Basel Committee
on Banking Supervision

Progress report on the implementation of principles for effective supervisory colleges

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BANK FOR INTERNATIONAL SETTLEMENTS

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1. Introduction and executive summary

Supervisory colleges play a valuable role in the supervision of internationally active banks by helping their members to develop a more comprehensive understanding of a banking group's risk profile globally and they provide a framework for addressing topics that are relevant to the group's supervision. Home and host supervisors are responsible for assessing the bank's risks in their respective jurisdictions, while activities organised in the supervisory colleges serve as important contributions to these assessments.

Although they started out as a tool for addressing cross-border supervisory coordination issues related to Basel implementation, supervisory colleges now serve the broader objectives of supervisory cooperation and coordination. Given the evolution in the use and functioning of colleges, they will continue to play a key role in fostering international cooperation among supervisors to promote effective supervision of cross-border banking groups.

The college principles and monitoring their implementation

The Basel Committee set up the Colleges Working Group (CWG) in September 2009, under the oversight of the Supervision and Implementation Group (SIG), to share experiences regarding the establishment and functioning of supervisory colleges and, in turn, to develop guidance for supervisors in implementing sound practices. The CWG has been monitoring the adoption and implementation of the ***Principles for Effective Supervisory Colleges***.[1] Published in July 2015,[2] its previous progress report monitored progress against the principles and highlighted challenges faced by supervisors in running effective supervisory colleges as well as the practical approaches taken to address them.

Based on the 2015 Progress Report, the CWG identified three home-host related challenges that could benefit from deeper discussion and exchange of sound practices among BCBS member jurisdictions, namely **(i) Information-sharing (Principle 3), (ii) Coordinated risk assessment (Principle 5),** and **(iii) Crisis preparedness (Principle 7)**. To obtain a better understanding of the state of supervisory colleges in relation to these topics, the CWG has solicited information and suggestions from member jurisdictions via detailed surveys and analysed the survey outcomes.

Executive summary

Overall, the survey findings (Section 2) were positive regarding the implementation of the aforementioned principles. Respondents saw clear progress towards enhanced information-sharing as well as in coordinated risk assessment activities in supervisory colleges. In addition, in the last few years, there has been progress in colleges' contribution to crisis preparedness, and crisis management groups (CMGs) are the primary forum for information-sharing on crisis preparedness discussions.

However, supervisors continue to face challenges relating to college activities (Section 3). These include legal constraints on information-sharing, absence of formal protocols among different crisis preparedness forums, resource constraints and expectation gaps between home and host supervisors. To overcome these challenges, the CWG has identified a set of sound practices (Section 4) that includes placing emphasis on the work between (or outside) formal college meetings and encouraging home and host supervisors to reach out to each other to clarify expectations.

[1] Available at www.bis.org/publ/bcbs287.htm.

[2] Available at www.bis.org/bcbs/publ/d329.htm.

2. Key findings

2.1 Information-sharing (Principle 3)

The survey results indicated that there has been clear progress towards enhanced information-sharing, interaction and communication amongst supervisory college members. Specifically, respondents indicated that since 2015 information-sharing has continued to improve. Supervisory colleges are viewed as informative and the volume and relevance of information shared is generally considered to be appropriate. Unsurprisingly, home jurisdictions reported more instances of "strongly agree" to questions on the volume and types of information-sharing, while host jurisdictions more frequently rated "agree" when answering the same survey questions. An area of ongoing attention is for host jurisdictions to better understand the conditions under which they are accepted as college members.

The degree and types of information shared vary according to the type of interaction and membership within the supervisory college structure. Members of core colleges receive the greatest amount of information, followed by regional or European Union (EU) colleges and, lastly, universal colleges. In all instances, details on overall governance and internal control structures are discussed, with reports on capital, liquidity and key financials shared to varying degrees. In general, respondents pointed out that information on remuneration practices is not widely shared within supervisory college environments while the detailed supervisory and enterprise risk assessments prepared by home supervisors are generally discussed at core colleges and to a lesser extent in other forums.

2.2 Coordinated risk assessment (Principle 5)

Organisation and approaches

Based on the survey results, the vast majority of home supervisors reported that some form of coordinated risk assessment is performed in supervisory colleges. The format of this assessment ranges from discussions and/or presentations at college meetings on specific risk issues, joint reviews, to formal assessments, such as a Joint Risk Assessment and Decision (JRAD) or Supervisory Review and Evaluation Process (SREP) as conducted in the EU.

An example of coordinated risk assessment activity is where the home supervisor shares its assessment of the banking group's risk profile, invites each college member to do the same for the entity under their supervision, and adjusts the assessment where necessary. Some supervisors go beyond discussions to conducting joint reviews of the bank (both on- and off-site).

Survey respondents reported various approaches for the development of coordinated risk assessments. Contributions by college members to the coordinated risk assessments are generated through formal and informal means. While EU jurisdictions use a common template prescribed by the European Banking Authority (EBA) for the development of a JRAD, other jurisdictions take a less formal approach with a focus on sharing perspectives on key risks and themes.

Irrespective of the form in which the information is gathered, host supervisors' assessments are compiled and incorporated into the group-wide risk assessment. In some instances, host supervisors' views are incorporated into the home supervisor's supervisory planning process, or formal risk assessment narratives may be compiled and form an important input for the JRAD in the case of the EU. Home supervisors reported that they benefit from the inputs of host supervisors.

An important benefit of coordinated risk assessments is that local contributions to the group perspective allow for home supervisors to develop a view on how group policies are implemented at local levels, which improves the quality of the supervisory assessment of the banking group as a whole. This is true across all types of coordinated risk assessment. Respondents also indicated that bilateral discussions on risk assessments and joint reviews conducted with individual college members, throughout the supervisory cycle and under formal memoranda of understanding (MoUs), are useful and effective.

Content

Most supervisors reported that coordinated risk assessments incorporate elements of time – forwards-looking or backwards-looking – into their assessments. Nearly all of the respondents indicated that they consider multiple risk categories[3] in every coordinated risk assessment that they undertake.

Assessments are often informed by outcomes from other supervisory activities. More than half of the supervisors surveyed use both quantitative and qualitative information in their coordinated risk assessments. Quantitative information includes SREP, Internal Capital Adequacy Assessment (ICAAP), stress tests and analysis of regulatory returns. Qualitative information consists of discussions of key risks and vulnerabilities, and a joint analysis of qualitative features of the institution's current business model to understand its key performance issues or dependencies.

Outcome

Most supervisors reported that colleges help foster a clear understanding of the risk management framework and its effectiveness within a banking group. Through the coordinated risk assessment process, supervisors received valuable information on the planned supervisory strategy (and actions) of fellow supervisors and on the risk profile of the banking group, both of which could influence the supervisor's activities.

Generally, the final outcome of a coordinated risk assessment is discussed in a supervisory college. The outcome of the coordinated risk assessment enhances the follow-up actions taken in several ways. Most supervisors carry out subsequent supervisory activities jointly or unilaterally. The identification of opportunities for collaboration, such as joint inspections – as a form of coordinated risk assessment – is considered to be another meaningful outcome for both home and host supervisors.

2.3 Crisis preparedness (Principle 7)

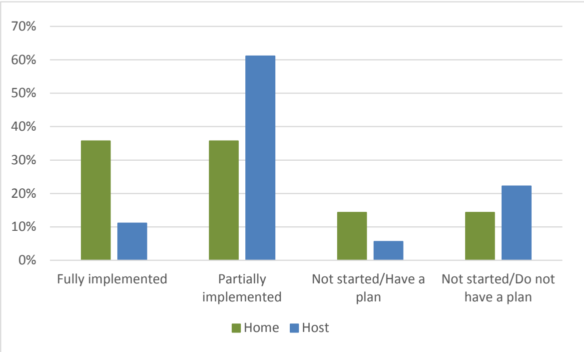
Both home and host supervisors reported that there has been progress in colleges' contribution to crisis preparedness in the last five years. Also, the majority of both home and host supervisors felt that the supervisory colleges that they organised or attended have either fully or partially implemented Principle 7 (Graph 1.1). Overall, home supervisors felt more positive about crisis preparedness in colleges than host supervisors.

[3] These include: credit and counterparty risk (including concentration risk); market risk; operational risk; liquidity risk; business model and profitability risk; internal governance; quality of management; quality of control functions; quality of risk management; capital assessment; liquidity assessment; and other risks. Some "other" risks noted include settlement and delivery risk, risk of excessive leverage, and interest rate risk in the banking book.

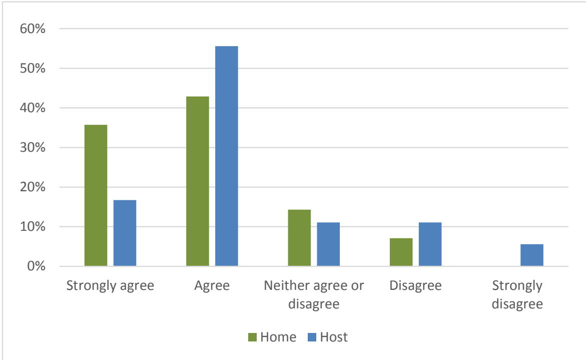
Implementation of Principle 7

At the country level, by percentage of respondents — Graph 1.1

Implementation status



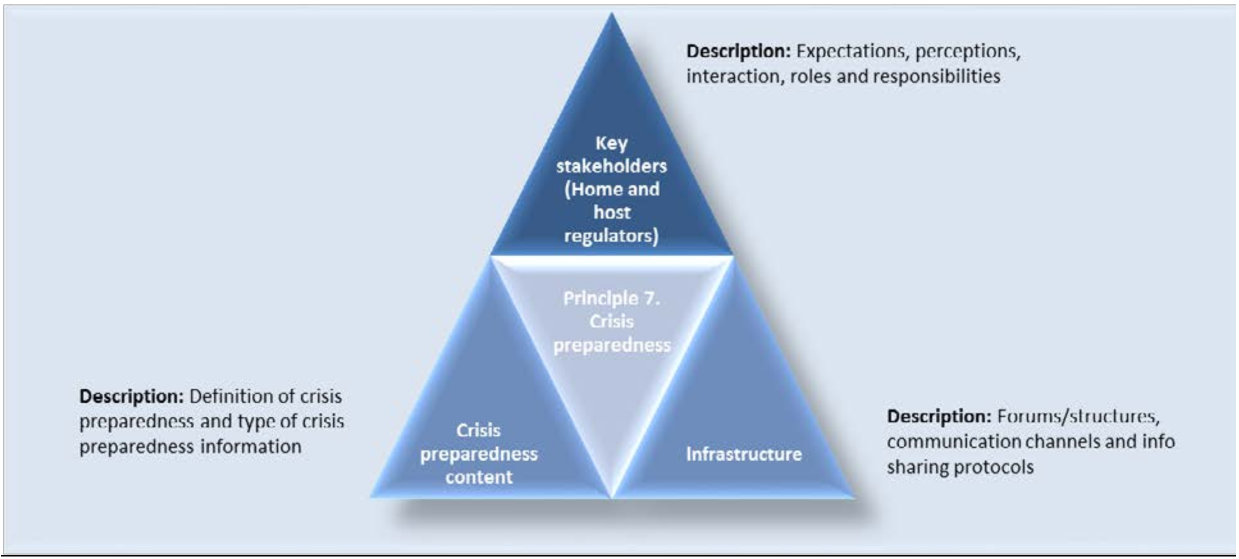
Progress made over last five years



The range of current practices could be summarised with reference to three implementation pillars: the infrastructure for supervisory communication and cooperation; crisis preparedness content; and key stakeholders (Picture 1.1).

Crisis preparedness: implementation pillars

Picture 1.1



Infrastructure for supervisory communication and cooperation

CMGs have been established in many jurisdictions to improve cross-border understanding of supervisors' crisis preparedness plans and practices for global or domestic systemically important banks (G-SIBs/D-SIBs). As a result, many home supervisors manage multiple forums, such as various supervisory colleges, CMGs and crisis management outreach programmes.

Whether or not a jurisdiction organised CMGs was a strong differentiating characteristic in how comfortable respondents felt about supervisory coordination and information-sharing on crisis preparedness topics. Where in place, CMGs are the primary forum for information-sharing on crisis preparedness, with home supervisors in particular highlighting the use of this structure. In addition to CMGs, the number of crisis management outreach programmes that focus on non-CMG member jurisdictions is increasing. Jurisdictions that organise both supervisory colleges and CMGs showed the most progress in implementing Principle 7.

Crisis preparedness content

By covering a range of crisis preparedness topics, home and host supervisors can contribute to effective crisis preparedness and assist with timely communication about a banking group's condition, risks and vulnerabilities. The breadth and depth of the coverage requires flexibility and depends on the jurisdictional circumstances, such as the availability of different forums, information-sharing agreements between college participants, regional requirements, supervisory priorities, and participant mix (eg attendance overlap) in the various forums.

Table 1.1 summarises three categories of crisis preparedness information and lists specific topics and the top three forums in which home supervisors cover crisis preparedness information. Rank "1" represents the forum reported by the most number of home supervisors to discuss the crisis preparedness topic; rank "2" represents the second most-used, and rank "3" represents the third most-used forum. The table shows that crisis preparedness topics are most frequently discussed in CMGs among the various college forums.

Crisis preparedness topics and top three forums where crisis preparedness information is discussed

At the country level

Table 1.1

Type of information	Topic	CMGs	Supervisory college (core)	Supervisory college (universal)	Resolution college
Home jurisdiction's recovery and resolution regime	Recovery planning regime and powers	1	2	3	
	Resolution planning regime and powers	1	2		2
	Responsibilities of home and host jurisdictions during a crisis	1	2	2	
Relevant parties in a crisis	Crisis contact list of authorities	1	2	3	
	Firm organisational chart/management crisis contact list	1	2	3	3
Contingency, crisis or recovery and resolution plan (RRP) information about firm	Operating structure	2	1	3	
	Recovery plans	1	1	3	
	Capital contingency plan and TLAC	1	2	3	
	Critical functions	1	2	3	
	Financial and operational interdependencies	1	2	3	
	Operational and continuity issues during crisis or resolution	1	2	3	
	Liquidity and funding contingency arrangements	1	2	3	
	Resolution plan	1		2	2
	Resolvability assessment	1		3	2

Note: The CWG developed a list of crisis preparedness topics, categorised into three types of information (see columns 1 and 2). Home supervisors were asked to indicate where each topic was shared/discussed based on home supervisors' current practices. The ranking in the table reflects the top three forums in which home supervisors indicated they currently share/discuss each topic.

Key stakeholders

Both home and host supervisors believe that colleges could play a useful role in crisis preparedness. The majority of host supervisors indicated that they receive useful crisis preparedness information at colleges, and that they, in return, have useful information to share. The majority of host supervisors stated that the division of tasks and responsibilities between supervisory colleges and other crisis management forums is clear to them.

However, there was a divergence in views between home and host supervisors on the frequency and extent of crisis preparedness information shared at supervisory colleges. Overall, home supervisors' responses were more favourable than those provided by host supervisors. Also, a sizeable number of host supervisors indicated that there were gaps in the way home supervisors communicated their expectations on crisis preparedness contributions to host supervisors.

Host supervisors' frequency of attendance tends to correlate with the level of their engagement and contribution at supervisory and crisis management forums. While these factors may vary for a variety of reasons, the attendance and level of engagement in both forums impact host supervisors' satisfaction and perception of home supervisors' crisis preparedness work, including the progress made in implementing Principle 7.

Also, host supervisors' satisfaction tends to depend on home supervisors' approach and/or experience with different types of supervisory and crisis management forum. Host supervisors had the least favourable perception of the supervisory colleges hosted by home supervisors that organise supervisory colleges only (ie no CMGs). Based on the survey results, supervisory colleges hosted by such jurisdictions are perceived to be lagging in implementation of Principle 7 relative to the home jurisdictions with both supervisory colleges and CMGs.

While host supervisors agree that their effective contribution at forums such as supervisory colleges and CMGs, can enhance crisis preparedness discussions, expectations of host supervisors' crisis preparedness contributions do not align with assessment of their actual contributions. Most host supervisors assessed their contribution in crisis preparedness discussions at supervisory colleges as either "limited contribution" or "no contribution".

3. Challenges faced by supervisors in colleges

In practice, the common challenges faced across the principles include (i) information-sharing protocols, (ii) resource constraints, as well as (iii) differences in expectations between home and host supervisors.

Challenges in information-sharing could be seen, for example, in the handling of information requests, where supervisors generally hesitate to share supervisory information in the absence of a clear justification from the requester, and in dealing with requests without an effective legal framework in place. Differences in legal and regulatory requirements across jurisdictions may also compound information-sharing challenges. The element of trust among supervisors was found to be critical in underpinning effective information-sharing.

Resource constraints also arose as a challenge across topics. These are influenced by varying supervisory frameworks, risk assessment methodologies and priorities across jurisdictions. In particular, it is clear that supervisory college planning requires a significant resource commitment from home supervisors.

Differences in expectations between home and host supervisors were also commonly cited. Such differences occur in areas such as the breadth and depth of information-sharing at supervisory colleges or the anticipated contributions of college members as well as other timing and coordination issues. Such expectation gaps may be compounded by inadequate communication between home and host supervisors, which may result in lower satisfaction in supervisory colleges and lead to less optimal contributions from the college participants.

3.1 Information-sharing (Principle 3)

Legal impediments

Legal constraints, real or perceived, remain a challenge to information-sharing. While respondents generally reported that statutory laws exist in their respective jurisdictions to facilitate information-sharing, some confidential and non-public information may not be shared in the college context.

For this reason, supervisors put in place measures to facilitate the sharing of relevant non-public information within the colleges. These measures often take the form of a memorandum of understanding (MoU) or other (potentially less formal) agreements such as statements of cooperation (SoC) and exchanges of letters (EoL). However, one of the main constraints of MoUs and other confidentiality agreements is that they are not legally binding and enforceable.

Despite the respondents' generally positive views on information-sharing processes, clear mandates to share information and a variety of tools that allow for the sharing of information (eg Confidentiality Statements, MOUs), challenges remain. These include the differing mandates of the supervisory agencies, different supervisory priorities and the work of other non-supervisory agencies, eg prosecutors.

It is also acknowledged that neither supervisory colleges nor the *Principles for effective supervisory colleges* can be used to override any laws or legal barriers prohibiting information-sharing.

Handling of information requests

Based on the survey responses, delays in responding to information requests may occur if requests are not sufficiently clear or there is uncertainty on the types of information that can be shared within the existing legal agreement. How supervisors are organised internally or operationally for handling information requests did not seem to have a bearing on the effectiveness of information-sharing. Some supervisors pursue a centralised approach, where a dedicated team is in charge of managing information-sharing requests. In other cases, it is the duty of the line supervisors to decide within their remit and responsibility, and escalate requests in case of doubt, either to their senior management or to other dedicated teams.

There is also no clear or observable pattern regarding the formal written policies and procedures that detail the process to approve information-sharing agreements and subsequent release of information. Some respondents, however, pointed out that the processes are very much dependent upon the nature of the requests. Highly sensitive information, for example RRPs, is usually handled on a case-by-case basis in line with strict rules and procedures and may also be subject to escalation to senior management and/or the legal department.

3.2 Coordinated risk assessment (Principle 5)

Differences in supervisory frameworks and risk assessment methodologies

Most of the respondents reported some form of challenge in developing coordinated risk assessments. The most significant challenges mentioned include differences in legal/regulatory frameworks, accounting approaches (for instance, use of local Generally Accepted Accounting Principles (GAAP) instead of International Financial Reporting Standards (IFRS)), supervisory priorities and cycles among college members as well as operational issues (eg language, confidentiality constraints). Other difficulties encountered include the differences in supervisory risk assessment methodologies.

Different expectations on content between home and host supervisors

Differences exist between the host supervisors' concerns and the banking group's firm-wide strategy or the home supervisor's objectives. Several host supervisors also identified additional categories[4] of risk that should be covered as part of a coordinated risk assessment.

Host supervisors mentioned the following areas for improvement: (i) more detailed information-sharing on the group-wide processes and consolidated analysis; and (ii) discussion and agreement on the timeline for the coordinated risk assessment process. Furthermore, the degree of influence of the host's contributions to the coordinated risk assessment process was less clear for host supervisors.

3.3 Crisis preparedness (Principle 7)

Organisation and management of multiple crisis management forums

Although the majority of home supervisors that organise both supervisory colleges and CMGs agreed that supervisory colleges should also be involved in crisis preparedness discussions, most do not have formal frameworks or protocols for capturing information-sharing between different forums. Given the complexity associated with organisation and management of multiple forums, distinguishing the focus, mandates and boundaries between different forums could be a challenge in some jurisdictions. In addition, the focus of supervisory colleges and CMGs may depend on the boundary between the responsibilities of supervisory/prudential and resolution authorities in each jurisdiction.

Expectation gaps between home and host supervisors

Expectation gaps exist between home and host supervisors in relation to the breadth and depth of crisis preparedness discussions at supervisory colleges. Some host supervisors expect their crisis preparedness information needs to be fully addressed at supervisory colleges. These expectations may not be aligned with the multilateral nature of supervisory colleges, the existence of crisis management forums in the majority of jurisdictions, and limitations of group recovery and resolution planning activities that tend to focus only on jurisdictions where the bank's activities are more significant. In addition, host supervisors perceived some gaps in the way that expectations regarding their contributions on crisis preparedness were communicated by home supervisors.

Host supervisors' involvement

Host supervisors' attendance of and/or contribution to crisis preparedness discussions at supervisory colleges could be improved. Host supervisors who attended colleges on a less regular basis, such as once in two years or less frequently, provided less favourable assessments than host supervisors who attended colleges annually. It seems that irregular attendance may negatively impact host supervisors' engagement in and commitment to supervisory colleges.

While most host supervisors believe that they have important or somewhat important crisis preparedness information and expect college members, including themselves, to contribute to crisis preparedness discussions, the majority of host supervisors assessed their contributions as either "limited contribution" or "no contribution".

Home supervisors' resource constraints

It is clear from the survey that crisis preparedness work requires a significant resource commitment from home supervisors. Their activities include planning, management and reporting at a range of home and

[4] These include pension risk, conduct risk, concentration risk (despite the fact that most supervisors included credit and counterparty risk), reputational risk, requirements for Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) in host jurisdictions, and recovery planning.

host supervisory forums, as well as relationship management with financial institutions, host supervisors and other interested parties. In particular, home supervisors who manage both supervisory colleges and CMGs have mostly indicated a lack of resources as a key impediment, which may be driven by the resource intensiveness of implementing both Principle 7 and the Financial Stability Board (FSB)'s requirements.

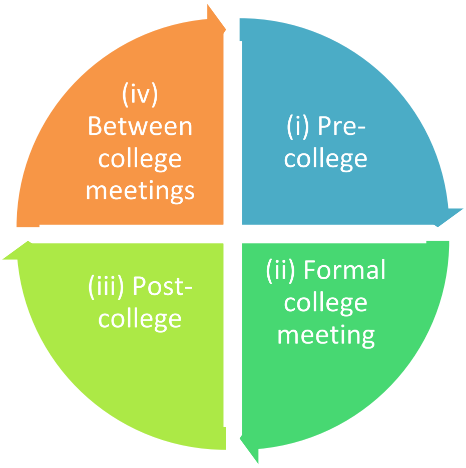
4. Sound practices to further strengthen effectiveness of supervisory colleges

This section lists sound practices to address the challenges faced by supervisors organising or participating in supervisory colleges. These sound practices may not be applicable or useful in all situations and, therefore, should not be viewed as a prescriptive list of steps but rather a suggested menu of practices or guidance that supervisors could use.

The practices have been mapped to a cycle of pre-college meetings, formal (during) college meetings, post-college meetings, and between (or outside) the college meetings. The cycle helps to highlight the importance of the work outside the in-person college meetings.

To ensure a more equitable workload throughout the college cycle, college members could benefit from proactive planning for the colleges, and enhanced communication between home and host supervisors. Ongoing engagement between home and host supervisors, outside college meetings, could also be beneficial for enhancing crisis preparedness. Such engagements should include non-college members, where possible.

College meeting cycle



(i) Pre-college phase

It is critical that all college members play an active role in contributing to the effectiveness of college meetings. Active participation by college members in the planning process would help to alleviate resource constraints faced by home supervisors in organising the meetings.

- Preparatory work before college meetings is highly recommended. This includes the gathering of host supervisors' views on supervisory priorities, areas of interest, individual members' preparation of their contributions/submissions, and timely circulation of agenda, discussion points and meeting materials.

- With the agenda circulated well in advance of the college meetings, both home and host supervisors could clarify expectations before the meetings, so that they could be better understood and managed. In particular:
  - Home supervisors could formulate clearer messages regarding their expectations for host supervisors' contributions at supervisory colleges and provide the context for requested submissions to host supervisors.
  - Home supervisors could encourage all host supervisors to actively participate in college discussions. In addition, it would be useful to let a host supervisor know the areas in which their input would be most needed.
- Supervisors could benefit from enhanced coordination of supervisory work, in particular identifying common supervisory priorities where possible and exchanging information on risk assessment methodologies.
- Supervisors could consider using the user guide for coordinated risk assessment as outlined in Annex 1.
  - The user guide helps supervisors take into account the relevant factors and considerations when planning a coordinated risk assessment.
  - It also lists topics on which supervisors can perform coordinated risk assessment. Supervisors could also use the list to identify topics of mutual interests among college members or for setting the agenda for college meetings.

(ii) Formal college meeting phase

To promote a shared understanding of a cross-border banking group's risk profile, during the formal college meeting, home and host supervisors could present key developments, their risk assessments of the bank's operations in their respective jurisdictions and their supervisory plans.

- In-person meetings should continue to have representation from sufficiently senior supervisors (in leadership positions) on a regular basis to facilitate information-sharing and relationship-building.
- Balancing length (one or two days) of supervisory college meetings with format (ie bank leadership presentations versus supervisory authority interactions) is important.
- Where common areas of interest exist, the home supervisor could lead and coordinate deep-dive reviews into such areas by providing a set of common questions for discussion at the college meeting.
  - As an extension of the above, the sharing of supervisory plans designed to address issues of supervisory concerns would allow college members to identify opportunities for collaborative work such as joint onsite inspections.
- On the specific area of crisis preparedness:
  - Input and information flow among CMGs, supervisory colleges, and possibly universal colleges could be enhanced. Only when information flow is improved (eg through establishing protocols), especially from CMGs to other colleges, the latter could reduce their emphasis on crisis preparedness discussions and avoid unnecessary overlaps with CMGs.
  - Supervisors could share important crisis preparedness information, such as information about local RRP regimes, their views about the impact of potential stress events on profit, capital and liquidity positions and systemic impact on the local markets.

- When jurisdictions decide not to establish a separate crisis preparedness forum, they could consider the formalisation of a dual role for supervisory colleges and cover a broader range of crisis preparedness topics, including recovery and resolution plans, at supervisory colleges.
- The issues relating to smaller or less complex entities, eg foreign bank branches, need appropriate consideration, as host supervisors of such entities are often in the most challenging position in relation to crisis preparedness. Home and host supervisors should consider various options to effectively address the information needs of host supervisors without imposing undue burden on home supervisors.

(iii) Post-college phase

The home supervisor could share the key outcomes and salient points of discussions from the college meetings with all host supervisors. In addition,

- Home supervisors should obtain feedback from supervisory college participants on the effectiveness of the college meeting, and consider recommendations to enhance future meetings
- The home and host supervisors could carry out collaborative work identified during the college meetings, the outcome of which could be incorporated into pre-college discussions, as described above.
- Home supervisors could increase transparency on how host supervisors' inputs to the coordinated risk assessment has influenced the overall assessment.

(iv) Between-college meetings

Information exchange and cooperation among supervisors should take place on an ongoing basis and not just during physical meetings.

- All material issues concerning the supervised group should be shared with college members as soon as practical, rather than wait for the next scheduled in-person meeting.
- Other mechanisms for communications throughout the year (eg newsletters, bilateral discussions and conference calls) could be used to facilitate timely exchange of information and subsequent supervisory activities, especially if there is any indication of instability or incidents that might significantly impact the bank.
- In relation to changes to institutional frameworks to facilitate crisis preparedness:
    - Formalisation and clear articulation of the respective mandates of the various crisis management forums (eg supervisory colleges, CMGs and resolution colleges) could be beneficial to promote clarity on crisis preparedness expectations.
    - Home supervisors that organise and manage multiple forums may consider putting in place crisis preparedness frameworks or protocols to govern information-sharing between different forums and provide more clarity about communication channels during a crisis.
    - Home supervisors could develop and socialise clear and transparent membership criteria/parameters for core colleges and crisis management forums, including CMGs, outreach programmes and resolution colleges.

(v) Interaction with non-college supervisors

Home-host exchanges should not be confined to interactions during physical college meetings, or to college members only.

- Periodic updates by home supervisors, including in the forms of newsletters, secured websites or conference calls, would help host supervisors who are not college members better understand group-wide developments (including home supervisor's assessment of the banking group) to facilitate host supervision.
- Home supervisors could share the salient points of discussion from supervisory colleges with non-college supervisors.

Annex 1. User guide for coordinated risk assessment

Goal and process of coordinated risk assessment

The CWG explored measures with the aim of developing a shared understanding of an international banking group's risk profile and thus making further progress towards a "coordinated risk assessment" without a common legal framework. As a starting point, supervisory colleges should support college members in building a comprehensive understanding of the risk profile, vulnerabilities and emerging risks of a banking group. The assessment of the main risks faced by a group is a fundamental stage of the supervisory review and evaluation process.

The home supervisor generally should lead and coordinate the work between members of a college, including efforts towards reaching a common understanding of the risks faced by the banking group. Colleges should facilitate a mutual understanding of the respective risk assessments undertaken by home and host supervisors, and coordinate supervisory activities where appropriate.

A coordinated risk assessment would generally include assessments from both home and host supervisors, and would in most cases be organised and managed by the home supervisor. However, there may be instances where a host supervisor initiates or leads a coordinated risk assessment (for instance, for a joint review within the host supervisor's jurisdiction).

As a result of the risk assessment process, members of a supervisory college should develop a clear understanding of whether 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.

User guide

A coordinated risk assessment could serve many purposes for supervisors aiming to improve a supervisory college's[5] effectiveness. This user guide provides a list of questions and factors that members of a college could consider when planning a coordinated risk assessment. The supervisor can identify topics for a coordinated risk assessment from the list of possible topics in Section 3.

1. List of questions for supervisors prior to planning a coordinated risk assessment

- What form will the assessment take? Several options follow:
  - a discussion of issues among supervisors, in which members share their assessments of a particular issue (eg at college meetings);
  - written submissions provided by members that are compiled into a single document, generally by the home supervisor; or
  - joint reviews, which could include shared exam scopes or joint meetings with the firm.
- Which topics will be covered? Section 3 of this guide provides a list of possible topics.

[5] A "supervisory college" in this case could mean a universal or expanded college, a core college, a regional college, or any other college formulation. It could refer to in-person meetings of these groups, or to other interactions among these groups or subsets thereof.

- How will topics be chosen? For instance, members could vote on the topics that are most relevant to them, or the home supervisor could determine which topics will be covered. College members could also select topics for the next assessment period at a college meeting, when they discuss the main risks of the group/institutions and conclude on the supervisory focus going forward.
- Will the assessment be performed by all members of a college, or will it comprise a subset of college members, including on a bilateral basis?
- Will the assessment be performed on a legal entity basis, or will members perform the review based on the business performed within a member's jurisdiction?
- Will the outcome of a review be shared with the firm?
- If an assessment is undertaken by a subset of college members, will the results be shared with the other members?

2. Factors in answering the listed questions

- Legal or statutory requirements: Some jurisdictions require written assessments from a subset of members (eg European SREP); some jurisdictions require that certain topics be covered by the college or by a subset of the college within a given timeframe etc.
- Relevance: Not all topics are necessarily relevant at a given time – or at any time. Those issues that are most salient to the supervised firm are likely to drive the focus of the coordinated risk assessments. They might also influence the format. For instance, more pressing matters might favour discussion over a more time-consuming written process, or an emerging issue could merit a joint review. Furthermore, the extent to which a topic is relevant in a given jurisdiction could dictate which members of a college will participate or the extent to which the results of a coordinated risk assessment are shared with non-participating jurisdictions.
- Review type: The type of review undertaken could impact other aspects of the planning process. For instance, the decision to conduct a joint review could impact the number of college members that participate in a coordinated risk assessment, since the more intensive nature of a joint review might necessitate a smaller group for whom the issue is most relevant.
- Existing college structures: Topics and formats may be more or less relevant depending upon the structures available to facilitate supervisory work. For instance, in cases where there is a CMG or a resolution college, members might not find it necessary to perform a coordinated risk assessment on recovery or resolution planning within the supervisory college. In this case, the risk assessment process could also be used to inform supervisory college members about the outcome of the assessment, or it might be determined that an issue with a particularly geographical flavour is best suited to a regional college vs the core or universal college.

3. List of possible topics for coordinated risk assessment

There is a broad range of topics that could be relevant to a college at any given time, depending upon the firm's current risk profile. Following is a list of topics that supervisors might consider when engaging in coordinated risk assessments. Each topic contains a series of questions that help to draw out supervisory views on the topic and could be supported by peer group comparison. This list should serve as a menu of topics that supervisors can choose from when considering a coordinated risk assessment. The questions for each topic provide suggestions on how to structure the submissions, the conversation, or the review. This list is aimed at helping supervisors identify issues that could be of mutual interest. It is not an exhaustive list of topics that could be relevant to a coordinated risk assessment, and it is likely that not all topics are relevant to a given firm.

List of possible topics

(i) Top issues for the financial institution

(ii) Regulatory and supervisory developments and practices in home and host jurisdictions

(iii) Business model analysis

(iv) Internal governance arrangements and internal controls

(v) Incentive compensation/performance management

(vi) Assessment of control and oversight functions

(vii) Risk and risk management

(viii) Capital adequacy

(ix) ICAAP review

(x) Liquidity position

(xi) Systemic risk

(xii) Crisis preparedness

(i) Top issues for the financial institution

- What are the supervisors' key concerns about the financial institution?
- Are these concerns consistent with the firm's articulation of its top risks?
- Are there key findings emerging from supervisory work that could have a significant impact?

(ii) Regulatory and supervisory developments and practices in home and host jurisdictions

- Are there regulatory developments in your jurisdiction that will have a significant impact on the supervised firm?
- Where is the supervision team focusing its efforts in the coming year/supervisory cycle?
- What is your supervisory process for identifying and assessing vulnerabilities?
- What methods do you employ to form an assessment of potential vulnerabilities?

(iii) Business model analysis

- How have the business model, strategy, and financial position of the firm changed in your jurisdiction over the given time period?
- What is your view on the
  - viability of the current business model? What are the key drivers of profitability?
  - material business lines/products/clients. Do you have a view on the firm's booking model and how it impacts the business in your jurisdiction?
  - sustainability of the firm's strategy in your jurisdiction? If the bank pursues a new/updated strategy, are there any concerns around its execution based on its previous track record?
  - significant downside risks and vulnerabilities to the firm's strategy and business model, and if so, how they are being monitored, mitigated and/or controlled?
  - macro/business environment in your jurisdiction and external dependencies (key in-region risks, competitive landscape etc)? How does the firm effectively identify emerging trends?
  - key internal dependencies (systems including IT, operations, people) that shape the entity's operation?
  - relevant supervisory measures that have been taken in your jurisdiction with respect to the firm's local business model and strategy?

(iv) Internal governance arrangements and internal controls

- Is there applicable regulation or supervisory expectations in relation to internal governance in your jurisdiction?
- Has the internal governance framework within your jurisdiction evolved within the observed period?
- What is your jurisdiction's view of the adequacy of the institution's internal governance arrangements and controls? Is implementation consistent with stated strategy and goals? Depending upon relevance to the jurisdiction and to the firm, this could include:
  - overall internal governance framework (eg organisational structure and clear responsibilities);
  - corporate and risk culture (eg decision-making behaviours, escalation);
  - organisation and functioning of the management body (including any issues identified with the management bodies or key position holders);
  - remuneration policies and practices;
  - risk management framework;
  - internal control framework; and
  - information systems, cyber-risk mitigation programmes and business continuity.
- Have internal governance and control deficiencies been identified within your jurisdiction? Have any measures been taken?

(v) Incentive compensation/performance management

- What are the key principles and expectations around incentive compensation or performance management in your jurisdiction?
- How thoroughly does the institution comply with locally applicable guidance?
- What extent do the institution's practices in your jurisdiction encourage appropriate risk-taking behaviours?

(vi) Assessment of control and oversight functions

- How would you characterise the strength of the [internal audit (IA), compliance, independent risk management (IRM),[6] finance] function?
    - How would you characterise [IA, compliance, IRM, finance] staffing in your jurisdiction?
    - How would you characterise the stature of [IA, compliance, IRM, finance] in your jurisdiction?
    - How would you characterise the ability of [IA, compliance, IRM, finance] to identify issues in your jurisdiction?
    - How would you characterise interaction between [IA, compliance, IRM, finance] and the first line, the second line, the (local) board in your jurisdiction?
    - How would you characterise interaction of local [IA, compliance, IRM, finance] with head office [IA, compliance, IRM, finance]?
- How would you characterise the first line's ability and willingness to identify and manage risk in your jurisdiction?
    - How is the first line structured to support risk identification and management in your jurisdiction?
    - How does the first line engage with the second and third lines of defence in identifying and managing risk in your jurisdiction?
    - Is the distinction between the first, second, and third lines of defence clear and effective?

(vii) Risk and risk management

- How has risk in your jurisdiction evolved over the relevant period? What is the outlook for the coming period?
- Are there any issues of non-compliance with the applicable regulation or supervisory guidance/expectations?

[6] Depending upon the size and complexity of the independent risk management function at a given institution, the following questions could be considered for the IRM function as a whole or could focus on an individual risk department (eg the model validation group, the loan review group, or the operational risk group).

- To the extent that it is relevant to the college, are there any relevant supervisory measures being taken to address the deficiencies and non-compliance issues?
- What are your jurisdiction's views regarding:
  - the risk strategy and appetite;
  - the organisational framework and related governance structure;
  - policies and procedures; and
  - risk identification, measurement, management, monitoring and reporting?

The questions above could be considered for risk management broadly, or for a particular risk type. Specifically, the questions could be applied to:

- Credit and counterparty, including its main subcategories, based on relevance: credit concentration risk, counterparty and settlement/delivery risk, country risk, credit risk from securitisation, FX lending risk, specialised lending risk. Input could include:
  - assessment of the nature and composition of the credit portfolio;
  - assessment of portfolio credit quality;
  - assessment of the level and quality of credit risk mitigation;
  - assessment of the level of provisions and of credit valuation adjustments; and
  - outcome of stress testing.
- Market risk, including its main subcategories, based on relevance: price and position risk, FX risk, commodities risk, credit spread risk from positions measured at fair value, and risk arising from equity exposures. Input could include:
  - assessment of the nature and composition of the firm's positions subject to market risk;
  - assessment of profitability;
  - assessment of market concentration risk; and
  - outcome of stress testing.
- Interest rate risk in the banking book, including its main subcategories, based on relevance: re-pricing risk, yield-curve risk, basis risk and option risk. Input could include:
  - assessment of the nature and composition of the institution's interest rate risk profile; and
  - assessment of the outcome of the scenario analysis and stress testing.
- Operational risk, including its main subcategories, based on relevance:
  - fraud;
  - model risk;
  - conduct risk (AML/Know Your Customer(KYC)/CTF);
  - information technology and connecting risks (including cyber-security);
  - business continuity;
  - outsourcing and supplier risk; and
  - other.

– Which of the above would you consider the top three operational risks in your jurisdiction?

– What are the key observations/ findings/ concerns from your recent operational risk supervisory review(s)?

- Liquidity and funding risk. Input could include, as relevant, members' evaluations of:
  - liquidity needs in the short and medium term;
  - intraday liquidity risk;
  - liquidity buffer and counterbalancing capacity;
  - supervisory liquidity stress testing;
  - the institution's funding profile;
  - risks to the stability of the funding profile;
  - actual market access;
  - funding plans;
  - contingent liquidity plans; and
  - expected change in funding risks based on the institution's funding plan.
- Other risks material to the institution, including risk of excessive leverage; reputational risk; participation risk or any other risk to solvency, control deficiencies identified, issues of non-compliance with regulation, or relevant supervisory measures.

(viii) Capital adequacy

- What is your supervisory process/approach for assessing the adequacy of capital?
- What is your view on the adequacy of the firm's capital or own funds in your jurisdiction? Do you impose an additional capital requirement on top of Pillar 1? Does supervisory stress testing inform your view?
- Are there any other capital-related measures you have taken or will take in your jurisdiction that are relevant for members of the college to understand?
- Is the institution subject to any type of capital buffer (G-SIB buffer, systemic risk buffer etc)?

(ix) ICAAP review

- What is your view of the reliability of the ICAAP framework inclusive of the institution's own quantification of risks and consequent allocation of appropriate internal capital? Have any relevant deficiencies or issues been identified?
- Have there been any relevant changes to the ICAAP framework in the period?
- Have any relevant supervisory measures, including capital and non-capital supervisory measures, been taken to address ICAAP deficiencies and non-compliance issues?

(x) Liquidity position

- What is your process/approach for assessing the adequacy of liquidity?

- Do you have a view on the adequacy of the firm's liquidity position in your jurisdiction? Does supervisory stress testing inform your view?
- Are there any other liquidity-related measures you have taken or will take in your jurisdiction that are relevant for members of the college to understand?

(xi) Systemic risk

- Does the institution pose systemic risk within your jurisdiction? How has such a determination been made?
- How has risk evolved in the relevant period and what is the outlook for the coming period?
- Have any supervisory measures been taken in your jurisdiction due to the systemic risk posed by the firm, including capital and non-capital supervisory measures?
- What is the firm doing differently due to its systemic risk?

(xii) Crisis preparedness

The breadth and depth of crisis preparedness coverage will depend on the jurisdiction's circumstances, such as the availability of different crisis management forums,[7] information-sharing agreements between college participants, regional requirements and supervisory priorities as well as participant mix (eg overlap) in the various crisis management and supervisory college forums. Where CMGs are in place, they are the primary forum for discussions of and information-sharing on crisis preparedness.[8] In the absence of dedicated crisis preparedness forums, jurisdictions might consider using supervisory colleges for crisis preparedness discussions and information-sharing. Topics could include:

- home and host RRP regimes and powers;
- home and host crisis management frameworks;
- key contacts within the firm as well as relevant supervisors;
- recovery and resolution triggers;
- operating structure of the firm, focusing on material legal entities and branches;
- group and local recovery plans;
- group and local capital and liquidity contingency plans if different from recovery plans;
- critical functions and shared services in home and host jurisdictions and their interdependencies;
- cross-border financial and operational interdependencies;
- operational continuity issues during crisis and/or resolution;
- group and local resolution plans; and
- resolvability assessments.

7 Principle 7 of the Basel *Principles for effective supervisory colleges* recognises the FSB cross-border crisis management expectations and states that supervisory colleges are distinct from but complementary to crisis management and resolution structures and that the work of a banking group's supervisory college should contribute to effective crisis management planning. Principle 7 also differentiates between banks that have a CMG, eg systemically important banks, and those that do not, and provides guidance on possible communication and coordination between the college and the CMG with respect to crisis preparedness.

8 The EU jurisdictions are subject to the Single Supervisory Mechanism (SSM) and BRRD regime that are unique in the sense that there is a distinct separation in mandate and tasks related to recovery planning on the one hand and resolution planning on the other.

Annex 2. Existing supervisory colleges in Basel Committee member jurisdictions as of June 2017

Country	Bank(s)	G-SIB (Y/N)
Belgium	KBC Group NV	N
Brazil	Itaú Unibanco	N
Canada	Bank of Montreal	N
	Bank of Nova Scotia	N
	Canadian Imperial Bank of Commerce	N
	Royal Bank of Canada	Y
	Toronto Dominion Bank	N
China	Agricultural Bank of China	Y
	Bank of China	Y
	Bank of Communications	N
	China Construction Bank	Y
	Industrial & Commercial Bank of China	Y
France	BNP Paribas	Y
	Group Crédit Agricole	Y
	Société Générale	Y
Germany	Deutsche Bank	Y
	Commerzbank	N
India	State Bank of India	N
	ICICI Bank	N
	Bank of Baroda	N
	Bank of India	N
	Axis Bank	N
	Punjab National Bank	N
Italy	Unicredit Group	Y
	Intesa-San-Paolo	N
Japan	Mitsubishi UFJ FG	Y
	Mizuho FG	Y
	Sumitomo Mitsui FG	Y
	Nomura Holdings	N
Luxembourg	EFG Investment (Luxembourg) SA	N

	Precision Capital SA[9]	N
	Quilvest Wealth Management SA	N
	Banque Havilland SA	N
Netherlands	ING Bank	Y
	ABN AMRO	N
	Rabobank	N
Russia	Sberbank of Russia	N
	VTB	N
Singapore	DBS Bank	N
	Oversea-Chinese Banking Corporation	N
	United Overseas Bank	N
South Africa	Barclays Africa Group	N
	Standard Bank Group	N
	Nedbank Group	N
Spain	BBVA Group	N
	Santander	Y
Sweden	Nordea	Y
	SEB	N
	SHB	N
	Swedbank	N
Switzerland	Credit Suisse	Y
	UBS	Y
Turkey	Garanti Bankası	N
United Kingdom	Barclays	Y
	HSBC[10]	Y
	Royal Bank of Scotland	Y
	Standard Chartered Bank	Y
	Lloyds Banking Group	N
United States[11]	Bank of America	Y
	Bank of New York Mellon	Y
	Citigroup	Y
	Goldman Sachs	Y
	JPMorgan Chase	Y

[9] Formerly KBL European Private Bankers

[10] A regional college for the Hongkong and Shanghai Banking Corporation Limited, a subsidiary of the HSBC Group, has also been established by the Hong Kong Monetary Authority in addition to the wider college established by the UK Prudential Regulation Authority.

[11] While Wells Fargo has been classified as a G-SIB, at this time there is no formal supervisory college for this firm because its operations are primarily domestic and US supervisors meet regularly. An international supervisory college for Wells Fargo will not be established until the firm has sufficiently large non-US operations.

	Morgan Stanley	Y
	State Street	Y

Annex 3. Glossary of terms[12]

Crisis management group (CMG)	Crisis management groups (CMGs) are called for in the FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions*, which set outs the core elements that the FSB considers to be necessary for an effective resolution regime. Home and key host authorities of all global systemically important financial institutions should maintain CMGs with the objective of enhancing preparedness for, and facilitating the management and resolution of, a cross-border financial crisis affecting the firm. CMGs should include the supervisory authorities, central banks, resolution authorities, finance ministries and the public authorities responsible for guarantee schemes of jurisdictions that are home or host to entities of the group that are material to its resolution, and should cooperate closely with authorities in other jurisdictions where firms have a systemic presence.
Crisis preparedness	Crisis preparedness 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. Both colleges and CMGs have a 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. As CMGs are set up with the objective of enhancing preparedness for, and facilitating the management and resolution of, a cross-border financial crisis affecting the firm, effective crisis preparedness in the context of supervisory colleges means timely and frequent communication among supervisors about a banking group's condition, risks and vulnerabilities, maintaining and sharing a pre-defined set of information (an emergency contact list etc), as well as contribution to crisis preparedness activities, including crisis management planning, led by CMGs.
Core college	Core colleges typically include host supervisors from the jurisdictions where operations are most significant for the banking group. In the case studies presented, they ranged from three to 10 members.
Expanded college (or extended college)	Expanded colleges typically include a broader group of host jurisdictions, often with consideration being given both to the significance of operations for the bank and to the systemic importance for the host.
Home supervisor	The consolidating supervisor for a banking group in the jurisdiction where the head office is incorporated. In some cases, the "home" role may not be limited to the consolidating supervisor in a given jurisdiction (eg the United States, where the Federal Reserve is the consolidating supervisor, but shares the home supervisor role in supervisory colleges where a national bank within the consolidated banking group is supervised by the Office of the Comptroller of the Currency). The home supervisor is responsible for tailoring all college elements – including its structure, members and the level of communication with the firm, among other considerations – to the unique circumstances of the supervised firm, particularly since the home supervisor is responsible for understanding the firm's overall condition and risk profile.

12 This glossary of terms is defined as used within this report. The definitions used may slightly differ from similar terms used in other Basel Committee documents.

Host supervisor	The supervisory authority of any jurisdiction in which a financial institution operates outside its "home" jurisdiction. Host supervisors often provide input to the home supervisors' decisions regarding structure, membership, collaborative work etc undertaken by a particular college, and contribute to the home supervisor's understanding of the firm's overall condition and risk profile.
Joint Risk Assessment and Decision (JRAD)	The JRAD is performed within European Economic Area (EEA) supervisory colleges. While non-European college members are not required by law to participate in the JRAD process, the EU legislation encourages their participation under specific conditions, and some of them – upon invitation by the home supervisor – do participate in the performance of the joint risk (liquidity) assessment, without signing joint decisions. The capital and liquidity joint decisions include conclusions on capital adequacy, required level of own funds, liquidity adequacy and any quantitative or qualitative liquidity measures for all EEA entities and at the consolidated level, but do not cover non-EEA entities of the group.
Recovery plan	Recovery plans are a specific type of contingency plan intended to be an embedded part of a bank's business-as-usual risk management framework and capital and liquidity management procedures. As the stress increases and reaches the high end of the continuum, these procedures and associated processes come into effect. Some banks, such as those that are systemically important either domestically or globally, have formal requirements to draw up a robust and credible recovery plan that identifies options for restoring financial strength and viability when the bank comes under severe stress. A recovery plan should include three elements: (i) credible options to cope with a range of scenarios, including both idiosyncratic and market-wide stress; (ii) scenarios that address capital shortfall and liquidity pressures; and (iii) processes to ensure timely implementation of recovery options in a range of stress situations.
Regional college	Membership (except for the home supervisor, which may be from outside the region) and agenda items are limited to a specific geographical area. Among regional colleges described through the case studies, some are organised directly by the home supervisor, while others are organised by a host supervisor that acts as de facto home supervisor for the region, with the home supervisor acting as co-chair.
Resolution plan	The resolution plan is intended to facilitate the effective use of resolution powers to protect systemically important functions, with the aim of making the resolution of any firm feasible without severe disruption and without exposing taxpayers to loss. It should include a substantive resolution strategy agreed by top officials and an operational plan for its implementation and identify, in particular: (i) financial and economic functions for which continuity is critical; (ii) suitable resolution options to preserve those functions or wind them down in an orderly manner; (iii) data requirements on the firm's business operations, structures, and systemically important functions; (iv) potential barriers to effective resolution and actions to mitigate those barriers; (v) actions to protect insured depositors and insurance policy holders and ensure the rapid return of segregated client assets; and (vi) clear options or principles for the exit from the resolution process.
RRP powers	Powers available to public authorities under the legal framework and resolution regime for the purposes of resolution.
Single Supervisory	The SSM was introduced in 2014 and is a new system of banking supervision for Europe. It comprises the European Central Bank and the national supervisory

Mechanism (SSM)	authorities of the participating countries. It may act as home or host supervisor, depending on the supervised institution.
Supervisory college	Permanent but flexible structures for collaboration, coordination and information-sharing among the authorities responsible for and involved in the supervision of cross-border banking groups. The primary purpose of supervisory colleges is to enhance the supervision of international banking groups. The structure(s) of the supervisory college for a banking group is (are) determined at the home supervisor's discretion based upon that supervisor's judgment regarding the structure that would most effectively achieve the supervisory college objectives for a given institution. All case study participants reported experiences from at least one version of the structures described herein, while some home supervisors have chosen to use a combination of two or more of these structures. Core, expanded/extended, universal and regional colleges as defined herein are subsets of supervisory colleges.
Systemically important financial institution	A financial institution or group that, because of its size, complexity and systemic interconnectedness, would, in the view of the relevant authorities, cause significant disruption to the domestic or broader financial system and economic activity if it were to fail in a disorderly manner.
Universal college	A supervisory college in which membership is open to all or most jurisdictions in which the financial institution operates. (Note that some jurisdictions refer to their expanded colleges as universal colleges even if not all host jurisdictions are invited to participate.)