Dubai Financial
Services Authority

Level 13, The Gate
P.O. Box 75850, Dubai, UAE.
Tel: +971 (0)4 362 1500
Fax: +971 (0)4 362 0801
Email: info@dfsa.ae

17 April 2014

Via Email: baselcommittee@bis.org

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Basel Committee Secretariat

We are pleased to submit our comments to the Basel Committee's Consultative Document on *"Revised good practice for supervisory colleges"*. We agree with the focus of the Committee's work and integrating lessons learnt since the initial guidance was issued in October 2010.

General Comment

We believe that each of the major financial sector standard setters has inserted language in their core principles documents referring to supervisory colleges, and each of the standard setters has been asked to develop a list of institutions with systemic importance. Indeed, we have also already seen the commencement of several new supervisory colleges for insurance companies. Given these developments, we would encourage a certain level of coordination with the other standard setters in this area, as we believe the underlying principles and good practices should be the same.

Principle 1 – Objectives

We support the view that a key element for an effective college relates to the collaboration and information sharing of many international regulators, facilitating a common understanding of systemically important institutions.

On the basis of our positive experience, we endorse the key assertion that the functioning of supervisory colleges as well as information sharing should be on an ongoing basis and not restricted to occasional physical meetings. While noting that the scope and complexity of colleges will vary, we are of the view that the flow of information both from home-to-host and host-to-home should be of a continuous nature. We have concerns that limiting interaction to annual or occasional meetings neither facilitates building trust between members nor creates an effective environment for open information sharing and ongoing collaboration.

Principle 2 – Structures

We agree, in principle, with the need to strike a balance between core college effectiveness and host involvement and that membership selection should focus on this critical aspect. In practice, we have observed that level and intensity of engagement with the college has been varied across different host supervisors, ranging from perfunctory presence to heavy involvement and engagement. Host supervisors who do not display the required level of interest often detract from

the effective functioning of the college. In this light, home supervisors should be encouraged to consider the demonstrated interest and commitment from the host supervisors as a key factor in deciding on the inclusion of members, more so in the case of membership selection for core colleges or crisis preparedness groups. It is useful to consider a key element outlined in the paper – whether the host supervisor has a shared interest in the effective supervisory oversight of the banking group.

We have noted your example for determining the college membership by considering 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). It would, however, be important to underline that this is just an example and not a threshold condition for selection of college members, as that would result in a problematic outcomes in many cases. A large branch of an international bank can be material enough for the host supervisor to evince interest to be a member of the bank's supervisory college without formally considering the international branch as a D-SIB.

In a similar vein, for determining the membership for a supervisory college, the materiality and significance of host country operations should not be solely assessed on the basis of quantitative parameters like market share but should rather look at qualitative factors as well. In particular, this should include the presence of mind and material management governing significant parts of the banking group, for example, regional management hubs or centralised risk management functions.

We also agree with the importance of periodically reviewing the structure and membership of colleges to assess whether the structure is optimal and their relevance to the objectives. We agree with the view 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.

Principle 3 – Information sharing

We are of the view that this principle can be strengthened to require home regulators to share ongoing supervisory or regulatory actions with host jurisdictions and vice versa. The core benefit of this principle is the ability to operate on a collective basis ensuring that risks or regulatory issues in one jurisdiction do not also crystallise in another, or that risk issues do not have a contagious effect to other entities within the group leading to an overall destabilising effect.

Such instances can materialise from within the bank but also from material regulatory action or sanctions imposed on a group by one jurisdiction. In the absence of coordination and information sharing such instances may have serious negative effects on an institution, both at a host level but also at a Group level. For information exchange to be effective in this manner, college members should endeavour to notify all college members of significant regulatory actions before being released in the public domain. We have observed practical instances of supervisory college members failing to share with the rest of the college information about material regulatory actions, which consequently impaired the effective functioning of the college concerned.

Principle 4 – Communication channels

Similar to our observations on Principle 1 above, we are of the view that communication channels should be open on an ongoing basis. There should be a formalised communication channel to facilitate the ongoing sharing of issues.

Dubai Financial Services Authority

Principle 5 – Collaborative work

We strongly support a collaborative approach to planning and execution of supervisory activities. We are of the view that joint work regarding host entities can make a strong contribution to understanding and efficiency of supervisory work. This can have benefits for both home and host supervisors together with benefits from a consistent approach to supervision for institutions. We also suggest that an element of a supervisory college is to share a group-wide supervisory approach on an annual basis. This should include a minimum set of risk factors to be assessed by college members with results fed back for discussion, and coordinated and collective action at Group level

Principle 6 – Interaction with the institution

Similar to our view on Principle 5, proposals for supervisory activity and material findings from supervisory activity should be shared with the institution at home level but also with other host supervisors. This would ensure clarity of approach and reduce abilities of institutions to engage in regulatory arbitrage.

Principle 7 – Crisis preparedness

We are of the view that some elements of the principle can be enhanced to require greater formalisation. At the point of crisis the effective operation of a crisis management group (CMG) and execution of the resolution plan must be certain, without any risk of jurisdictional preference being exerted. For this reason we are of the view that members of CMG should be mandated to act in accordance with the home supervisor and written confirmation of same should be provided.

Yours faithfully,

Mr. Bryan Stirewalt
Managing Director
Supervision