Annex A

Conglomerate Questionnaire

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I. Introduction

The Conglomerate Questionnaire (Questionnaire) is an analytical tool created for financial conglomerate supervisory purposes. The Questionnaire is considered a dynamic instrument that can be modified to suit the particular circumstances of individual conglomerates being examined and of the supervisors involved. The continuing work of the Joint Forum and experience gained in using the Questionnaire may result in changes to enhance its coverage and make it a more useful tool in better understanding the functioning of financial conglomerates and the unique risks facing supervised entities that are part of such conglomerates.

In a concise format, the Questionnaire facilitates discussion by one or more supervisors with a financial conglomerate about its:

- Organisational Structure, Corporate Governance and Management Oversight;
- Risk Management; and,
- Control Environment.

The information obtained in completing the Questionnaire can be used as an aid in cross-border and cross-sector supervisory discussions, planning supervisory strategies, and responding to supervisory emergencies. Supervisors can use the Questionnaire to further their understanding of a financial conglomerate's risk profile, systems of controls, and organisational/management structure.

Most sections of the Questionnaire begin with a question on the availability of information, and continue with questions that put that information into an organisational, strategic, and management context. Additionally, the Risk Management section has been structured to allow a financial conglomerate to identify its principal risks and to describe as many of those risks as the conglomerate and the supervisor(s) believe appropriate.

Most of the questions in the Questionnaire are "open-ended," that is, they ask "how" or "what" type questions that tend to generate a more informative discussion. Such questions permit the conglomerate to discuss the broad areas of the Questionnaire within their own frame of reference rather than simply responding "yes" or "no."

The User Guide has been prepared to facilitate using the Questionnaire and is based on the experience of the Task Force members in completing a more detailed questionnaire on fourteen financial conglomerates during 1996 and 1997. The Matrix included at the end can be used to capture brief responses to the questions across industry sectors and facilitate an overall supervisory strategy of the conglomerate among supervisors. Some of the information recorded in the matrix may be proprietary in nature, e.g. plans for the introduction of new products, and the consent of a mapped conglomerate should be sought prior to the sharing of such information with other supervisors.

II. User Guide

A. Using the Conglomerate Questionnaire

The Questionnaire is designed to be used by supervisors in evaluating and understanding financial conglomerates. By analysing the information contained in the Questionnaire, the user can obtain an overall picture of the financial conglomerate's organisational and management structure, risk profile, internal controls and can discover conditions or issues that might require further analysis and investigation. The Questionnaire is not designed to replace on-site examinations or investigations but to supplement supervisory practices. It can function as a starting point for discussion with conglomerate management and/or other supervisors of the conglomerate in supervising the conglomerate consistent with its risk profile. The Questionnaire can also be useful as a part of a conglomerate's own internal assessment process.

A thorough understanding of the three broad categories included in the Questionnaire and their interrelationships and limitations is essential in order to use the Questionnaire effectively. As a general rule, information obtained in response to the Questionnaire should be reviewed with the conglomerate's management to ensure its accuracy prior to analysis.

This User Guide does not present detailed in-depth instructions on completing or analysing the information obtained in the Questionnaire. Rather, it attempts to explain the experiences of the Task Force members and users might find the following examples helpful while completing the Questionnaire:

- It has often been revealing to pose the same questions to the senior management levels and to the business levels to see what similarities and differences emerge.

- It has been revealing to compare the results of discussions on the broad business strategy and organisation to the conglomerate's view of its principal risks and how they are managed.

- The Questionnaire asks the conglomerate for its principal risks. The supervisors might want to ask the conglomerate about the risks it does not mention. A partial list of major risks commonly found at financial conglomerates includes: credit, liquidity, operational, interest rate, foreign exchange, strategic, legal, reputational, market, insurance (underwriting, reinsurance and asset-liability management), compliance, information systems and settlement.

As noted above, the questionnaire is a dynamic instrument that can be modified to suit the particularly circumstances of individual conglomerates being examined and of the supervisors involved. Regard should also be had to the desirability of avoiding the imposition of unnecessary or duplicative administrative burdens on conglomerates. Supervisors considering asking a conglomerate to respond to the questionnaire should consider whether modifications are appropriate in light of any information they already have about the conglomerate. Consideration should also be given to whether the questionnaire should be administered in conjunction with other supervisors who have an interest in the conglomerate on the basis that the resulting information would be shared.

B. *Definitions of Terms*

Financial Conglomerate is a conglomerate whose primary business is financial and whose regulated entities engage to a significant extent in at least two of the activities of banking, insurance and securities.

Corporate Legal Structure refers to the legal framework of a financial conglomerate's organisation of entities that make up the conglomerate. This can include such entities as licensed commercial banks, licensed banking subsidiaries, licensed insurance subsidiaries, unsupervised or unregulated entities, etc.

Business Activities Structure refers to the way a financial conglomerate organises and operates the primary business activities in which it is engaged. For example, a conglomerate may be organised along business lines such as Foreign Exchange, Retail Banking, Corporate Lending, Life Insurance, Investment Advisory and other types of related activities.

Regulatory and Supervisory Structure refers to the body of supervisors and regulators which are charged with supervising any and all legal entities comprising the financial conglomerate, i.e., the banking, insurance, and/or securities supervisor and regulator in the countries where such entities operate.

Management Structure refers to the form of direct supervision and oversight exercised by management on the conglomerate. It is the individualised approach adopted by the financial conglomerate to conduct its business. The management structure of most conglomerates falls into one of three categories (or a combination thereof): Corporate Legal (legal entity basis), Business Line (product/service basis), or Geographic (region, country, municipality).

Corporate Controls Functions are the risk measurement, monitoring and control systems of a conglomerate and include internal and external audit, financial control, compliance, human resources, and information technology. Together, they comprise the Control Environment, the functions within the conglomerate charged with ensuring that actions of the conglomerate are prudent and compliant, and in line with the risk taking appetite approved by the Board of Directors.

Risk refers to the likelihood that expected or unexpected events will have a negative impact on the financial conglomerate. Risk categories will vary by conglomerate, but generally fall into one of two broad categories: financial risk (credit, market, liquidity, actuarial, reinsurance, etc.) and non-financial risk (operations, transaction, reputation, legal, compliance, etc.).

Risk Profile refers to an assessment of the level of risk-taking activity in light of the existing risk management framework.

C. Technical Information

The wide variety of structures and systems of financial conglomerates and the uniqueness of their business requires that supervisors determine on a case-by-case basis the information that should be available. Supervisors need to obtain information that allows them to assess and monitor how effectively a financial conglomerate is identifying, managing, and controlling its risks and to recognise any incipient problems. The Questionnaire is a starting point in this process.

The following constitutes examples of the types of information supervisors may wish to have access to (the types of information fall into the three broad categories and parallel the structure of the Conglomerate Questionnaire).

Organisational structure, Corporate governance and Management oversight

- An organisational chart or other descriptive material that depicts
  a) the supervised entity and any material holding companies, subsidiaries, or affiliates, with indications of which legal entities take or bear substantial risk,
  b) the business line organisation structure, with the supervised entity's place in the business line(s), the location of relevant business line management, and
  c) the supervisors of any material holding companies, subsidiaries, or affiliates.

An organisational chart is useful to identify how closely the conglomerate's business line structure is aligned with its corporate legal structure, which other legal entities interact with or otherwise affect the supervised entity, and which of those entities are supervised and by whom. Understanding of the organisation chart may also be deepened by discussion of the factors that influence the overall approach to corporate legal structure, the conglomerate's plans with respect to corporate legal structure and any impediments it sees to developing optimal structure. An important consideration in reviewing any organisational chart is the realisation that a financial conglomerate is quite complex and its true organisational chart may in actuality be multi-dimensional.

- A chart depicting the management structure of the conglomerate, descriptions of the responsibilities of different types of managers (e.g., legal entity, corporate, business line, etc.) within the conglomerate, the relationship among managers and important types of interaction.

The management information-related questions provide the supervisor with insight into how the conglomerate is managed and controlled (on a global basis, on a regional, country, or business line basis, or through some combination of these structures) and how the conglomerate manages businesses that cut across geographic and legal boundaries. Discussions with management can assist supervisors in understanding the major incentives provided to management to meet the organisation's goals and objectives, the managers responsible for maintaining the conglomerate's control environment in business lines and legal entities, and the firm's mechanisms to identify and correct internal control breaches, violations, and other problems within the firm.

- A description of the roles and responsibilities of the conglomerate's board of directors, the composition of the board, and the roles and responsibilities of the board of the supervised legal entity, and its composition.

The information on the roles and responsibilities of the conglomerate's and the supervised legal entity's board of directors (if they differ in composition) provides the supervisor with an understanding of the conglomerate's governance and decision-making scope of regulated legal entities.

- The level and distribution of capital among the material legal entities of the conglomerate, the conglomerate's approach to capital allocation on an economic and on a regulatory basis, and whether the conglomerate is in compliance with its capital requirements in all regulated legal entities.

The capital information provides basic information on the conglomerate's capital structure and the impact of that structure on the current and future evolution of the financial condition of supervised legal entities, as well as an understanding of the regulatory factors influencing the manner in which capital is held within the conglomerate. Supervisors often discuss with management the approach to capital allocation and factors influencing capital allocation decisions.

- Financial information on the supervised entity and its ultimate holding company, if applicable, including balance sheets (as of the most recent fiscal quarter and financial year-end) and income statements (for the most recent year-to-date period and financial year end), and consolidated balance sheets and income statements, where available.

Financial information enables supervisors to assess trends in earnings and balance sheet categories as well as the contribution and/or significance of the piece of the conglomerate under their particular supervision. Information on relevant market developments, including acquisition and merger activity, should be accessible to enable supervisors' assessment of implications for the financial condition of supervised entities.

- A description of the nature of the conglomerate's intra-group and related affiliate transactions and exposures, and indications of the volume of such transactions and the size of material intra-group financial exposures.

The intra-group information allows the supervisor to evaluate the channels through which the holding company, subsidiaries and affiliates of a regulated legal entity can influence the financial health of that legal entity. These channels include arrangements such as servicing agreements. Supervisors can also discuss with management factors affecting legal entity booking decisions and thus the size and nature of intra-group exposures, as well as how such transactions are monitored, and what limits or other controls on exposure are in place among legal entities within a financial conglomerate.

Risk Management

- A description of the conglomerate's broad business strategy, and the conglomerate's view of its principal risks; for each principal risk, a description of the approach to measuring, managing and controlling that risk, the organisation of risk management personnel and their reporting lines, limit structures or other risk control mechanisms in the regulated entity, and, where relevant, the role of stress testing or contingency planning in managing risk at the business line, legal entity or groupwide level.

The risk information provides the supervisor with management's perspective on the overall risk profile of the firm, the risk profile of the supervised legal entity, and management's approach to managing each risk within the legal entity structure. As part of measuring and monitoring certain risks, financial conglomerates may conduct stress testing and other contingency planning at the business line, legal entity or corporate-wide level which, if conducted thoughtfully, can shed additional light on potential risk concentrations and vulnerabilities to changes in the market environment.

Organisational information and discussions with management should clarify responsibilities in the risk management area and help the supervisor identify relevant risk management personnel to answer questions. Supervisors may also seek information about the limit structure or other measures to control risk-taking and the use and level of reserving or provisioning, such as the credit loss reserve at banks or the technical provisions at insurance companies. The conglomerate's approach to administering limits (e.g., the willingness of management to permit limit exceptions) or managing reserves/technical provisions is critical to understand the intended restraints on risk-taking at the firm-wide level and within the supervised legal entity.

- Policies and procedures of the conglomerate addressing the introduction of new products or business lines.

The new product information helps the supervisor understand how the potentially risky process of introducing new products is managed, and where responsibility for ensuring adequate controls and due diligence on these products lies within the conglomerate.

- A description of the approach to managing the liquidity and funding profile of the supervised entity, including the liquidity of the material assets, the nature and stability of the entity's current funding sources and the availability of alternative funding; large payables, including securities payables, aggregate insurance claims payments, and out-of-the-money over-the-counter derivative and foreign exchange contracts; and other significant cash and securities needs associated with exchange activities or clearing and settlement, as well as the conglomerate's approach to managing significant clearing and settlement arrangements through or for other firms.

The liquidity and funding profile of the supervised entity enables supervisors to determine the entity's cash needs to cover liabilities and settlement obligations, how quickly the entity can generate cash from its existing assets, liquidation of collateral, where appropriate, or through additional liabilities, and how effectively the entity can access credit-sensitive trading markets. Since counterparties to banking and securities firms are likely to assess their credit exposure to the firm across the full range of funding, counterparty exposures and settlement arrangements, a comprehensive assessment of liquidity will normally require access to information on all these elements.

Control Environment

- The conglomerate's significant accounting policies and actuarial policies (where relevant), the role(s) of any internal or external actuaries.

- A description of the roles, responsibilities and organisation of the financial control and compliance functions.

The information on accounting policies, actuaries, financial control, and compliance should provide a supervisor with an understanding of key elements of the framework for establishing internal control in the organisation and the location within the financial conglomerate of key financial, accounting and actuarial systems and personnel.

- A description of the roles, responsibilities, organisation and allocation of responsibilities between centralised and decentralised elements of the internal audit area and the role of external audit.

The internal audit information assists the supervisor in understanding the objectives of the internal audit department, its interaction with the external auditors, how audit responsibilities relating to a supervised legal entity are managed between the central audit staff and any staff assigned to the region, business line or legal entity, the recipients of audit reports and the nature of the process to follow up internal audit findings.

III. Conglomerate Questionnaire

I. Organisational Structure, Corporate Governance And Management Oversight

A. Legal Structure and General Information

1. What information is available within the conglomerate on the legal corporate and business line structures (including any information on regional or geographic structures)? How well do public disclosures (e.g., annual reports, public financial statements, etc.) capture the legal and business line structures of the conglomerate?

2. What factors influence the overall approach to corporate legal structure? How closely is the conglomerate's business line structure aligned with its corporate legal structure? If not closely aligned, what factors influenced the "divergent" structure?

3. What is the conglomerate's strategy with respect to corporate legal structure? What does management feel is/would be the optimal structure? What impediments exist that prevent management from implementing the optimal structure?

4. Which legal entities are regulated and by whom? Who is responsible for coordinating regulatory relationships? How is this achieved in practice? How does management view the regulatory structure(s) within which it must operate?

B. Management Structure

1. What information is available on the management structure of the conglomerate? To what level of management/employee is this information disseminated? How does management ensure that reporting lines are clear?

2. What is the overall management structure of the conglomerate? How closely does this structure align with business lines and/or corporate legal entities? What is the strategy in having this structure? What factors influenced the decision to adopt such a structure? What factors would cause management to reconsider its current management structure?

C. Corporate Governance and Management Oversight

1. How is the conglomerate managed and controlled -- on a global basis, on a regional, country or business line basis, or some combination of these? How does the conglomerate manage businesses that cut across geographic and legal boundaries?

2. What responsibilities do different types of managers (e.g., legal entity, corporate, business line, etc.) have within the conglomerate and how do these managers interact? For those conglomerates with regional or geographic managers, who reports to these managers?

3. What roles and responsibilities does the conglomerate's board of directors have? What is the composition of the board (e.g., outside directors)? What roles and responsibilities do the boards of legal entities have? What is the composition of these boards?

4. What are the major incentives provided to management to meet the organisation's goals and objectives? What are the major disincentives to management actions that impede meeting the organisation's goals and objectives?

5. What is the conglomerate's approach to staff recruitment and development? How are the conglomerate's objectives (business or otherwise) communicated to staff? How are strategic business and individual goals developed and monitored?

6. What is the conglomerate's strategy with respect to compensation? How is the conglomerate's compensation strategy developed and implemented? How do the conglomerate's business objectives and compensation methodology interact?

D. Capital Resources

1. What information is available on the allocation of capital on an economic and regulatory basis? What management information reports are produced on capital-related issues such as using assets to collateralise exposure to more than one liability and substantial double leverage?

2. What is the conglomerate's capital and capital allocation strategy? Where is capital held within the conglomerate and why is it held there? What factors affect the allocation of capital across the conglomerate (e.g., regulatory, risk factors, etc.)? How are decisions made on capital allocation? When regulators require capital in certain legal entities, how does this affect the consolidated conglomerate?

3. How are capital decisions affected by the legal entity and business line structures?

4. What restrictions are placed on the instruments available to the conglomerate for raising capital and what is the nature of the restrictions? What are the impediments to flows of

capital among legal entities? To what extent, if any, are some legal entities able to raise capital on more favourable terms than others?

E. Intra-group and Related Entity Transactions and Financial Exposures

1. What information is available on the range of intra-group and related entity transactions and exposures? What kinds of management information reports are produced? How frequently are these reports produced?

2. What is the conglomerate's overall strategy with respect to intra-group transactions and exposures? What kinds of intra-group/related entity transactions or other arrangements are used (e.g., servicing agreements, back-to-back transactions, etc.)? How are intra-group and related entity exposures and transactions monitored?

3. What is the volume of intra-group/related entity transactions? the level of financial exposure? Does the conglomerate have limit structures in place for such transactions or exposures? What is the level of financial exposure to entities that are not wholly owned (<100%)? Does the conglomerate have limit structures in place for transactions and exposures to entities that are not 100% owned?

4. What factors affect legal entity booking decisions?

II. Risk Management

A. Risk Profile

1. What are the conglomerate's principal risks?

2. What are the major risk-taking legal entities within the conglomerate?

3. For each of the risks identified in 1. above:

    a. What risk information is available within the conglomerate and what is the frequency of the information? How does the conglomerate measure that type of risk (if applicable, indicate types of models, etc.)?

b. What kinds of risk reports are available to risk takers, risk managers, senior managers and the board of directors? How frequently are these reports produced (e.g., global reports, business line reports)?

c. Are there elements of the management of particular risks that are implemented on a centralised basis vs. decentralised basis (e.g., centralisation of information capture, decentralisation of limit setting process)? Which risks are managed centrally by one legal entity? What role do regional or geographic managers play in risk management?

d. What risk control mechanisms does the conglomerate have in place (e.g., limit structures, vacation policy, compensation package, etc.)? Who is responsible for setting limits and how are they established? Are limits established for legal entities? business lines? consolidated conglomerate? Who monitors the limits or other mechanisms? What are the normal procedures if limits need to be exceeded?

e. What are management's plans with respect to stress testing, contingency planning and back testing?

f. What plans are there to change or enhance aspects of the risk management function (e.g., enhancements to systems, development of new measurement tools, etc.)?

B. New Products

1. How does the conglomerate define a new product? How is the introduction of new products managed within the conglomerate? What management reports are produced on the new product process? What process is used to determine whether or not a new product will be introduced or used by the conglomerate?

2. Who is responsible for the new product process? What role does internal audit and business unit management play in the new product process?

3. What are the conglomerate's plans with respect to introducing or using new products in the coming year? (e.g., new to the firm but not to the industry, new to the industry)

C. Liquidity Management

1. What types of information are available on liquidity? How frequently is this information produced?

2. Who is responsible for liquidity management? Which elements of liquidity management are centralised (at head office) and which elements are conducted at the local or legal entity level? How was this management arrangement determined?

3. Who is responsible for crisis and contingency funding planning? To what extent have such plans been elaborated?

III. Control Environment

A. Accounting Issues

1. What major accounting rules are used by the conglomerate? How are these rules applied across the conglomerate? How are the results of using the accounting rules of different jurisdictions reconciled on a global consolidated basis?

2. What area(s) of the conglomerate is responsible for accounting issues? What are the responsibilities and reporting lines of this area?

B. Actuarial Issues

1. Where relevant, what actuarial rules are used in the conglomerate? How are these rules applied across the firm?

2. What area(s) of the conglomerate is responsible for actuarial issues? What are the responsibilities of the actuary (or actuarial department)? To whom does the actuary report?

3. How does the conglomerate address actuarial issues (in-house? external?) What is the role of those resources?

C. Financial Control Function (responsible for the integrity of the conglomerate's books and records and financial reporting)

1. What types of management information reports are produced by the financial control function? What is the frequency and timeliness of these reports? How are reports produced? (e.g., for business lines? legal entities? consolidated conglomerate?)

2. How is the financial control function organised with respect to legal entities and business lines? How is it managed (centrally, along geographic lines, business lines)?

3. What is the role of the business unit in the development and implementation of internal control plans? To what extent are internal controls implemented at the local level vs. business line?

D. Compliance (compliance with relevant laws and regulations)

1. What types of information are available to monitor/ensure compliance? What methods does the conglomerate use to identify and report non-compliance problems or issues?

2. What is the structure of the conglomerate's compliance function? (e.g., separate? centralised, etc.?) How are responsibilities for compliance issues assigned? (e.g., legal)? If a separate function, to whom does the compliance function report? In practice, how are the compliance requirements of the conglomerate monitored and managed?

3. What are the roles of the different levels and types (e.g., legal entity, business line, etc.) of management in developing, maintaining and ensuring the conglomerate's control environment? What mechanisms are in place to identify and correct internal control breaches, violations, and other issues of non-compliance?

4. How are other types of problems, such as a failing counterparty or employee misconduct, identified, reported, and managed?

E. Internal Audit

1. What types of information, summaries and other reports (e.g., Board reports, senior management reports) are available on internal audits (e.g., performance reports, unresolved issues, etc.)? To whom is this information available? What is the process for following up or acting on issues identified by internal audit?

2. How is the internal audit function structured? What roles and responsibilities belong to the centralised element of the audit function, if there is one? What roles belong to decentralised units of the internal audit function, if any?

3. How does the conglomerate ensure sufficient independence of the internal audit function? To whom does the internal audit function report?

4. How will the conglomerate's approach to internal audit and internal controls change or expand in the future?

5. Are there any aspects of the internal audit function that are outsourced? If so, to whom are they outsourced? How is the determination made i.e. whether or not to outsource?

F. External Audit

1. What types of information are available on external audit issues? To whom is this information available? What kind of follow-up is conducted with respect to deficiencies or other issues identified by external audit? Who is responsible for the follow-up? What is the process to correct deficiencies?

2. What are the responsibilities of the external auditors? How does the external audit firm interact with the internal audit function? How closely do the external and internal audit functions work? How does the firm go about selecting its external auditor?

3. How does the conglomerate ensure the independence of the external audit process? What is the role of the non-executive board members with respect to external audit?