of such roles and responsibilities. All relevant supervisory activities concerning the group should, consequently, be identified and co-ordinated through the college and the activities should not only be related to Basel II implementation. The colleges should make it possible for financial groups to organise its operations, including capital and risk management, at group level in order to ensure efficient and effective management thereof.

Joint on-site inspections should, where relevant, be promoted and serve as efficient and effective supervisory tools. At the same time as the joint inspections would enhance mutual trust and understanding they would serve as an important tool for common interpretations and an incentive to further harmonise the regulatory framework.

Nordea agrees with the conclusion that implementation of Basel II has resulted in improvements to supervisory co-ordination. The future work should be based on the experiences obtained in that process combined with the lessons learned from the crisis.

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,

Nordea agrees that a consistent approach is important at all levels of the college and the role of the home supervisor should in that context be emphasised. The core college should be the key forum for sharing information and taking decisions. The individual representatives of the supervisors participating in the colleges must have the seniority and mandate to ensure an efficient process.

It should be a home supervisor task to design and co-ordinate the work of the various college structures. It is then very important that the home supervisor also is ensured the necessary tools and mandates to carry out this responsibility. The importance of colleges having the ability to effectively add to a consistent, responsible and timely decision-making process must again be stressed. Consequently, decision-making process should be made as clear and as transparent as possible with a strong role given to home supervisor.

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.

Clear guidelines should be established for the contacts between the colleges and the institutions, realising the mutual benefit of a rational and well structured dialogue and securing quality and consistency of the content. Such guidelines could be made in the individual case or in a more general form. It should however be established in co-operation with the institution in scope.

Nordea believes that a full and consistent information sharing is necessary to ensure that all supervisors understand the structure of the banking group and are able to assess the usefulness and efficiency of the structure from the group risk management perspective. The proper handling and confidentiality of information is key and where relevant formal confidentiality agreements must be entered into before the information sharing commences.

Nordea would, further, like to emphasise that also the external communication must be consistent, responsible and co-ordinated amongst the supervisory authorities. Market sensitivity needs to be taken into account where relevant.

Furthermore, improved co-operation between supervisory colleges of different sectors (e.g. banking and insurance) is needed to enhance financial stability going forward. Changing regulation may create incentives for regulatory arbitrage which should be adequately assessed and monitored by the relevant authorities and open dialogue used to convey any cross-sector concerns.

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

Nordea agrees that the communication channels should make exchange of information easy, fast and reliable whilst maintaining confidentiality. The channels should, where possible, be secured.

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.

Important elements in the collaborative work would be that the supervisors strive to improve the effectiveness by delegating tasks and, where possible, responsibilities to each other.

Risk assessment and stress testing together with model validation are mentioned as examples of collaborative work. Efficient supervision of groups requires increasing supervisory collaboration. This should be seen as a development process that is proactively designed under the lead of the home supervisor and implemented over time. In that context the importance of harmonisation of the regulatory framework, including the supervisory standards and practises, must be emphasised. Systemic risk assessment and development of early warning indicators is an important area where collaboration within a college as well as with macro-prudential supervisors is necessary. Consequently, colleges should proceed to analyse and assess the opportunities for co-operation in this area. In particular, the division of roles between macro and micro prudential supervisors should be clarified and harmonised.

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 importance of timely, fully harmonised and co-ordinated reporting and information gathering from the group must be emphasised. It is important to avoid double work and uncalled for costs at both the institutions' and the FSA's side.

It is important also for the purpose of supervision in normal conditions, not only in crisis management context that "core college members, led by the home supervisor, should explore whether (...) data items and report formats could be standardised to avoid creation of multiple reports across jurisdictions that provide the same information"¹. This enhances transparency and facilitates creation of a common supervisory culture between countries and within the supervised entity and consequently reduces systemic risk. An effective interaction makes it possible for the institution to establish common templates and IT solutions for the information

¹ Page 14 in the consultative document

gathering. It is in this context essential that the institution is included in the dialogue with the supervisors at an early stage.

Nordea agrees that information requests from the banking group in connection with the college should be co-ordinated by 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.

Nordea would strongly encourage co-ordinated crisis management planning. Non co-ordinated beggar-thy-neighbour solutions that may induce market runs elsewhere in the system must be avoided. Well functioning supervisory college and good co-operation between key authorities should be the corner stone of any cross-border operation. This should include timely access to any information by the macro-prudential supervisors to assess the fragilities of the system as well as to take action in crisis. However, credible crisis management tools will also have to be in place in order to reduce moral hazard and the likelihood of contagion and market runs from one jurisdiction to another. Consequently, clear decision-making process between the home supervisor and host supervisors should be further supported with clear burden sharing agreements that would complement the possible harmonised private sector solutions.

Cross-border groups have recently met an increased number of unilateral decisions and requests, which have burdened and risked destabilisation of essential group-wide capital and risk management processes. This may effectively increase systemic risk. Consequently, authorities should explicitly agree that unilateral decisions are not taken that may increase the likelihood of problems in other jurisdictions.

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.

Nordea agrees that co-operation and information sharing in supervisory colleges is very important for supervision of large cross-border financial institutions. However, it is important to note that systemic risk is not captured by concentrating supervisory efforts on large cross-border institutions alone. Systemic risk is closely related to liquidity and money creation process. Since it is more a process which is continuously evolving and is likely to involve institutions of all sizes also outside the banking sector, it may also require co-operation with supervisory colleges of e.g. insurance sector or other sectors without such supervisory structures. Consequently, it may require completely new view to data collection and monitoring.

While stressing that collection of such data may not follow the normal reporting channels and frameworks, Nordea nonetheless agrees that close co-operation between micro and macro prudential supervisors is required and consequently supports colleges of supervisors, together with macro prudential supervisors and the industry, design the data collection.