**From:** Sophie Richards
**To:** Basel Committee, Service
**Cc:** Nik van Leuven; Richard Walker; Audrey Branch; Philip Marr
**Subject:** FW: Re: Revised Basel Core Principles - Consultation
**Date:** Tuesday 06, March, 2012 15:09:26

---

**Sent on behalf of Philip Marr, Director of Banking, Guernsey Financial Services Commission**
**For the attention of Mr Karl Cordwener, Deputy Secretary General**

Dear Mr Cordwener

You invited comments on the Revised Core Principles Consultative Document issued in December 2011 no later than 20 March 2012.

Since there is not a great deal that is wholly new and that much of the revision is by way of refinement then I have identified only two Core Principles where I think it would be helpful to make representations in particular with a view to seeking clarification about the position of host supervisors.

1. Principle 8: Supervisory Approach

Essential Criterion 6 (first sentence) says " Drawing on information provided by the bank and other national supervisors the supervisor, in conjunction with the resolution authority, assesses the bank's resolvability where appropriate, having regard to the bank's risk profile and systemic importance."

It is suggested that immediately after this first sentence in EC6 a further sentence is inserted to address the position of host supervisors: " Host supervisors engage with home supervisors about the prospects for including subsidiary banks in bank resolvability assessments and bank resolution plans".

Since it may not be appropriate for a jurisdiction, which is primarily a host supervisor, to set up a resolution authority it would be helpful to add in the second line of EC6 the additional phrase "where one has been established" after the phrase "in conjunction with the resolution authority" hence the phrase would become: " in conjunction with the resolution authority where one has been established." Otherwise as currently drafted there is an implication that in all jurisdictions it is necessary to establish a resolution authority.

2. Principle 26: Internal control and audit

EC4 states:

"The supervisor determines that banks have an independent, permanent and effective internal audit function."

The reference to "permanent" is potentially highly restrictive and in my view inappropriate at the subsidiary bank level.

It would be helpful and in line with international commercial practice if the EC could say "permanent or appropriately outsourced."

This would then allow the possibility of "intragroup outsourcing" of internal audit functions. This works at the subsidiary level because the subsidiary bank can gain access to expert resource within a centralised group audit function which a small subsidiary bank would not otherwise be able to justify and that internal audit function would be independent of the local staff being audited. At the same time the group would be able to deliver consistent audit standards as part of its group-wide audit programme across all jurisdictions where subsidiaries operate. In our experience permanent internal audit functions in small subsidiary banks are very unusual and indeed rare. Third party outsourcing, for example to non conflicted accounting firms, is a viable alternative where group resources are stretched but intra-group outsourcing is the most common preferred option at the subsidiary level.

Clearly any clarification or refinement of CP26 needs also to be consistent with the December 2011 Consultative Document "The internal audit function in banks". In particular CP26 should reflect the text in Principles 8 and 15 of the consultative document. I have offered comments on that document separately with a view to it being aligned to CP26.

Those are my suggestions for clarification of the revised Core Principles.

Philip Marr
Director of Banking
Guernsey Financial Services Commission
P O Box 128, Glategny Court, Glategny Esplanade, St Peter Port, Guernsey. GY1 3HQ. Tel 01481 712706

**********

This message is intended for the use of the individual or entity to which it is addressed and may contain confidential information. If the person reading this message is not the intended recipient, use of this communication is strictly prohibited. If you receive this communication in error, please immediately delete it and notify the Guernsey Financial Services Commission by telephone on +44 1481 712706

Guernsey Financial Services Commission

**********