Basel Committee
on Banking Supervision

Consultative Document

Revised good practice principles for supervisory colleges

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Introduction

In the aftermath of the recent financial crisis, a series of key initiatives have been undertaken with regard to the reform of international financial regulation and supervision. In particular, supervisors have taken steps to enhance the supervision of global systemically important banks (G-SIBs). Effective supervisory colleges play a key role in such enhanced supervision. Supervisory colleges can enhance information-sharing between supervisors, help the development of a common understanding of risk in financial groups, promote a shared agenda for addressing risks and vulnerabilities, and provide a platform for communicating key supervisory messages among college members.

In general, colleges of supervisors are permanent, but flexible, structures for collaboration, cooperation, coordination and information-sharing among the authorities responsible for and involved in the supervision of the different components of cross-border banking groups. While bilateral and multilateral arrangements among supervisors of global banking groups have existed for decades, many of these arrangements were formalised as supervisory colleges only in the years leading up to the financial crisis, with this trend accelerating thereafter. Colleges are now an important component of effective supervisory oversight of an international banking group. The G20 has re-emphasised the significance of colleges in the wake of the financial crisis.

In October 2010, the Basel Committee on Banking Supervision (Committee) published its *Good practice principles on supervisory colleges* (principles), which included a commitment to review them after approximately two years in order to take stock of any key lessons learned. This consultative document sets out an updated version of the college principles, following a review that considered the practical challenges in their implementation, potential inconsistencies in their interpretation, and possible areas of best practice, with the aim of ensuring that the principles remain fit for purpose. The perspectives of home supervisors, host supervisors and banking groups have been taken into account during this revision process.

The initial 2010 document built on previous publications outlining good practice in colleges and provided some enhanced principles that could serve as a basis for continuing to improve the operation of supervisory colleges. This consultative document does not intend to propose a definitive or exhaustive set of guidance regarding college functioning. The college principles are, however, designed to help both home and host supervisors ensure that they work as effectively as possible by clearly outlining expectations in relation to college objectives, governance, communication and information-sharing, as well as potential areas for collaborative work.

The Committee has retained a principle-based approach so that the revised good practice principles in this paper are relevant to a wide range of banks across different jurisdictions. The principles are designed to allow adequate flexibility in the way that they are implemented by different jurisdictions. To this end, it is reasonable to expect supervisors to discuss and agree on the most appropriate approach for their specific circumstances.

These principles are designed to assist supervisors in running colleges as effectively as possible. They are not meant to suggest that colleges should replace wider bilateral or multilateral cooperation among supervisors, or to impede existing national, bilateral or multilateral arrangements in this respect. Colleges are not a substitute for effective national supervision nor do they undermine the legal and prudential responsibilities of respective supervisors. Colleges generally are not intended to be decision-making bodies, but should provide a framework to enhance effective supervision of international banking groups on a consolidated and solo[1] basis, and can inform decision-making in that regard.

While the scope of the draft revised principles covers a range of supervisory cooperation issues, the Committee does not seek to replace broader guidance issued in the past on cooperation and information-sharing between home and host supervisors. This set of good practice principles should therefore be interpreted in the context of broader aspects of home-host cooperation covered, for example, in the Committee's 1975 *Report on the supervision of banks' foreign establishments* (the Concordat), the 2006 principles on *Home-host information-sharing for effective Basel II implementation*, and the 2012 *Core principles for effective banking supervision*.[2]

Effective microprudential (ie firm-specific) supervision should be supplemented by macroprudential supervisory tools aimed at addressing potential risks to the wider financial system. The revised principles continue to recognise the importance of incorporating macroprudential elements into college discussions, which are primarily microprudential in nature. In the 2010 principles, the Committee addressed macroprudential supervision in a general manner, with a separate principle with a relatively high-level discussion of macroprudential considerations. In these revised principles, the discussion of macroprudential elements is more specific and aligned with application of the other principles in actual practice.

Summary of key changes to the good practice principles

The draft revised principles build on the 2010 principles and retain their key features. The revised principles have been updated to provide more clarity on the relationship between home and host supervisors, as well as to reflect more realistic expectations of how colleges typically function in practice based on experience over the past several years. The key changes are as follows:

College objectives (Principle 1). Within the definition of colleges, greater emphasis is placed on collaboration and information-sharing on an ongoing basis (ie beyond occasional physical meetings) between college members.

College structures (Principle 2). An expectation is included on the need to strike a balance between core college effectiveness and host involvement. For home supervisors, flexibility in engagement methods and transparency with individual host supervisors on the criteria (including

1 Solo supervision in this context refers to the supervision of a single legal entity, as opposed to consolidated supervision, which refers to broader group oversight.

2 The following documents have been published since the 1975 publication of the Concordat: *Principles for the supervision of banks' foreign establishments* (1983), *Minimum standards for the supervision of international banking groups and their cross-border establishments* (1992), *The supervision of cross-border banking* (1996), *Essential elements of a statement of cooperation between banking supervisors* (2001), *High-level principles for the cross-border implementation of the New Accord* (2003) and *Home-host information-sharing for effective Basel II implementation* (2006). The Basel Committee's Concordat and other documents related to cross-border supervision are accessible at www.bis.org/list/bcbs/tid_24/index.htm.

judgmental factors) used for determining college participation are encouraged. Determination of college membership could include, for example, whether or not a bank subsidiary in a foreign jurisdiction has been identified by the host supervisor as a domestic systemically important bank (D-SIB).

Information-sharing (Principle 3). Home and host supervisors are expected to put in place appropriate mechanisms and sufficient resources for effective and timely two-way information exchange.

Interaction with the institution (Principle 6). Home and host supervisors are encouraged to agree on the types of feedback provided to banks, and ensure consistency in how such feedback is provided.

Crisis preparedness (Principle 7). Reflecting on the recent co-existence of colleges and crisis management groups (CMGs), this principle will be renamed "crisis preparedness", instead of the current "crisis management". The principle now differentiates between banks that have established CMGs (eg systemically important banks), and other banks that do not have a CMG. For the former, guidance is provided on possible communication and coordination between the college and CMG on crisis preparedness.

Macroprudential work (Former Principle 8). The Committee recognises that macroprudential information is highly pertinent to colleges. However, colleges have never been intended to be a primary venue for macroprudential policy coordination, since macroprudential policy focuses on the stability of financial systems rather than individual institutions. Moreover, macroprudential issues arise in a few specific contexts within colleges rather than being a general aspect of college discussions. Therefore, the revised principles refer to macro-prudential issues in the four specific contexts listed below, instead of making them the subject of a single separate principle as in the 2010 principles. These four contexts are:

- Understanding banking group risks: The overarching objective of a supervisory college, which is to assist its members in developing a better understanding of the risk profile and vulnerabilities of the banking group (Principle 1);
- Communicating with CMGs: Communication with CMGs on key elements of recovery and resolution plans, as appropriate (Principles 1 and 7);
- Determining college membership: Systemic factors for determining membership in colleges. Specifically, the significance of a banking group's operations in the local market (eg market share and role played by the entity), whether the entity is an integral part of the infrastructure of the financial system, and criteria from host supervisors for identifying D-SIBs (Principle 2); and
- Establishing capital and liquidity requirements: Capital and liquidity plans of the banking group, and minimum capital adequacy and liquidity requirements that apply across banks within a jurisdiction (eg Pillar 1 approaches under the Basel capital framework) which may be discussed in the context of a specific banking group (Principle 3 and Principle 5).

Principle 1: College objectives

Supervisory colleges should enhance, on an ongoing and confidential basis, 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.

Background

The overarching objective of a supervisory college is to assist its members in developing a better understanding of the risk profile and vulnerabilities of the banking group. Moreover, information exchange and cooperation between supervisors are essential to strengthen the supervision of the individual components of a banking group. This objective should be achieved on an ongoing basis and not just during the meetings of the colleges. Supervisory colleges are conceived as a set of ongoing relationships among supervisors, covering any contact among them (eg teleconferences, videoconferences, letters, e-mails and via secure websites).

Colleges are, effectively, working groups of supervisors of the parent company and key branches or subsidiaries of an international banking group, and have been part of the global supervisory framework for many years. Over time, they have played a greater role in facilitating supervisory cooperation and coordination. The introduction of the Basel II framework, and subsequently Basel 2.5 and Basel III, emphasised the need for such supervisory cooperation, as supervisors worked together on topics such as model review and approval. Supervisory colleges have since played an increasingly important role in sharing information and coordinating supervisory activities related to implementation of Basel standards, especially for large internationally active banking groups.

Practical experience suggests that college structures are a useful foundation for further collaboration between supervisors and other relevant authorities, and should provide a platform for home-host coordination of supervisory activities. Despite not typically being decision-making bodies, supervisory colleges have developed a key role over time as a forum for broader issues such as discussion and planning of supervisory assessments and sharing information about the overall risk profile and vulnerabilities of an international banking group.[3] For example, in the aftermath of the recent financial crisis, some colleges operated as conduits for information-sharing in relation to contingency planning and crisis management.

In this context, effective and efficient colleges are important, not only for consolidated supervision at the microprudential level, but also for the promotion of financial stability at the macroprudential level. While focusing on the stability of an individual banking group, colleges can promote a more coherent approach across different jurisdictions to the consistent and effective implementation of such policy tools as stress tests, which may have macroprudential as well as microprudential objectives.

[3] In some jurisdictions, such as the EU, supervisory colleges have a decision-taking role by facilitating the exercise of specific tasks performed by the home supervisor and the host supervisors such as reaching joint decisions on institution-specific prudential requirements, eg capital and liquidity. See Appendix 1.

Implementation guidance

Clear supervisory understanding and strong levels of mutual trust and confidence between national supervisors on an ongoing basis and through the normal course of supervision are necessary to facilitate the successful implementation of this principle.

The actual structure and organisation of colleges will vary depending on circumstances to ensure that there is effective information-sharing and cooperation between relevant supervisors that does not impede existing national or regional arrangements. However, it is key that the organisation and cooperation processes are clear for all college members.

The delivery of this overarching principle is reliant on supervisors successfully implementing and delivering on the necessary components discussed in Principles 2 to 7.

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, its significance in host jurisdictions, and the corresponding needs of its supervisors. While a college is a single forum, multiple or variable substructures may be used, as no single college structure is likely to be suitable for all banks.

Background

An international banking group, by definition, has operations in multiple jurisdictions. Cross-border operations can take the form of a branch, a subsidiary or other entity such as a joint venture. Two specific categories of supervisors, each with different but mutually reinforcing responsibilities, are important for understanding the relationships that drive the structure of a college: home supervisors and host supervisors.

Home supervisors are responsible for the supervisory oversight of a banking group on a consolidated basis. On the other hand, host supervisors oversee specific entities within the banking group. Host supervisors may, therefore, have different interests in relation to the supervision of the group as a whole depending on whether the group has material risk exposures in the host jurisdiction and whether it poses a systemic risk to the host jurisdiction. Thus, in its broadest sense, home supervisors should give due consideration to including in a college those host supervisors who have a relevant subsidiary or a significant branch in their jurisdictions and who, therefore, have a shared interest in the effective supervisory oversight of the banking group. One of the challenges of supervisory colleges is that the size of college membership can be inversely proportional to the effective sharing of information among members. Home supervisors, therefore, should aim to strike an appropriate balance between college effectiveness and the involvement of host supervisors in a college.

Implementation guidance

A college is a single forum even if it meets in different structures to reflect varying supervisory requirements and practices. The structure of a college should reflect supervisors' different roles and information needs. Therefore, it may be the case that different structures will be required for different banking groups, as described in this principle.

The home supervisor should take overall responsibility for designing college arrangements that reflect the nature, scale and complexity of the banking group and the needs of relevant supervisors associated with the group. To meet these objectives, the home supervisor should design the college structures based on the banking group's international operations in discussion, where appropriate, with host supervisors and the banking group. To further advance macroprudential objectives, the significance of a bank's operations in host jurisdictions should be considered in the design of college structures, in conjunction with the significance of such operations to the overall banking group.

Home supervisors may consider including in college arrangements host supervisors from jurisdictions where the group is of particular significance, possibly relying on information provided by the banking group or referring to criteria for identifying domestic systemically important banks (D-SIBs) and relevant communication from host supervisors on the application of those criteria and their assessment of the entity's significance in local markets. For those host supervisors that are not included in college structures, home supervisors are encouraged to consider the extent to which other information-sharing arrangements are feasible (eg bilateral arrangements or thematic workshops). Home supervisors should be as transparent as possible with host supervisors about the criteria used for determining the structure and membership of a college (recognising that judgmental factors typically apply as well). In addition, home supervisors should be transparent with a host supervisor if asked about the rationale for not including a supervisor in college structures.

Enhancing consolidated supervision

The structure should facilitate effective contribution and appropriate inputs by host supervisors to the home supervisor's overall supervisory assessment of the banking group in order to benefit from host supervisors' specific knowledge of local banking conditions and operations, their ability to communicate directly with entities within their jurisdiction and their ability to take specific supervisory action. It should also allow home supervisors to monitor, assess and address risks faced by the banking group in host jurisdictions more effectively and efficiently. While specific terminology to describe college structures may vary across jurisdictions, such structures include:

Single college structure. This is the simplest college structure. Reliance on a single, general college is likely to be appropriate where just a small number of supervisors is involved, each with a material role in the supervisory oversight of the banking group. However, there may be instances where such colleges gather a larger number of supervisors.

Core and universal college. This is a variant of the single college structure, combining a "core" college of a few key supervisors with responsibility for the primary risk-taking entities within the banking group, and a "universal" college representing a wider configuration of other supervisory authorities (but not necessarily all host supervisors) with the aim of broader information-sharing.

Variable structures. Additional and variable structures may be appropriate for a college depending on the structure of the banking group and requirements of relevant supervisors.[4] This range of structures – at times with overlapping membership and working arrangements – can be effective in enhancing the flexibility of cooperative work and achieving the overarching aims of colleges. For example, there may be specific risk types relevant to the banking group that require more intensive engagement between particular supervisors. In addition, regional issues or business line concerns may merit information-sharing between relevant supervisors in order to identify risks to the banking group. Alternative methods of engagement (eg bilateral arrangements) may also be warranted for supervisors who are not included in a college but are responsible for any D-SIBs within the banking group.

Where variable college structures are used for a given banking group, it is important to ensure that these structures facilitate the work of the overall college and do not impede its overall objectives by unnecessary fragmentation. A consistent approach is important at all levels of the college such that, for

[4] As an example, Appendix 1 describes arrangements within the EU.

example, any increase in the complexity of a college structure does not result in the dilution of good practices on the basic design of college arrangements by the home supervisor.

Membership criteria

The home supervisor will typically have a specific interest in the most material parts of the banking group and it should identify host supervisors to participate in the single or core college, with whom it will have an ongoing dialogue. Therefore, the single or core college, which may include as few as two supervisors and in practice be a bilateral relationship, is likely to be the key forum for sharing information.

The specific criteria for membership of the various college structures will vary on a case-by-case basis at the discretion of the home supervisor, but may include, for example, the degree to which a host supervisor has responsibility for supervisory oversight of a material part of the banking group (eg based on a significant proportion of total or risk-weighted group assets).

In determining appropriate structures, the materiality of the banking group in the host jurisdiction(s) should also be considered. The assessment of significance in a jurisdiction may include for consideration a broad set of factors, separately or in combination. For example, factors that could be considered when determining membership and level of participation include the significance in the local market (eg market share), whether the entity is an integral part of the infrastructure of the financial system, criteria from host supervisors for identifying D-SIBs, and information provided by the bank on its materiality in host jurisdictions.

Likewise, there may at times be reason to invite non-banking and non-prudential supervisors to participate in various college structures. This should be considered, on a case-by-case basis, where such participation would significantly help members of the college to supervise the banking group and identify potential risks and vulnerabilities with systemic implications. For example, the insurance prudential supervisor may be invited to attend some college meetings if the group has a significant insurance entity, or the college may wish to consider discussing group risk issues with securities supervisors if there are significant securities operations. The home supervisor should consider the merits of including such supervisors in various substructures of the college and agree this with the relevant members of the college, bearing in mind legal and confidentiality issues.

Governance by the home supervisor

The home supervisor is responsible for designing and coordinating the work of the various college structures so that the college focuses on relevant group-wide issues. The home supervisor should design the college structure and coordinate the agenda and action plans of all structures so that they enhance the banking group’s consolidated supervision. In this context, the assessment of relevance for non-core entities should be conducted by the home supervisor, possibly taking into account the factors discussed above.

Promoting appropriate levels of accountability across the college structure should also be taken into account, particularly regarding agreed follow-up work. The home supervisor may periodically review college membership to assess whether the structure is optimal. The home supervisor should also keep college members sufficiently informed of the different college structures’ activities. This should facilitate effective input to discussions from college members, so that even college members not invited to participate in a particular college structure are in a position to provide input to the issues under discussion as appropriate. In a similar vein, dialogue and transparency between home and relevant host supervisors are also essential when defining the terms of the involvement of non-core host supervisors in a particular college structure.

Mechanisms to facilitate the college's operational functioning

To ensure the efficiency and effectiveness of the college, the home supervisor should act as a central point of contact for any matter related to the organisation or operation of its structures. The home supervisor should ensure that the following common functions are performed:

- circulating meeting agendas, materials, and attendees in advance of meetings to allow sufficient time for participants' preparations for the meetings;
- updating contact lists of college members;
- recording meeting summaries and action points;
- managing communication channels between supervisors;
- facilitating communication between the banking group, the college structures and other relevant authorities, particularly in emergency situations;[5]
- monitoring or implementing outcomes when coordinated supervisory assessments are undertaken (eg risk assessment of the banking group); and
- considering the feasibility of regional outreach meetings to facilitate discussion of regional issues and appropriate access to information for relevant host supervisors.

Transparency in college structure and membership

The home supervisor should notify host supervisors of the structure of the college and its participants, including variable and ad hoc substructures that are used for specific purposes. This should be done periodically, or when a change occurs. The home supervisor should likewise inform the banking group of the overall college structure and membership.

Representation

Host supervisors should inform the home supervisor who their representatives in relevant college structures are. The seniority of representatives and their knowledge of the banking group should ensure that the information shared at college meetings is relevant to each member's high-level supervisory position. Representation at colleges should be appropriate to facilitate their efficient and effective functioning.

[5] Crisis management groups may also fill this role, depending on the nature and severity of the situation.

Principle 3: Information-sharing

College members should do their best to promptly share appropriate information with respect to a banking group's principal risks, vulnerabilities and risk management practices. Mutual trust and willingness to cooperate are key for effective two-way information-sharing. To facilitate this process, supervisory colleges should strive towards confidentiality agreements among college members, such as those contained in memoranda of understanding (MoUs).

Background

Effective consolidated supervision of an international banking group requires the home supervisor to have sufficient knowledge of the operations of the group, both domestic and foreign, so as to monitor and assess risks and vulnerabilities faced by the group. The host supervisor should have corresponding knowledge with respect to the group's operations within its jurisdiction and the impact of those operations on the group. A successful college outcome entails effective two-way information exchange between home supervisors and host supervisors on a timely basis, both in normal and crisis situations. Home and host supervisors are expected to put in place appropriate mechanisms and sufficient resources for effective information exchange.

Information-sharing mechanisms should be underpinned by mutual trust, willingness to exchange information, and a network of relationships, particularly where confidential information is concerned. Agreements to share information generally should cover the types of information that supervisors would wish to share at any level of the college. However, the lack of such agreements should not impede effective information-sharing between members of the college, consistent with applicable law.

Implementation guidance

Best practices for information-sharing in universal and core college structures are outlined below. The range and detail of information will vary between core and universal colleges according to the needs of the particular college structure.

The information shared should reflect the circumstances and risk profile of the banking group, as well as the information needs of college members based on the principles of proportionality and materiality. In addition, college members should endeavour to encourage and contribute to the flow of information. Information-sharing generally should be continuous and timely, as part of an ongoing college process, rather than a discrete one-off or periodic event.

Information shared at universal colleges is likely to focus on areas of information that are widely relevant (eg risk profiles and supervisory processes). The information shared at the core college level is typically more detailed.

The information that is shared by a banking group or its supervisors at a college meeting will vary on a case-by-case basis. However, the following list of examples illustrates information that home and host supervisors should consider exchanging in colleges, subject to availability and any relevant legal or confidentiality constraints, particularly with regard to market-sensitive information.[6] In the case

[6] Information-sharing in colleges related to resolution and crisis preparedness is covered in detail under Principle 7.

of colleges with variable structures, it is up to the home supervisors to decide the information that should be delivered to each layer of members. However, the outcome of supervisory activities or decisions taken in specific college structures should be communicated by the home supervisor to other members of the college, in a timely manner, if those outcomes affect – or may affect – host supervisors. In practice, it may be that some areas identified below as examples (eg capital and liquidity plans) may only be appropriate to exchange at the core college level. However, the aspiration for colleges should continue to be greater exchange of information wherever feasible.

Examples of information exchange in colleges

The following represents a set of non-exhaustive illustrative examples of information that may be shared within a college.

- Detailed supervisory risk assessments and significant findings from relevant supervisory reviews
- Extracts from firm-wide supervisory risk assessments covering primary risks (which may include credit, market and operational risks) across business and geographic lines
- Analysis of the impact of the operating environment in material/relevant jurisdictions or markets on the banking group, and results of stress tests, as appropriate
- Supervisory plans
- Detailed organisation charts
- Key financial reports/statements of financial position and prospects
- Capital position/plans
- Liquidity position/plans
- Crisis preparedness plans
- Key supervisory contact lists for both day-to-day supervisory and crisis management purposes
- Summary of remuneration practices
- Group-wide and subsidiary strategic plans
- Supervisory assessment of anti-money laundering (AML) programmes and practices
- Highlights of relevant material reports from sources such as:
  - Internal audit
  - Compliance
  - External audit
  - External consultants

Establishing information-sharing mechanisms

Information-sharing mechanisms may be established primarily through MoUs, which outline procedures and provisions for the confidentiality, use and sharing of information, typically on a bilateral basis. It may be the case that some college members do not have an MoU in place with all attending college supervisors. In these cases, further information gateways may be created through amendments to existing MoUs or college-specific confidentiality agreements. Please see Appendix 2 for the essential elements of a statement of mutual cooperation, such as that contained in an MoU.

2011/2012 Basel Committee surveys of good practices in information-sharing

According to the responses from surveys of home and host supervisors conducted by the Committee in 2011 and 2012, several supervisory colleges, in practice, share key information such as risk assessments, group strategic plans, results of stress tests, liquidity profiles and group capital plans. The survey results also indicated some examples of good practices to enhance the effectiveness and efficiency of information-sharing.

- ***Thematic discussions.*** Thematic discussion of specific topics (eg AML, operational risk), along with more common topics such as capital positions and profit-and-loss results allow for close scrutiny and in-depth understanding of relevant issues that concern college members.
- ***College newsletters.*** At least one home supervisor develops and circulates a quarterly college newsletter to host supervisors for improved information flow between home and host supervisors. It covers the bank's strategic or organisational changes, financial situation and outlook, risk status, information regarding recent audits, and regulatory and economic capital positions.
- ***Supervisory methods and current status of the bank's local subsidiaries/branches.*** At the initial meetings of several colleges, home and host supervisors shared the methodologies used in their supervisory frameworks, including risk assessment methods, to enhance mutual understanding of the different approaches. Updates were also provided on home and host supervisory frameworks as well as the bank's risk profile and existing concerns over bank subsidiaries and branches located in host jurisdictions.

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 regularly.

Background

Supervisors have found that a range of communication channels are required for effective functioning of colleges. These include physical meetings, video and/or audio conferences, secure online communication tools, e-mail infrastructure and official letters. Some home supervisors have developed secure web-based communication channels, including secure websites, in order to keep all college members informed of college matters. Communication channels should be sufficiently secure.

Implementation guidance

Supervisory colleges are encouraged to make use of all relevant communication channels to facilitate effective information-sharing. The choice of communication channels should be based on improving cooperation between supervisors and should take account of differences in geography and language. Communication channels should make exchange of information easy, fast and reliable while maintaining confidentiality. In this context, secure websites have been extensively developed and used by home supervisors as an efficient tool for facilitating communication within colleges, while ensuring confidentiality, and their establishment should be considered by relevant home supervisors as appropriate. Physical meetings should be held regularly as agreed by members of relevant college structures and at least annually for the core colleges of the largest banking groups.

Between physical meetings, use of video and/or audio conferences should be considered as a means of facilitating the exchange of supervisory assessments and should be arranged on a case-by-case basis when specific items and objectives need to be discussed. Contact lists should be established containing up-to-date names, responsibilities and contact data for all representatives of the supervisory authorities in the college.

Host supervisors should inform the home supervisor of any specific confidentiality arrangements that will impact the use of the communication channels, so that these can be resolved on a best-efforts basis.

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.

Background

Home and host supervisors may seek to coordinate the planning and execution of supervisory activities or undertake joint work amongst college members in order to increase the efficiency of the college and of the individual supervisors. Supervisory colleges are expected to focus on their key functions of facilitating information exchange and the development and maintenance of a sound network of supervisors while promoting specific areas of collaborative work. College members should therefore recognise that there are likely to be specific work streams that could be undertaken collaboratively to improve the effectiveness of the consolidated supervision of international banking groups. To this end, college members should ensure they can, where appropriate, share and allocate work in the pursuit of the college objectives.

Implementation of Basel II has resulted in improvements to supervisory coordination, for example with respect to specific projects such as model approval or validation work that involve the sharing of tasks and the delegation of work between home and host supervisors of international banking groups. Similarly, with regard to Pillar 2 (supervisory review process) of the Basel capital framework,[7] college members have shared methodologies and, in some cases, undertaken joint on-site inspections of banking groups' economic capital models.

Implementation guidance

When designing the role and functions of a college, the potential for collaborative work should be considered according to the nature, scale and complexity of the banking group.

Collaborative work may be undertaken at various levels of a college. It is likely to occur in a core college but some areas of work may be identified in substructures and in the universal college structure. This should not, however, necessarily replace existing bilateral arrangements.

[7] For a complete description of Pillar 2, see Basel Committee on Banking Supervision, *International convergence of capital measurement and capital standards: A revised framework,* June 2006.

College members are encouraged to coordinate work, as long this does not conflict with any legal requirements and clearly enhances the consolidated supervision of the banking group.

Benefits of collaborative work

Collaboration should improve the quality of the supervisory assessment of the banking group (eg with respect to its risk exposures, capital adequacy and governance). In general, therefore, it should lead to a better overview and understanding of the banking group's risk profile.

Collaborative work should seek to reduce the burden on supervisors and banking groups by avoiding duplication of effort and enhancing the quality of supervision through better information-sharing and allocation of expertise. Collaboration may also serve as a conduit to develop supervisory work programmes or improve coordination of supervisory approaches.

Process of collaborative work

The home supervisor generally should lead any coordination of work between supervisors. College members who agree to undertake collaborative work should be aware of any legal and regulatory restrictions or confidentiality constraints that may impact the extent of collaboration. In addition, they should agree the roles of each supervisor involved in the work and communicate these clearly to the banking group. Supervisors involved in collaborative work should also agree on the extent to which other college members should have access to the results of collaborative work, subject to any legal requirements or confidentiality constraints.

Sharing and allocation of tasks does not absolve supervisors of their obligations. In particular, collaborative work should not imply delegation of an individual supervisor's responsibilities, or of joint decision-making responsibilities.

Examples of collaborative work

Collaborative work may focus on one or more group entities (domestic and foreign), the banking group as a whole, or specific aspects of the group's or an entity's functions. In particular, some colleges have experience coordinating work in the following areas.

Risk assessment and stress testing

One of the objectives of supervisory colleges is to enable college participants to develop a common understanding of the banking group's risk profile and vulnerabilities. Evaluation of the main risks in banking groups is an important stage of the supervisory review and evaluation process (eg institution-specific Pillar 2 approaches under the Basel capital framework). The focus of such assessments within colleges should be on bank-specific risks, although in many instances, they will be useful for macroprudential purposes too. The high-level issues colleges may consider are:

- For large, complex and internationally active banking groups, the home supervisor should take account of local supervisory risk assessments when performing risk assessment at the consolidated level. Likewise, where local supervisory review and evaluation processes rely on central inputs, host supervisors should consider consolidated analysis and insight on group-wide processes. Colleges should facilitate a mutual understanding of different risk assessments undertaken by home and host supervisors.
- As a result of the risk assessment process, the members of a supervisory college should be satisfied that the banking group has an adequate risk management framework in place aligned with the size and complexity of the banking group's operations and governed by policies and procedures that identify, assess, monitor and mitigate relevant risks and vulnerabilities.

- The scope of a risk assessment may vary with the size, business lines, products and systemic importance of the banking group and its individual entities. The home supervisor should determine the timeframes for the contributions of college members to the risk assessment on a case-by-case basis.
- As part of this assessment, the college members may also identify emerging risks specific to the group that may have an impact on other financial institutions, or on the market liquidity or financial stability of the markets where the group is present.
- Stress-testing results of the group and material entities may be considered as part of the college's risk assessment. Colleges may consider whether to coordinate a stress-testing exercise across the banking group.
- The college should discuss the bank's forward-looking capital and liquidity plans under stressed conditions, as well as measures to ensure effective governance, in the context of relevant and credible management actions to ensure solvency in a stress event.
- A discussion of minimum capital adequacy and liquidity requirements (eg Pillar 1 approaches under the Basel capital framework) in home and host jurisdictions, possibly in coordination with the macroprudential authority where appropriate.

Model review and approval

In connection with model review and approval, the home and host supervisors may work together in the college to reach a view on use of internal models.[8] The high-level issues they would consider are:

- The allocation of tasks taking into account the organisation of the group as well as the type and characteristics of the models, to avoid duplication of work and unnecessary supervisory burden;
- The structure of any application forms and the details of the review and validation plan;
- Coordination and review of the supervisory action plan. The college may discuss the draft assessment prepared by the home supervisor; and
- Coordination and ongoing review of the model's compliance with requirements. College members may discuss the consequences of non-compliance with the requirements.

[8] Supervisors use a range of terminology to describe their model review, assessment and approval processes. Some supervisors do not validate models and adopt an approach where banks take primary responsibility for model validation. Other supervisors, however, regularly validate and approve banks' internal models. This example is intended to apply to model review, assessment and approval processes as commonly referred to in Basel Committee standards and guidance, irrespective of the varying terminology used across jurisdictions.

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.

Background

In the context of a banking group with multiple supervisors and banking operations in different jurisdictions, routine interaction between relevant supervisors and entities within the banking group will remain in place but the college structure may assist in enhancing the coordination of information requests and other work.

Implementation guidance

Information to be communicated to the banking group

The college should agree on the type of feedback and consistency of specific supervisory messages related to the college that should be communicated to the banking group (eg purpose and findings of the college, sharing/delegation of tasks agreed, planned supervisory activities, supervisory risk assessment findings, etc).

While the home supervisor should take responsibility for communication with the banking group and host supervisors should take responsibility for communication with the banking group's operations in their local jurisdictions, the messages should be as consistent as possible. However for specific issues, the college may agree on other channels of communication.

Sharing information with the banking group should be consistent with individual jurisdictions' legal requirements regarding confidentiality.

Information to be requested from the banking group

Information requests from the banking group in connection with the college should be coordinated by the home supervisor (eg a list of information should be established covering strategy, future business plans, etc) to avoid duplication.

For the purpose of ongoing supervision, it is likely that host supervisors will request information from the banking group's operations in host jurisdictions[9] and that the home supervisor will request information from the parent. In addition, host supervisors may require relevant information on the banking group as a whole that may have a significant impact on the banking operations in their jurisdiction. In the unlikely event that host supervisors are unable to obtain relevant information from local management, they should address information requests about the banking group to the home supervisor. Home supervisors will endeavour to accommodate information requests from host supervisors promptly, subject to the general principles of relevance, materiality and proportionality.[10]

[9] Home supervisors should ensure that banking groups empower local senior management to accommodate information requests from local supervisors.

[10] See *Home-host information-sharing for effective Basel II implementation*, 2006.

Participation of the banking group in college meetings

The banking group may be invited to attend some college meetings to provide forward-looking information on its strategy, risk appetite, risk profile and vulnerabilities, and financial outlook. Discussions between the banking group and the college may take place at different levels of seniority depending on the topics being discussed.

Principle 7: Crisis preparedness

Supervisory colleges and crisis management structures are distinct but complementary. The work of a banking group's supervisory college should contribute to effective crisis management planning.

Background

One of the lessons of the recent financial crisis was that work should be done in advance by supervisors and other relevant authorities to reduce the likelihood that a systemically important bank will fail, and to mitigate the potential systemic impact if such an institution were to fail. In this regard, one of the key developments in recent years has been the establishment of crisis management groups (CMGs) that address issues related to recovery and resolution planning at G-SIBs and, in some cases, at D-SIBs.[11]

In principle, the supervisory college is primarily responsible for supervisory information-sharing and cooperation among supervisors with regard to a banking group when it is operating as a going concern, and the CMG is responsible for managing supervisory relationships when a banking group's condition deteriorates to the extent that it may reach a point of non-viability. As a practical matter, however, while the roles and responsibilities of supervisory colleges and CMGs are relatively well defined, the point at which the home supervisor determines that responsibility should shift from the supervisory college to the CMG is not necessarily clear. This timing will likely depend on the relevant facts and circumstances of a banking group's condition. As a result, both colleges and CMGs have a key role to play in crisis preparedness, which broadly includes any steps taken to limit the risk of significant problems at a banking group and to facilitate rapid action by supervisors, other relevant authorities and the bank in the event that such problems arise.

Effective crisis preparedness requires several key elements, including for example the development of viable recovery and resolution plans that identify systemically important operations and provide a clear understanding of the banking group's legal entity and operating structure. In many instances this will be the primary responsibility of the CMG, although the supervisory college still has an important role to play in ensuring effective crisis preparedness.[12] In particular, consistent with the other principles set out in this document, timely and frequent communication among supervisors about a

[11] In October 2011, the Financial Stability Board (FSB) published *Key attributes of effective resolution regimes for financial institutions* (the *Key Attributes*) which sets out 12 essential features of resolution regimes that are relevant for all jurisdictions. Two of them, Key Attributes 8 and 11, provide guidance for CMGs and recovery and resolution planning for G-SIFIs. The structure of CMGs, the extent to which they address both recovery and resolution planning or just the latter, and the terminology used to describe these groups vary somewhat across jurisdictions.

[12] In practice, while CMGs typically are responsible for coordinating with regard to resolution plans, responsibility for coordination with regard to recovery plans varies across jurisdictions and may be the responsibility of the CMG, the supervisory college, or a third body (eg a "resolution college").

banking group's condition, risks and vulnerabilities should facilitate effective crisis preparedness well in advance of any specific issues the institution may encounter.

Implementation guidance

For a G-SIB, or for a D-SIB where the relevant authorities have established a CMG, detailed crisis management planning will typically be undertaken in CMGs rather than in supervisory colleges, although supervisory colleges still have a role to play vis-à-vis CMGs (as discussed below).

For banking groups that are not G-SIBs or that have not otherwise established CMGs, supervisory colleges should provide a framework for the planning and coordination of supervisory activities in preparation for and during emergency situations. For such banking groups, colleges should develop a crisis preparedness plan which sets out the functions and priorities of home and host supervisors, as well other relevant authorities as appropriate (eg central banks, finance ministries, deposit guarantee schemes), in a crisis.

Colleges, as part of ongoing crisis preparedness planning and led by the home supervisor, should maintain a pre-defined set of information that is updated and distributed among supervisors periodically. For example, the home supervisor should maintain an emergency contact list that could be used to brief non-CMG supervisors who could be impacted in a crisis scenario. Moreover, colleges should maintain an up-to-date chart of the banking group's legal entity structure, which will be beneficial not only for crisis preparedness purposes, but also for ongoing supervision.

Communication and coordination in crisis preparedness

As noted above, where CMGs have been established, they should lead on the development, maintenance and assessment of resolution plans, and if applicable, recovery plans. Nevertheless, a broader group of supervisors, in particular those that are members of supervisory colleges, will be concerned with possible impacts to the banking group in an extreme stress or resolution scenario. The home supervisor should, in consultation with the home resolution authority (to the extent that the parties are different), provide updates to non-CMG supervisors who could be significantly impacted in a crisis situation. This communication should cover both the process that the CMG is taking to assess resolution and recovery plans and, to the extent possible, provide an overview of the key components of these plans.[13]

[13] The FSB may develop and issue guidance on cooperation and information-sharing with host jurisdictions that are not represented on CMGs and where a G-SIB has a systemic presence.

Appendix 1

EU colleges

EU competent authorities have developed a framework of cooperation that is legally binding for all supervisory authorities in the European Economic Area (EEA) and which has been recently revised with the adoption of a legislative package, a Directive and a Regulation[14] to strengthen the regulation of the banking sector. Both legal acts together form the legal framework governing banking activities, the supervisory framework and the prudential rules for credit institutions and investment firms. The Directive also addresses colleges of supervisors and mandates the European Banking Authority (EBA) to develop draft regulatory and implementing technical standards for their operational functioning by the end of 2014 (these standards build to a large extent on the EBA Guidelines for the Operational Functioning of Colleges published in June 2010). The EBA also developed an MoU template on the basis of the practical experience of EU colleges, which provides a framework for cooperation among supervisors within colleges and facilitates the effective working of supervisory colleges, and which has been widely used by the EU colleges.

The EU has extensive experience in multilateral cooperation and coordination in the supervision of EU cross-border banking groups. EU colleges therefore do not simply reflect local legal arrangements in one jurisdiction. EU cross-border banks are increasingly developing their businesses in significant non-EU jurisdictions, particularly in North America and Asia. Consequently, the EU framework has been designed to link non-EEA supervisors to EU colleges.

The potential input from non-EEA host supervisors to the consolidated supervision of international banking groups has to be considered carefully, particularly because centralised risk processes and procedures of international banking groups may implicitly cover both EEA and non-EEA jurisdictions. Also, non-EEA operations could be significant to the financial soundness of some EU cross-border banking groups. Consequently, the EU consolidating supervisor, subject to agreement of all EU competing authorities (who are college members) on the equivalence of confidentiality requirements, may consider:

- inviting non-EEA host supervisors of significant operations of an EU cross-border banking group into relevant activities of the college when a single college with multiple structures has been established; and
- consulting non-EEA host supervisors of significant operations of an EU cross-border banking group to agree their individual contributions to other activities of the college (including contributions towards reaching a joint decision on the approval of internal models and joint decisions on institution-specific prudential requirements – capital and liquidity under Pillar 2 of the Basel framework), taking into account their own prudential standards and EU requirements. This is the case even if non-EEA host supervisors are not bound by the outcome of the joint decision processes.

  In this context, the EU consolidating supervisor has to ensure that non-EEA supervisors contribute to the assessment of major risks and vulnerabilities within the banking group. It consults with non-EEA supervisors to determine whether a risk assessment of their relevant

[14] Directive 2013/36/EU and Regulation 575/2013.

entities can be shared within the college as additional input to the EU-joint risk assessment of the group. The draft implementing technical standards on joint decisions on institution-specific prudential requirements include specific provisions to encourage consolidating supervisors, EU competent authorities and non–EEA supervisors to discuss and determine the scope of involvement of non-EEA supervisors in the joint risk assessment and decision processes on Pillar 2 requirements.

Appendix 2

Essential elements of a statement of cooperation between banking supervisors

Following the recent development of principles on the effective functioning of supervisory colleges (*Good practice principles on supervisory colleges,* October 2010), the Basel Committee agreed that it would be useful to update a May 2001 statement of cooperation between banking supervisors (*Essential elements of a statement of cooperation between banking supervisors*).

Similar to the 2001 paper, this paper sets out the essential elements of a statement of mutual cooperation, such as contained in a Memorandum of Understanding (MoU) or similar arrangement, that can be used as a reference for establishing bilateral or multilateral relationships between banking supervisory authorities in different countries (and, where appropriate, between banking supervisors and other financial regulators). This paper is intended to provide a framework for mutual cooperation between supervisors, leaving sufficient discretion and flexibility for supervisors to add additional details and responsibilities, if they so wish and upon mutual agreement, when entering into bilateral or multilateral relationships. The Basel Committee encourages convergence towards this common framework, particularly for countries that are seeking to develop an institutional framework for supervisory cooperation or are in the process of doing so.

There are different ways in which the relationship between the two sets of supervisors can gain expression. Some prefer something akin to a legal document which is drafted by lawyers to provide protection to both parties, while others prefer a simpler and more flexible understanding that can be set out in an informal exchange of letters. The manner in which the understanding is framed will be a matter for the countries concerned. The essential elements of a statement of mutual cooperation, as set out below, can be included in either approach, but experience has shown that supervisors should take care that any statement does not become too prescriptive or they may find themselves constrained in their ability to communicate.

Basel Committee policy statements in recent years have encouraged countries to update privacy laws to facilitate consolidated supervision by home country supervisors, including the assessment of "know-your-customer" (KYC) principles.[15] Nevertheless, national laws in some countries, for example laws designed to protect the privacy interests of bank customers, may limit the transmission of information between supervisory authorities. Any statement of mutual cooperation along the lines proposed here cannot override such laws. In agreeing to a statement, each supervisor should inform the other of the existence of any legislative or administrative restrictions on information exchange, and if all relevant parties so wish, these caveats could be detailed in the statement.

It is important that there are no impediments to the flow of information from a cross-border establishment to its parent institution as necessary for risk management on a global basis, and for compiling consolidated reports to the home supervisor. Any significant impediments will mean that the parent institution is not able to conduct effective oversight of its consolidated operations or its own operations abroad, and should not be operating in that foreign jurisdiction.

[15] BCBS, *Core Principles Methodology – final document*, October 2006; BCBS, *Consolidated KYC Risk Management*, October 2004 (see paragraphs 21 and 25).

The Committee recognises that in certain circumstances, there will be significant costs associated with the provision of assistance, eg when a home supervisor requests a host supervisor to carry out specific investigatory and/or enforcement action. Parties to a statement of mutual cooperation may therefore wish to refer in the statement to the circumstances when cost-sharing arrangements might be applicable.

Essential elements of a statement of mutual cooperation

This note sets out the essential elements of a statement of mutual cooperation designed to establish arrangements for the sharing of information[16] between the supervisors of country[17] A and country B,[18] in order to facilitate the performance of their respective duties and to promote the safe and sound functioning of financial institutions[19] with cross-border establishments in their respective countries.

The supervisors in country A and country B should express, through these arrangements, their willingness to cooperate with each other on the basis of mutual trust and understanding in the supervision of cross-border establishments within their respective jurisdictions. A cross-border establishment is defined to include a branch, a subsidiary[20] or any other entity within the jurisdictions which gives rise to the need for consolidated supervision.

The supervisors in country A and country B should recognise the complementary character of their supervision of a cross-border establishment. Their statement should demonstrate their commitment to the principles of effective consolidated supervision and cooperation between banking supervisors, and to their respective responsibilities, as set out in the Basel Committee's Concordat and *Core principles for effective banking supervision*. In accordance with the Core Principles, each supervisor should assess the nature and extent of the supervision conducted by the other party, so as to determine the extent of reliance that can be placed on that supervision.

Sharing of information

Formal statements of mutual cooperation, such as contained in MoUs, outline procedures and provisions for the confidentiality, use and sharing of information. But these must be underpinned by trust and a network of relationships that are required for effective information-sharing, particularly where confidential information is concerned.

The statement of mutual cooperation should recognise that information needs to be shared between the relevant authorities in country A and country B in order to facilitate effective consolidated supervision of financial institutions operating across their national borders and solo supervision of group entities in the host jurisdiction. Information-sharing should include contact during the authorisation and licensing process, during supervision of ongoing activities and during the handling of problem institutions.

[16] In this document, information refers to both supervisory and enforcement information.

[17] In this document, country refers also to autonomous regions, dependent territories etc that have their own supervisory authorities.

[18] While the essential elements refer to the bilateral relationship of supervisors in country A and country B, it is evident that they may respectively apply to a multilateral relationship between a larger number of supervisors (such as in a universal college).

[19] Financial institutions may include only banks, or banks and other classes of financial institutions such as securities firms. The institutions to be covered by this statement should be agreed mutually, and stated clearly.

[20] However, it should be taken into account the characteristics and differences that may exist in the case of branches.

In connection with the authorisation process, and in accordance with the Core Principles:

(a) the host supervisor should notify the home supervisor, without delay, of applications for approval to establish offices or make acquisitions in the host jurisdiction;

(b) upon request, the home supervisor should inform the host supervisor whether the applicant bank is in substantial compliance with banking laws and regulations and whether the bank may be expected, given its administrative structure and internal controls, to manage the cross-border establishment in an orderly manner. The home supervisor should also, upon request, assist the host supervisor by verifying or supplementing any information submitted by the applicant bank;

(c) the home supervisor should inform the host supervisor about the nature of its regulatory system and the extent to which it will conduct consolidated supervision over the applicant bank. Similarly, the host supervisor should indicate the scope of its supervision and indicate any specific features that might give rise to the need for special arrangements; and

(d) to the extent permitted by law or relevant supervisory responsibility, the home and host supervisors should share information on the fitness and properness of prospective directors, managers and relevant shareholders of a cross-border establishment.

In connection with the ongoing supervision of cross-border establishments under their respective jurisdictions, the two supervisors should:

(a) provide relevant information to their counterpart regarding material developments or supervisory concerns in respect of the operations of a cross-border establishment;

(b) respond to requests for information on their respective national regulatory systems and inform each other about major changes, in particular those which have a significant bearing on the activities of cross-border establishments;

(c) notify their counterpart of material administrative penalties imposed, or other formal enforcement action taken, against a cross-border establishment, with such notification to be made in advance of the enforcement action insofar as is practicable and subject to applicable laws; and

(d) facilitate the transmission of any other relevant information that might be required to assist with the supervisory process.

Supervisors should, to the extent permissible under national laws or relevant supervisory responsibility, consider how to exchange information regarding money laundering, terrorist financing, unauthorised banking business, and other criminal financial activities.

Requests for information should normally be made in writing. However, where the supervisory authorities perceive a need for expedited action, requests may be initiated in any form but should be confirmed subsequently in writing.

On-site inspections

The statement should recognise that cooperation is particularly useful to the supervisors of country A and country B in assisting each other in carrying out on-site inspections of cross-border establishments in the host country. Prior to deciding whether an on-site inspection is necessary, the home supervisor should review any relevant examination or other supervisory reports prepared by host supervisors. The home supervisor should notify the host supervisor of plans to examine a cross-border establishment or to appoint a third party to conduct an inspection on its behalf, and should indicate the purposes and scope of the inspection. The host supervisor should allow the home supervisor or its delegated agent to conduct on-site inspections. As may be mutually agreed between the parties, inspections may be carried out by the home supervisor alone, or accompanied by the host supervisor. Following the inspection, an exchange of views should take place between the team involved in the inspection and the host supervisor.

Confidentiality of information

The statement should recognise that mutual trust between supervisory authorities can only be achieved if information can flow with confidence in both directions. The supervisor receiving information must provide assurance that all possible steps will be taken to preserve the confidentiality of the information received. In this regard, employees of supervisory authorities should be bound to hold confidential all information obtained in the course of their duties. Any confidential information received from the other supervisor should be used exclusively for lawful supervisory purposes.

A supervisor in one jurisdiction that has received confidential information from a supervisor in another jurisdiction may subsequently receive a request for that information from a third party, including a third-party supervisory authority, which has a legitimate common interest in the matter. Prior to passing information to the third party, the recipient should consult with and seek agreement from the supervisor that originated the information, who may attach conditions to the release of information, including whether the intended additional recipient is or can be bound to hold the information confidential.

In the event that a supervisor is legally compelled to disclose to a third party, including a third-party supervisory authority, information that has been provided in accordance with a statement of mutual cooperation, this supervisor should promptly notify the supervisor that originated the information, indicating what information it is compelled to release and the circumstances surrounding its release. If so required by the originating supervisor, the supervisor will use its best endeavours to preserve the confidentiality of the information to the extent permitted by law. Supervisors should inform their counterparts of the circumstances in which they may be subject to legal compulsion to release information obtained.

Ongoing coordination

The statement should recognise that visits for information purposes and exchanges of staff may promote cooperation between supervisors in country A and country B. In addition, the supervisors in the two countries should consider whether the training of staff at either agency would benefit from input and support by the other agency in order to reinforce sound banking supervisory practices in both countries.

The supervisors of country A and country B should conduct meetings as often as appropriate to discuss issues concerning banks with cross-border establishments in the respective countries. Such information-sharing can be part of wider bilateral or multilateral arrangements between supervisors, such as an ongoing college process, which has evolved to become an important component of effective supervisory oversight of a cross-border establishment.

Annex

Principles for establishing statements of cooperation for the sharing of confidential supervisory information

- Statements of cooperation are not necessarily legally binding but act as a promise of intent.
- Statements of cooperation represent a shared understanding of a process by which information flows can be enabled and cross-border supervisory cooperation can be facilitated.
- Statements of cooperation can be specifically tailored to detail, for example, actions to be taken in crises or with respect to supervision arrangements for specific firms.
- Supervisory statements of cooperation must meet appropriate criteria for maintaining standards, protecting confidential information and using supervisory resources efficiently. These criteria include:
  - Materiality: Refers to the existence or expectation of reasonable and/or sufficient cross-border business;
  - Equivalence: Refers to one counterparty's legal treatment of information meeting confidentiality requirements equivalent to those imposed in the other counterpart jurisdiction; and
  - Reliability: Refers to an assessment of the counterparty's ability in practice to protect and share information, such as judicial and political credibility and regulatory track record.