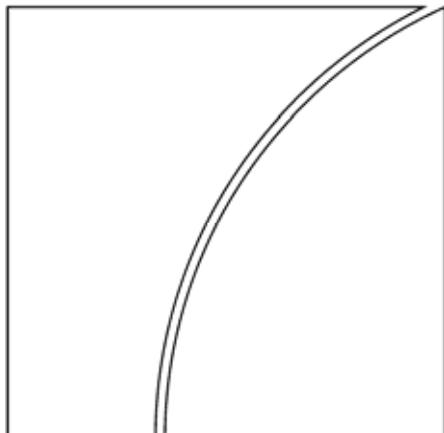


# Basel Committee on Banking Supervision



## Home-host information sharing for effective Basel II implementation

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# Home-host information sharing for effective Basel II implementation

## Introduction

This paper is a revised version of the draft issued for consultation in November 2005. It is being issued by the Basel Committee on Banking Supervision (BCBS) in association with the Core Principles Liaison Group (CPLG), a BCBS working group which includes representatives from sixteen non-BCBS jurisdictions.<sup>1</sup> It addresses the question of information sharing between home and host supervisors under the new Capital Framework (known as Basel II). While some commenters suggested expanding the scope of this paper to include broader supervisory cooperation issues, the paper is confined to Basel II implementation since this is considered a high priority in the short term. However, work undertaken in the context of Basel II may help prepare the way for broader guidance in the future that addresses additional aspects of home-host cooperation, should that be considered beneficial.

The need to develop cross-border understandings on the application of capital standards to international banking groups is recognised as an essential element of the successful implementation of Basel II. In this respect, the BCBS encourages the home and host supervisors of the major international banking groups to continue discussing among themselves, and with the institutions that they supervise, the implementation of Basel II. These discussions have progressed to the stage where a number of decisions are being considered with regard to the ongoing supervision of individual banking groups, whether through bilateral or multilateral arrangements. It is important that these group implementation studies continue to make progress and that home and host authorities build on the working relationships that are being developed to create effective cooperative mechanisms.

These discussions have confirmed the need to develop more robust information-sharing arrangements between home and host supervisors as set out in *High-level principles for the cross-border implementation of the New Accord*. Creating a framework for supervisory cooperation has been an objective of the BCBS since its creation, which it has promoted through the issue of successive principles governing cross-border supervision (starting from the 1975 Concordat)<sup>2</sup> and more recently through its *Core Principles for Effective Banking Supervision* and the subsequent *Methodology*.<sup>3</sup> A key feature of this framework is that international banking groups need to be supervised on a consolidated basis, covering all aspects of the business, domestic and cross-border. Consolidated supervision of international banking groups requires effective cooperation and information exchange between home supervisors and host supervisors and it is hoped that improvements in this area will be one of the side-effects of Basel II.

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<sup>1</sup> Non-Basel Committee member jurisdictions represented on the CPLG are Argentina, Australia, Brazil, Chile, China, Czech Republic, Hong Kong SAR, India, Korea, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa and the West African Monetary Union. Other members are drawn from the IMF, World Bank, Financial Stability Institute and eight Basel Committee member countries.

<sup>2</sup> The following documents have been published since the 1975 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) and *The supervision of cross-border banking* (1996).

<sup>3</sup> This paper takes into account the process currently underway in updating the *Core Principles for Effective Banking Supervision* and its accompanying Methodology in order to avoid inconsistencies.

While communication between home and host supervisors is important, banks have the primary role to play in implementing Basel II and in providing relevant information to home and host supervisors to allow them to meet their responsibilities. In particular, as is stressed in paragraph 14 of this paper, the local managers of foreign branches and subsidiaries need to be kept informed of the steps that are being taken at group level to manage group capital and of the decision to adopt one or other option under Basel II. In this regard, Basel II does not diminish the legal or governance responsibilities of subsidiary bank management within the group structure.

## **Overview**

1. The *High-level principles for the cross-border implementation of the New Accord*, set out in the Annex, make clear that the underlying responsibilities for home and host supervisors are not changed by Basel II. For the purposes of this paper, the relevant principles are: Principle 2, "The home country supervisor will be responsible for the oversight of the implementation of the new Accord for a banking group on a consolidated basis" and Principle 3, "Host country supervisors, particularly where foreign banks operate in subsidiary form, have requirements that need to be understood and recognised". The high-level principles also advise supervisors to communicate the tasks of home and host supervisors under Basel II to banking groups with significant cross-border operations in multiple jurisdictions. Within this framework it is clear that home and host supervisors have a common interest in ensuring to the extent possible that internationally active banks and their cross-border establishments are subject to effective supervisory arrangements. All parties, including the industry, recognise that effective implementation of Basel II will require an enhancement of cooperation and information sharing between home and host authorities. This will not only enhance efficiency and effectiveness of supervision, but will also help to promote and maintain financial stability.
2. Effective supervision of international banking groups depends on effective supervision at both the local and the consolidated level. Host supervisors' knowledge of local market conditions and their ability to take supervisory actions and communicate directly with the entities within their jurisdiction can make an essential contribution to the home supervisor's assessment of the banking group. It also allows the home supervisor to monitor, assess and deal with the local risks faced by the banking group more effectively and efficiently. Conversely, the home supervisor's knowledge of the consolidated entity can, at times, contribute to the effective host supervision of the local entity.
3. At the same time, the penetration of foreign banks in countries where financial liberalisation has taken place in recent years has become significant. In several countries, the largest retail bank is a foreign-owned subsidiary and the banking market may be dominated by foreign-owned banks. This situation raises legitimate concerns with respect to host supervisors' ability to safeguard the stability of their financial systems. Basel II offers an opportunity to develop pragmatic arrangements for enhanced collaboration and information sharing that take into account the relative significance of local entities in the host market.
4. More efficient and effective information sharing combined with supervisors building mutual trust and confidence in their respective assessment processes will not only enhance the supervisory process but also help to conserve scarce supervisory resources. It should also help to reduce the overall regulatory burden on banks. Good working relationships will be critical in fostering effective two-way information flows and in minimising the costs to banks of operating under different supervisory systems.
5. The focus of this paper is on significant foreign subsidiaries, although it is recognised that foreign branches may also be significant as described in the following paragraph. It is important to recognise at the outset that a subsidiary that is significant for a banking group may not necessarily be significant for a host country if it is located in a major financial centre. Conversely, a foreign subsidiary of a major international bank may be significant in the market in which it operates even though it is relatively less significant for the banking group as a whole. Arrangements for information sharing should recognise both sets of circumstances.

6. This paper does not seek to address the issue of foreign branches. However, in countries where local capital for foreign branches is required as a matter of local discretion<sup>4</sup>, some of the same issues would then arise under Basel II as for subsidiaries. In addition, some branches are of such relative importance in the local market that Basel II may be relevant to the extent that it affects the risk management and capitalisation of the foreign bank involved. Information-sharing arrangements already apply to foreign branches under the successive Basel Concordats and these arrangements may usefully be refined as a result of some of the considerations raised in this paper.

## **General principles to guide the information sharing process**

7. Information-sharing arrangements relating to Basel II do not supplant the legal responsibilities of home and host supervisors, nor do they supplant supervisors' obligations under the Basel Concordat and the BCBS' 1996 report on *The Supervision of Cross-Border Banking*. Supervisors remain legally responsible for the supervision of banking operations in their jurisdictions, whether such operations are locally owned or operating as subsidiaries or branches of foreign establishments. The other aspects of home-host cooperation covered in the Basel Concordat and the BCBS' 1996 report also remain unchanged.

8. In implementing Basel II, supervisors should communicate the respective roles of home and host country supervisors as clearly as possible to banking groups with significant cross-border operations in multiple jurisdictions. The home country supervisor would lead this coordination effort in cooperation with the host country supervisors. Host country supervisors should satisfy themselves that this communication is received by the entities that they supervise.

9. Basel II will, in some cases, require an enhanced level of information sharing between home and host supervisors, especially in coordinating their oversight of complex internationally active banking groups. This is important for the effective implementation of both Pillar 1 and Pillar 2. In accordance with the experience so far in conducting group-wide Basel II implementation exercises, it is envisaged that additional contacts will take place at a multilateral level. In some cases, too, bilateral contacts may need strengthening to meet legitimate host expectations. These expectations may reasonably vary depending on such factors as the size, risk profile and significance of subsidiary operations.

10. Information-sharing arrangements should focus on information that is relevant for supervisors to carry out their supervisory responsibilities, and such information should be provided in a timely manner. In the case of a host supervisor, this would primarily be information that would enable the host supervisor to monitor, assess and deal with the material risks to which the entity in its jurisdiction is exposed. A home supervisor would generally need information concerning risks that would have a material impact on the banking group as a whole. In any request for information from another supervisor, the requesting supervisor should be prepared to explain why it needs the information, to help ensure that the most appropriate information is supplied.

11. The extent and type of information sharing will depend on the Basel II approach being followed by the home and host country, as well as the approaches which the banks

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<sup>4</sup> While Basel II does not generally apply to foreign branches since branches are not typically required to be separately capitalised, some jurisdictions have chosen to apply capital requirements to foreign branches.

concerned are taking for their global and local operations. More information might, for example, be shared when advanced Basel II approaches are adopted by banks and validated by supervisors in both the home and host jurisdictions. In these cases, and in others, communication about roll-out plans of internationally active banking groups is beneficial not least in order to minimise any risk of regulatory arbitrage. The degree of centralisation or decentralisation of the banking group's processes relevant to Basel II will be another key factor influencing the extent and type of information sharing.

12. A difference can be drawn between factual and judgmental information. It is clear that judgmental information, such as supervisory examination reports and assessments of rating systems, can be provided only by the supervisors and not by banks. Judgmental information can be the most valuable part of the information exchange and examples are set out below in paragraphs 22 and 24. Equally, three types of factual information can be distinguished:

- (a) Factual information on the supervisory approach and processes of a supervisor (eg approaches to supervisory review of Internal Ratings-Based (IRB) approaches);
  - Such information, which forms the foundation of supervisory cooperation, will necessarily come from the supervisors;
- (b) Factual information on a particular entity in the banking group (eg choice of Basel II approach, relevant details on qualitative and quantitative aspects of Basel II and implementation timeline for the entity);
  - Both home and host supervisors have the power to obtain factual information on a particular entity in the banking group directly from their supervised institutions; and
- (c) Factual information on the banking group as a whole (eg the Basel II implementation plans for the banking group as a whole, as well as relevant details on methodology, qualitative and quantitative aspects at the group level that also form part of an entity's approach in the host country);
  - As the home supervisor is responsible for consolidated supervision of a banking group, a home supervisor would be best placed to obtain factual information on the banking group as a whole.

13. Other supervisors are only one source of prudential information that supervisors may find useful in carrying out their specific responsibilities. Home and host supervisors can obtain much useful information both directly from the banks themselves and from published sources, which will be enhanced under Pillar 3 of Basel II. This paper therefore draws a distinction between information that it would be appropriate to obtain from the bank and that which only the home country consolidated supervisor and the host supervisor could supply to each other.

14. It is a fundamental element of corporate governance that local management should understand and manage a banking subsidiary's risk profile and ensure that the subsidiary is adequately capitalised in light of that profile. A subsidiary therefore should have, or have ready access to, Basel II implementation information that is directly relevant to its operations (this information may reside in the subsidiary, in the parent or both depending on the methodologies being used). The subsidiary should be prepared to make available within a reasonable amount of time such information to the host supervisor upon request. In cases where the subsidiary itself does not maintain all appropriate Basel II information relevant to its operations, it should arrange to provide appropriate parent bank information. Under

normal circumstances, a host supervisor should be able to obtain information needed on Basel II implementation from or through the subsidiary, and it is expected that the subsidiary will, in cooperation with its parent bank as needed, be in a position to deliver the required information. This includes making available appropriate access to bank personnel familiar with the methodologies relevant to the Basel II implementation in the subsidiary.

15. It is expected that much of this information exchange will take place during bilateral and multilateral cross-border implementation and ongoing supervisory arrangements such as "supervisory colleges"<sup>5</sup>. Given that for some banking organisations, information that may be relevant for several subsidiaries may be developed primarily in the parent, the home supervisor may play an important lead role in conjunction with the bank in coordinating possible multiple similar requests so as to reduce the burden on the bank (particularly where the requests are detailed). Banks should be kept well informed about supervisory information-sharing arrangements and brought into discussions where appropriate (e.g. where a supervisor expresses a significant concern to a fellow supervisor about a bank's Basel II implementation process). The nature and structure of these arrangements will likely vary widely in practice, and may take into account such factors as the market practice in the jurisdictions in which subsidiaries operate, their size and risk profile, geographic location, etc. In any event, if a host supervisor has concerns about the availability of relevant information at the subsidiary, these concerns should be relayed to the home supervisor so that the home supervisor can help to resolve them.

16. The amount and frequency of information sharing will be influenced by the significance of the entity concerned. Home and host supervisors may have different perspectives on whether a particular entity is significant or, in the case of a home supervisor, may lack detailed knowledge regarding the significance of a subsidiary locally. It is therefore necessary for supervisors to communicate on the issue of significance and develop an understanding on the appropriate amount and frequency of information sharing. In such discussions, supervisors may wish to consider factors such as the size and importance of the entity both to the group as a whole and in the local market. Significance can depend not only on overall market share but also on the extent of an entity's activities in a specialised market sector. Ultimately, this must be a matter of judgment by home and host supervisors, but it is important that adequate information sharing takes place even in relation to entities not considered to be significant.

17. A pragmatic approach to home-host information sharing implies that the arrangements should be flexible and tailored to the particular circumstances/requirements of each party. This paper therefore envisages a menu of options from which choices are made in a pragmatic manner. The high-level principles underline the need to avoid redundant or uncoordinated qualification and approval work and it is expected that the group-wide Basel II implementation exercises that are now in train will shed light on what particular procedures may be appropriate for specific banking groups.

18. Flexibility in the format of information sharing (eg oral or written) is important and supervisors may need to discuss approaches that work best in their circumstances. Formal arrangements, written communication and informal sharing such as conference calls or

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<sup>5</sup> While supervisors may use different terminology to describe multilateral arrangements, in general "supervisory colleges" are working groups of relevant supervisors regarding an international banking organisation and formed on an as-needed basis for the purpose of sharing information and coordinating supervisory activities related to Basel II implementation for that organisation (which is ideally also in communication with the supervisory college). College participants need to be cognisant of the information needs of host supervisors that are not regularly involved in college arrangements.

meetings are all useful. Both the BCBS and the non-BCBS members of the CPLG agree, in principle, that written communication may be necessary in certain circumstances. For example, when a home supervisor is requested by a host supervisor to share a summary assessment of consolidated systems and methodologies germane to a local jurisdiction and a description of the work that it has performed, written communication would most likely be required. Written information exchange can take various forms, such as exchange of supervisory documents or of mutually agreed minutes of joint meetings. What is appropriate will depend on the significance of the entity, existing relationships and the extent to which home supervisors and host supervisors have done work on Basel II implementation. Whether communication is written or oral, what matters is that this communication be effective, in order for both home and host supervisors to better perform their roles.

19. Regardless of the type of communication used, local confidentiality laws may impede information sharing necessary for the smooth implementation of Basel II. Existing confidentiality arrangements should therefore be reviewed in the context of implementing Basel II. It is also important to protect banks' proprietary information, which may need to be provided to supervisors in greater volume and detail under Basel II. Supervisors involved need to consider carefully whether sufficient protocols are in place for sharing banks' proprietary information and to ensure that the information to be shared has a sufficient degree of protection. This applies not only to proprietary information being shared among other supervisors, but also to information that may be obtained by external parties assisting supervisors in reviewing banks' Basel II-related systems and processes.

20. Approaches among supervisors may differ with regard to Pillar 2. Indeed, when formulating Pillar 2, the BCBS was mindful of the need to maintain adequate flexibility in how it is implemented in different jurisdictions. Accordingly, Pillar 2 reflects a principles-based approach. The BCBS has clarified its expectations<sup>6</sup> regarding Pillar 2. A range of Pillar 2 methodologies reflecting varying approaches in different jurisdictions may be organised at a group-wide level. Home supervisors are expected to take a consolidated view of Pillar 2. At the same time, bank subsidiaries in host countries must meet host supervisor requirements for Pillar 2.<sup>7</sup> This highlights the importance of home-host information sharing and cooperation as appropriate in the implementation of Pillar 2, consistent with the principles set forth in this document. Home and host supervisors are strongly encouraged to work hard to reconcile, to the extent possible, differences that arise as a result of using different Pillar 2 approaches or where materially different Pillar 2 conclusions are reached. Paragraphs 22 and 24 below provide specific examples where home-host information sharing would be particularly helpful in the context of Pillar 2.

## **Examples of information that host supervisors might need for effective Basel II implementation/supervision**

21. Host supervisors are legally responsible for the supervision of banking operations in their jurisdictions. Each host supervisor has a responsibility to provide information to the home supervisor for consolidated supervisory purposes as is well documented in *The*

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<sup>6</sup> See Basel Committee press release on "Continued progress toward Basel II", 15 January 2004.

<sup>7</sup> Where group-wide Pillar 2 methodologies are applied to a subsidiary, the host supervisor must be satisfied that these methodologies are appropriate in the local context, and the subsidiary itself should be fully aware of the consequences. Likewise, the home supervisor may need information from the host supervisor on how local market conditions feed into group-wide methodologies.

*Supervision of Cross-Border Banking* (1996) and recognised in the Basel *Core Principles for Effective Banking Supervision*. Conversely, the host supervisor has a legitimate need to obtain relevant information - especially information related to a bank's risk profile and its ability to manage these risks - regarding the banking group that may have a significant impact on the subsidiary operating in its jurisdiction, subject to the general principles of relevance, materiality and proportionality.

22. The examples of information sharing set out below are illustrative and not exhaustive, nor are they a checklist for automatic use.

**(i) Information that could be supplied by the bank<sup>8</sup> to a host supervisor**

- The bank's plans for Basel II implementation at the local level for measuring and managing credit, market and operational risk.
- The bank's plans for meeting its responsibilities under Pillar 2 and how its approach at the global level will be applied locally to meet any local Pillar 2 requirements.
- Adjustments made to Basel II systems and processes<sup>9</sup> at the global level for application in the local market.
- Information on Basel II systems and processes that are locally developed, related controls and organisation, their updates, and the approach and results of the bank's internal validation of such processes.
- The bank's inventory of the approaches it plans to use at the local level, including places of development, places of use and scope of data utilised (eg global/regional/local). This would assist home and host supervisors in planning their activities and coordinating the action each needs to take.
- The bank's schedule and plans for addressing any gaps in its readiness for Basel II implementation at the local level.

**(ii) Information that could be supplied by the home supervisor to a host supervisor on a case-by-case basis**

- In situations where Basel II systems and processes developed and operated centrally are used locally, host supervisors could expect to receive relevant parts of any application pack, the home supervisor's summary assessment of the bank's global systems and processes and a description of the scope of work undertaken by the home supervisor to arrive at its assessment. Timely communication will be needed during the planning process. In such a situation, it is likely that the home supervisor would also look at the banking group's model development and implementation processes and control environment, and engage in dialogue with host supervisors on the locally implemented systems and processes to seek ways to confirm that they will be implemented in accordance with the group-wide systems and processes.

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<sup>8</sup> Paragraph 14 describes the collaborative arrangements when information is requested from banks.

<sup>9</sup> Systems and processes in this paper refer to rating systems and their inputs for the Basel II approaches to credit risk, as well as inputs and quantification methodologies for the Basel II approaches to operational risk.

- Certain aspects of a model's local implementation, including information about assumptions and key parameters used in the local systems and processes, may not be reviewed as part of the home supervisor's evaluation due to materiality issues and the host supervisor may need to take that into account in its own review work in the local jurisdiction. Supervisors may ask their banks to provide a self-assessment and the results as they relate to Basel II; if germane to the host jurisdiction, this would be useful information for supervisors to share. Host supervisors should rely on the work performed by home supervisors to the extent possible. To gain assurance that inputs are appropriate and that the subsidiary is adequately capitalised in light of its risk profile, a host supervisor may in limited or rare cases need to perform additional complementary testing. Such complementary testing is likely to apply in practice primarily to significant subsidiaries.
- To the extent that a home supervisor has specific concerns about, or information relevant to, host supervision of a bank's Basel II implementation in a local jurisdiction, those concerns should be communicated separately to the host supervisor, in addition to the more general communication outlined above.
- If the home supervisor plans to conduct on-site visits to host jurisdictions for model review purposes (eg where locally developed models, or models adapted from group models, are used), these plans and the time schedule for the proposed visits ought always to be communicated in advance so that a coordinated validation plan can be developed.
- Decisions regarding Basel II approvals that are germane to the host jurisdiction should be shared, including any conditions or limitations attached, plus the reasoning behind the decision.
- In appropriate circumstances, relevant sections of examination reports would be shared to the extent they are reports specifically on Basel II-related reviews. Home supervisors could indicate in these reports whether or not they have concerns about the banking group's Basel II-related methodologies, systems or processes.
- Recognising that approaches to Pillar 2 may differ between home and host jurisdictions, it may be necessary for home and host supervisors to discuss Pillar 2 issues that are directly applicable to the subsidiary (eg when work at the consolidated level such as stress testing is applicable to Pillar 2 at the local level).
- In the case of banks using the standardised approach to credit risk, the home supervisor's assessment of external credit rating agencies, including its assessment criteria and whether it accepts unsolicited ratings, could be shared if available. This would help host supervisors to judge whether they should recognise the same agencies for the subsidiaries and branches in the host jurisdiction, if indeed such agencies offer their services in that jurisdiction.

### **Examples of information that home supervisors might need from the host supervisor for effective Basel II implementation/supervision**

23. The home supervisor is responsible for the oversight of the implementation of Basel II for a banking group on a consolidated basis. As noted in paragraph 2, host supervisors' knowledge of local market conditions can be an essential input into the home supervisor's assessment of the banking group.

24. The examples of information sharing set out below are illustrative and not exhaustive, nor are they a checklist for automatic use:

- Information relevant to a host supervisor's assessment of Basel II implementation at the local level could be shared with the home supervisor. This information could be shared under already established information-sharing arrangements that support the home supervisor's consolidated supervision of a global banking organisation.
- Types of information shared may include reviews of Basel II systems and processes that are used locally as part of the host supervisor's local Basel II qualification process. More generally, the information may include reviews of local risk management processes, such as loan rating methodologies that are affected by Basel II implementation efforts.
- In situations where Basel II systems and processes are developed and operated in the host jurisdiction, the home supervisor could expect to receive the host supervisor's summary assessment of the local systems and processes and a description of the scope of work undertaken by the host supervisor to arrive at its assessment. Timely communication will be needed during the planning process. In some cases, a subsidiary may wish to adopt systems and processes that the host supervisor lacks sufficient knowledge or resources to meaningfully assess. Where this is the case, the host supervisor should discuss the situation with the home supervisor at an early stage on possible alternative arrangements as appropriate.
- In situations where Basel II systems and processes at the consolidated level rely to a considerable extent on methodologies or data specific to the host market, the home supervisor could expect to receive the host supervisor's summary assessment of the systems and processes and a description of the scope of work undertaken by the host supervisor to arrive at its assessment. Timely communication will be needed during the planning process.
- To the extent that a host supervisor has specific concerns about, or information relevant to, home supervision of a local bank's Basel II implementation, those concerns should be communicated separately to the home supervisor, in addition to the more general communication outlined above.
- In appropriate circumstances, relevant sections of reports (eg examination reports or reports of external auditors for supervisory purposes) would be shared to the extent they refer specifically to Basel II-related issues. Host supervisors could indicate whether or not they have concerns about the bank's Basel II-related models or processes.
- Pillar 2 issues directly applicable to the subsidiary could be shared, for example when work is performed at the local level (such as stress testing). This might include information on the results of the review of the subsidiary's capital adequacy assessment process and the host supervisor's response.
- In the case of banks using the standardised approach to credit risk, the host supervisor's assessment of external credit rating agencies, including its assessment criteria and whether it accepts unsolicited ratings, could be shared if available. This would help the home supervisor to judge whether it should recognise the same agencies for the purposes of group reporting.

## **Annex**

### **High-level principles for the cross-border implementation of the New Accord<sup>10</sup>**

#### **Principle 1**

The New Accord will not change the legal responsibilities of national supervisors for the regulation of their domestic institutions or the arrangements for consolidated supervision already put in place by the Basel Committee on Banking Supervision.

#### **Principle 2**

The home country supervisor is responsible for the oversight of the implementation of the New Accord for a banking group on a consolidated basis

#### **Principle 3**

Host country supervisors, particularly where banks operate in subsidiary form, have requirements that need to be understood and recognised.

#### **Principle 4**

There will need to be enhanced and pragmatic cooperation among supervisors with legitimate interests. The home country supervisor should lead this coordination effort.

#### **Principle 5**

Wherever possible, supervisors should avoid performing redundant and uncoordinated approval and validation work in order to reduce the implementation burden on the banks, and conserve supervisory resources.

#### **Principle 6**

In implementing the New Accord, supervisors should communicate the respective roles of home country and host country supervisors as clearly as possible to banking groups with significant cross-border operations in multiple jurisdictions. The home country supervisor would lead this coordination effort in cooperation with the host country supervisors.

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<sup>10</sup> These principles are extracted directly from *High-level principles for the cross-border implementation of the New Accord*, Basel Committee on Banking Supervision, August 2003