Principles
for
Supervisory Information
Sharing
paper

Principles for Supervisory Information Sharing

Objective

1. To provide to supervisors involved in the oversight of regulated financial institutions residing in financial conglomerates guiding principles with respect to supervisory information sharing, to build on and enhance existing information sharing arrangements, particularly cross sectorally.

Background

2. Technological innovation, the liberalisation of national financial markets and the removal of legal and trade barriers between countries have encouraged the development of diversified financial conglomerates with complex management and corporate structures. In addition, many conglomerates are organised along global business lines and still more manage some or all of their major risks across the various entities within the group, in a manner that cuts across legal entity lines.

3. The rapid evolution of such diversified financial conglomerates which offer a comprehensive range of financial services, including banking, securities and insurance services, on a global basis presents significant challenges to both the management of these firms and the supervisors with responsibility for the regulated entities within the conglomerate. The broad span of activities and locations alone create the need to understand the relationships among the legal entities within the structure and the potential for adverse developments in one part of the conglomerate to affect the operation of other parts.

4. The fields of responsibilities of supervisory authorities, by contrast, are determined by national legislation. They vary significantly in terms of their mandates and approaches.

5. As a result, the supervisory structure often does not align with the organisation of the business and risk management structure of the conglomerate. This has implications for the effective oversight of diversified financial conglomerates, underscores the importance of communication between supervisors and further requires the development of cooperative links between them.

6. Information exchanges intra sector are facilitated through protocols entered into at different times. For example, the Basle Committee's *Minimum Standards for the Supervision of International Banking Groups and their Cross-border Establishments* (July 1992) as

supplemented by a *Report on the Supervision of Cross-border Banking* (October 1996) established a framework for the exchange of information between supervisors. Likewise, IOSCO's *Principles for Memoranda of Understanding* (1991) established a framework for facilitating comprehensive information sharing between securities supervisors and has encouraged the development of numerous such arrangements. The IAIS "Insurance Concordat" - *Principles applicable to the Supervision of International Insurers and Insurance Groups and their Cross-border Establishments* provides the basis for intra-sectoral cooperation. Also, numerous bilateral arrangements exist amongst supervisors providing for the flow of general and specific supervisory information, in some cases in respect of individual financial conglomerates.

7. These protocols and arrangements in large part determine a common set of principles with respect to information sharing among supervisors. This paper adapts and summarises basic principles drawn from those protocols and arrangements and applies them to communication among the broad community of supervisors of financial conglomerates, both within and between sectors. It should be noted that such principles can only be fully effective when virtually all legal and procedural impediments to appropriate supervisory information sharing have been removed.

8. In this regard, in May 1998 the G-7 Finance Ministers released the Ten Key Principles on Information Sharing which setout, among other things, a policy framework for legislative regimes facilitating information sharing among supervisors. The Joint Forum welcomes the Ten Key Principles and notes that:

- they complement the principles set out in this paper; and
- their implementation is substantially a matter for relevant legislative authorities.

The Ten Key Principles were published in the report entitled *Financial Stability - Supervision of Global Financial Institutions* and are set out in full in Annex 1 to this paper.

Guiding principles

9. The informational needs of supervisors vary considerably depending on several factors relating to the objectives and approaches of supervisors themselves and to the organisation and structures of the financial conglomerates. The principles set out below are intended to assist supervisors in enhancing information sharing arrangements that will contribute to a more effective supervisory framework for financial conglomerates. For the purposes of this paper, the primary supervisor is generally considered to be the supervisor of the parent or the dominant regulated entity in the conglomerate, for example, in terms of balance sheet assets, revenues or solvency requirements. Where the identity of the primary supervisor is not clear,

the relevant supervisors should work cooperatively to identify, on a case by case basis, an appropriate information sharing structure.

1. Sufficient information should be available to each supervisor, reflecting the legal and regulatory regime and the supervisor's objectives and approaches, to effectively supervise the regulated entities residing within the conglomerate.

10. Financial conglomerates take a wide variety of structures reflecting historical, tax and regulatory considerations. Conglomerates' choices about the organisation of business activities and corporate control functions also reflect their efforts to operate more efficiently and to control risk more effectively. Some conglomerates operate in a manner consistent with their corporate legal structure, that is, business activities and legal entities are aligned. In other conglomerates, there is divergence of the corporate legal structure and the business activities structure. These latter structures have been driven largely by the increasing complexity of the financial services business, the wide dispersion of operations over product and geographic markets, and advances in risk management and information technologies. In some cases, conglomerates have organised their corporate control functions on a global or centralised basis, and that is especially true in firms that manage their activities along global lines. The different structures have implications for the types of information supervisors need to access and for supervisory information sharing between supervisors.

11. Supervisors need key descriptive information about the conglomerate: its organisational structure, management, financial condition, strategy and principal risks, and the main features of its policies, procedures and information systems for managing and controlling risk. This information may be included in organisation charts, financial statements, capital, liquidity and risk profiles, policy manuals and other written material.

12. The extent to which individual supervisors will need some or all of this information will depend not only on their supervisory objectives and the entity(ies) they supervise but on two important dimensions of the conglomerate's structure: the organisation of its business activities and the organisation of its corporate control functions, e.g. its risk measurement, monitoring and control systems (including internal and external audit, financial control, compliance, human resources, and information technology).

13. One way to facilitate supervisors' ability to enhance their understanding of the financial conglomerate and to obtain common knowledge of its strategies, organisation and management systems is through conducting a mapping exercise such as that carried out by a Task Force created by the Joint Forum to examine several large international conglomerates. There are other effective means of gaining similar insights into the structure and operations of

conglomerates. Communicating meaningful information regarding a conglomerate's organisational structure, corporate governance and management oversight, its risk management processes and its control environment, whether obtained from carrying out a mapping exercise or from ongoing supervision, a combination of the two or another method, is essential to information sharing.

14. Information needs of the various supervisors involved in a conglomerate will vary. The primary supervisor is likely to have both the need for and access to the widest range of information. Other supervisors may often not need to have access to extensive information, or may not have the resources to assess extensive amounts of information, and may seek additional information or verification of information from the primary supervisor. Supervisors with responsibility for only a minor portion of the financial conglomerate may need lesser amounts of information and may have more interest in the assessment carried out by the primary supervisor.

15. Financial conglomerates are encouraged to maintain contact and dialogues with all their supervisors, with a view to identifying efficient ways of providing to supervisors relevant information with respect to the corporate legal structure, the business activities structure, the management structure, and the organisation of corporate control functions, and the internal controls structure to assist supervisors in their oversight efforts.

2. Supervisors should be proactive in raising material issues and concerns with other supervisors. Supervisors should respond in a timely and satisfactory manner when such issues and concerns are raised with them.

16. Bilateral and multilateral information sharing arrangements between supervisors, including arrangements relating to individual conglomerates, are useful to supervisors' oversight and can be important where there are particular issues or concerns. However, the existence of information sharing mechanisms will not necessarily satisfy all supervisors' needs without the willingness of supervisors to bring forward material issues of interest or of concern to relevant supervisors and, as appropriate, the conglomerate itself.

17. It must be recognised that there are practical limits as to the amount of information which may impact an entity under their supervision that supervisors can efficiently and effectively receive and assess on all aspects of financial conglomerates. Among the information they could receive, supervisors particularly value the judgements of other supervisors and relevant information about the conglomerate when it is adverse, unusual or out-of-the-ordinary.

18. In order to avoid the flow of large amounts of extraneous information, it is important for supervisors to reach an understanding, on a bilateral or multilateral basis, that such adverse or out-of-the-ordinary information will be communicated to relevant supervisors. Supervisors that become aware of out-of-the-ordinary developments in carrying out their oversight responsibilities should initiate contact with and inform other relevant supervisors. It is especially important for supervisors to have the ability to contact other supervisors with

requests for specific information on material issues that are of concern and to receive a response in a timely and satisfactory manner.

19. Financial conglomerates are encouraged to provide to relevant supervisors, including the primary supervisor, information regarding unusual or out-of-the-ordinary developments and to initiate a dialogue, in this respect, with all their relevant supervisors.

3. Supervisors should communicate emerging issues and developments of a material and potentially adverse nature, including supervisory actions and potential supervisory actions, to the primary supervisor in a timely manner.

20. Generally, supervisors should readily communicate with the primary supervisor about material emerging issues and adverse developments in the entities for which they have supervisory responsibility, as well as any other information that they consider appropriate. This information should include supervisory actions an individual supervisor is taking or considering in order to address a supervisory concern in its jurisdiction. Such communications enhance the ability of the primary supervisor in identifying trends and developing issues in the conglomerate and recognise that the solution to problems, particularly as they relate to solvency, will likely involve the parent or dominant entity and the primary supervisor.

21. Supervisors should be mindful, in assessing whether issues or concerns or other information coming to their attention warrant communication to the primary supervisor, that the primary supervisor is often best placed to assemble disparate pieces of information that could be of themselves be considered less significant and to discern a material adverse trend or emerging concern.

22. There may be instances where supervisors may hesitate to alert the primary supervisor of emerging issues with respect to entities for which they have responsibility, for example, where the supervisor believes that actions by the parent or dominant entity or its supervisor could undermine an imminent resolution of a local situation. However, the building of relationships and experience gained from more frequent contacts between supervisors should foster a climate of cooperation and trust which can help dispel this reluctance to bring forward issues of concern.

4. The primary supervisor should share with other relevant supervisors information affecting the regulated entity for which the latter have responsibility, including supervisory actions and potential supervisory actions, except in unusual circumstances when supervisory considerations dictate otherwise.

23. The primary supervisor should be forthcoming in communicating with other relevant supervisors information that could assist them in their supervisory activities. That information might include the nature and scope of: (1) control functions relevant to the supervisor's regulated entity falling outside its jurisdiction, (2) business activities and control functions in areas where risk appears to be growing rapidly, (3) problems identified in the organisational structure, control environment, or business practices that might be present elsewhere, and (4) planned supervisory activity with respect to relevant parts of the conglomerate. The primary supervisor should also, where possible, communicate with other relevant supervisors where supervisory actions are being undertaken which could have a significant impact on entities for which such supervisors have responsibility.

24. However, it is recognised that in an emerging or full-fledged crisis there can be tension between a primary supervisor's desire to share prudential information with other supervisors and concerns about maintaining the stability of the entity for which it has supervisory responsibility and of the conglomerate as a whole. Concerns might arise that other supervisors may take or be required to take measures that could be counterproductive to the primary supervisor's efforts to resolve the situation. Increasing exchanges between the primary and other supervisors and enhanced mutual understanding should encourage greater openness and reduce the primary supervisor's hesitations in keeping other supervisors informed in such situations.

5. Supervisors should purposefully take measures to establish and maintain contact with other supervisors and to establish a climate of cooperation and trust amongst themselves.

25. The meaningful application of the preceding principles requires a foundation of strong, cooperative relationships among supervisors. To that end, it is important that contacts between supervisors be established to create the climate of cooperation and trust that is essential for channels of communication to function well on an ongoing basis.

26. A strong level of cooperation and trust needs to be supported through ongoing contact between supervisors. Face to face meetings to establish personal contact can be very useful in

establishing trust and enhancing communication. Discussion by supervisors of general matters such as supervisory approaches or industry developments and of more specific subjects as warranted improves mutual understanding between supervisors and builds trust. Supervisors should strive for a good mutual understanding of each others' objectives and approaches. The use of the Supervisory Questionnaire is a good way for supervisors to enhance their understanding of supervisory objectives and approaches.

27. Key elements to building trust are supervisors' participation in regional and international meetings and the development of bilateral and multilateral relationships between supervisors. Memoranda of Understanding between supervisors or other appropriate arrangements can contribute to enhancing supervisors' willingness to share information. Supervisors responsible for the oversight of entities in internationally active financial conglomerates should incorporate into existing information sharing arrangements a process for identifying among themselves relevant supervisory personnel involved.