- 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?

IV. Conglomerate Matrix

I. Organisational Structure, Corporate Governance and Management Oversight

A Legal Structure and General Information

1.	GENERAL INFORMATION (Type of organisation, range of asset size, countries in which active, indication of general supervisory framework)	[Information available to supervisors, or obtained during mapping]
2.	ORGANISATIONAL STRUCTURE- CORPORATE (list major subsidiaries and branches, locations, types of activities, indication of whether subsidiary is supervised). Attach in annex a "legal entities" corporate tree.	[Information available to supervisors, or obtained during mapping]
3.	ORGANISATIONAL STRUCTURE- BUSINESS LINE (list major business lines e.g., fx, swaps, equity sales & trading, fixed income, derivatives, retail banking, private banking, custody, personal/commercial lines general insurance, reinsurance, individual/group life, pension, corporate banking, others). Attach in annex a "business line" organisational structure.	[Information available to supervisors, or obtained during mapping]
4.	DISCLOSURES (extent of legal and business line public disclosures-compare to information disseminated within the conglomerate)	Question IA1
5.	FACTORS INFLUENCING LEGAL / BUSINESS LINE STRUCTURE (if divergent, explain reasons.)	Question IA2

6.	TREND IN CORPORATE LEGAL AND BUSINESS LINE STRUCTURE (e.g., status quo vs. current and planned changes, management's views of optimal structure)	Question IA3
7.	RESPONSIBILITY FOR COORDINATING REGULATORY RELATIONSHIPS (include how, who and location(s)). Attach in annex a listing of major regulated entities and relevant regulators.	Question IA4
B.	**Management Structure**	
1.	TYPE OF OVERALL MANAGEMENT STRUCTURE(including major corporate committees and their role)	Question IB1 and information available to supervisors, or obtained during mapping
2.	DISCLOSURES (extent of public disclosures as to management structure-compare to information disseminated within the conglomerate)	Question IB1
3.	MANAGEMENT STRUCTURE OF LEGAL ENTITIES (at what level and location is firm being run?; authority of legal entities)	Question IB2
4.	MANAGEMENT STRUCTURE OF MAJOR BUSINESS LINES (alignment of such structure to corporate legal structure)	Question IB2
5.	KEY BUSINESS LINE MANAGERS, LOCATIONS AND REPORTING LINES (indicate top business line managers, area of responsibility, location (home office vs. other -- sub. or branch?))	[Information available to supervisors, or obtained during mapping]

6	KEY FUNCTION MANAGERS' LOCATIONS, AND REPORTING LINES (e.g., Risk Management, Audit, Financial Control, etc., location(s), and whether manager has dual responsibilities)	[Information available to supervisors, or obtained during mapping]
7.	DOES THE FIRM HAVE REGIONAL MANAGERS? (Indicate geographic location and area of responsibility)	[Information available to supervisors, or obtained during mapping]
8.	FACTORS INFLUENCING MANAGEMENT STRUCTURE- LEGAL / BUSINESS LINE	Question IB2
9.	TREND IN MANAGEMENT STRUCTURE (e.g., status quo vs. current and planned changes, management's strategy with respect to its structure)	Question IB2
C.	**Corporate Governance and Management Oversight**	
1.	DISCUSSION OF RELATIONSHIP BETWEEN MANAGEMENT OF BUSINESS LINES AND LEGAL ENTITIES (discussion of global business lines and how firm manages businesses that cut across geographic and legal boundaries)	Question IC1
2.	GENERAL DISCUSSION OF MANAGEMENT RESPONSIBILITY FOR CONTROL ENVIRONMENT (including role of senior management/entity management; does the firm run like one entity or multiple different businesses?)	Questions IC1 and IC2

3.	GENERAL DISCUSSION OF COMPOSITION AND ROLE OF BOARD OF DIRECTORS AND MAJOR BOARD-LEVEL COMMITTEES	Question IC3
4	PRINCIPAL INCENTIVES/ DISINCENTIVES TO MANAGEMENT, COMPENSATION AND RECRUITMENT STRATEGY (relate to the firm's goals and objectives)	Questions IC4, IC5 and IC6
D.	**Capital Resources**	
1.	TYPES AND SOURCES OF CAPITAL	[Information available to supervisors, or obtained during mapping]
2.	DISCLOSURE OF CAPITAL ALLOCATION WITHIN CONGLOMERATE AND OF CAPITAL ADEQUACY OF REGULATED ENTITIES (public disclosure and management reporting)	Question ID1
3.	ALLOCATION METHODOLOGY (factors, including regulatory requirements, determining allocation of capital and management strategy)	Question ID2
4.	RESPONSIBILITY FOR CAPITAL RESOURCES AND ALLOCATION	Question ID2
5.	DISCUSSION OF CAPITAL ALLOCATION : BUSINESSES LINES VERSUS LEGAL ENTITIES	Question ID3
6.	RESTRICTIONS ON CAPITAL INSTRUMENTS AND ON FLOWS OF CAPITAL WITHIN THE CONGLOMERATE	Question ID4

E.	**Intra-group and related entity transactions and financial exposures**	
1.	DISCLOSURE (extent of public disclosure on intra-group transactions and exposures and other intra-group arrangements)	Question IE1
2.	MANAGEMENT INFORMATION AND REPORTING SYSTEMS (including a discussion of location and responsibility for monitoring, types of reports, frequency and distribution)	Question IE1
3.	DISCUSSION OF TYPES OF INTRA-GROUP TRANSACTIONS AND REASONS FOR TRANSACTIONS (management rationale for intra-group transactions.)	Question IE2
4.	OTHER TYPES OF INTRA-GROUP RELATIONSHIPS (e.g., discussion of service agreements, etc.)	Question IE2
5.	VOLUME OF INTRA-GROUP TRANSACTIONS AND EXPOSURES AND LIMIT STRUCTURES (including limits for participations of less than 100%)	Question IE3
6.	FACTORS THAT AFFECT LEGAL ENTITY BOOKING DECISIONS	Question IE4
II.	**Risk Management**	
A.	**Risk Profile**	
1.	PRINCIPAL RISKS OF CONGLOMERATE	Question IIA1

2. MAJOR RISK TAKING ENTITIES (relate principal risks being undertaken to the legal entities where such risks are borne)	Question IIA2
3. MANAGEMENT'S PERCEPTIONS OF RISKS TO FIRM AND TRENDS/CHANGES	[Information available to supervisors, or obtained during mapping]
B. New Products	
1. PROCESS FOR INTRODUCTION OF NEW PRODUCTS (initiation , development, approval implementation, reporting)	Question IIB1
2. MANAGEMENT RESPONSIBILITY (role of legal entity/business line manager)	Question IIB2
3. PLANS FOR THE INTRODUCTION OF NEW PRODUCTS (e.g. one year timeframe)	Question IIB3
Risk Management ***For each type of risk , the following information should be recorded, as applicable.***	
1. STRUCTURE OF RISK MANAGEMENT	
a. Management Structure, Reporting Lines and Responsibilities (e.g. centralised/decentralised, role of geographic and regional managers)	Question IIA3c and IIC2
b. Role of Board of Directors	Question II A3c

c.	Current and Future Risk Appetite (management's views as to the conglomerate's willingness to accept risk)	[Information available to supervisors, or obtained during mapping]
2.	METHODOLOGIES AND MEASUREMENT TOOLS	
a.	Discussion of Risk Measurement (e.g. types of models, legal entity, business line, conglomerate-wide approach)	Questions IIA3a and IIC2
b.	Discussion of Risk Control Mechanisms including Limit Structures (responsibilities for setting and monitoring the application of limits and for remedial action)	Questions IIA3d and IIC2
c.	Stress Testing, Contingency Planning and Back Testing (including discussion of crisis and contingency funding planning)	Question IIA3e and IIC3
3.	RISK MANAGEMENT REPORTS	
a.	Types of Risk Management Reports	Questions IIA3b and IIC2
b.	Frequency and Distribution of Reports (e.g. to risk takers, risk managers, senior managers and the Board of Directors)	Questions IIA3b and IIC2
c.	Discussion of Information Systems Development	Questions IIA3f and IIC2
d.	Trends in Risk Management (e.g., changes in reporting systems, management's direction for risk management, new tools)	Questions IIA3f and IIC2

III. Control Environment

A. Accounting Issues

1. MAJOR ACCOUNTING RULES USED BY CONGLOMERATE (including reconciliation process for different jurisdictional requirements)	Question IIIA1
2. RESPONSIBILITY FOR ACCOUNTING DECISIONS (discuss functional responsibility lines, whether geographic location is important, whether multiple systems are used)	Question IIIA2

B. Actuarial Issues

1. MAJOR ACTUARIAL RULES USED BY CONGLOMERATE (including reconciliation process for different jurisdictional requirements)	Question IIIB1
2. RESPONSIBILITY FOR ACTUARIAL DECISIONS (discuss functional responsibility lines, whether geographic location is important, whether multiple systems are used)	Question IIIB2
3. ROLE OF OUTSOURCING FOR ADDRESSING ACTUARIAL ISSUES	Question IIIB3

C.	**Financial Control Function**	
1.	MANAGEMENT INFORMATION REPORTS (including type, frequency and whether along business lines, legal entities and/or consolidated)	Question IIIC1
2.	STRUCTURE OF FINANCIAL CONTROL (including how the function is organised -- along business lines, legal entities; reporting lines)	Question IIIC2
3.	ROLES AND RESPONSIBILITIES OF FINANCIAL CONTROL (including the role of business line management in the development and implementation of internal controls)	Question IIIC3
D.	**Compliance**	
1.	MANAGEMENT INFORMATION REPORTS (including type, frequency, distribution)	Question IIID1
2.	STRUCTURE OF COMPLIANCE FUNCTION (including how the function is organised, e.g. centralised)	Question IIID2
3.	REPORTING LINES OF COMPLIANCE FUNCTION	Question IIID2
4.	DISCUSSION OF THE RESPONSIBILITIES OF COMPLIANCE (including mechanisms to identify, report and manage control and non-compliance problems)	Questions IIID3 and IIID4

E.	**Internal Audit**	
1.	MANAGEMENT INFORMATION REPORTS AS TO WORK OF INTERNAL AUDIT (including follow-up process on findings)	Question IIIE1
2.	STRUCTURE OF INTERNAL AUDIT AND RESPONSIBILITIES (including how function is organised -- along business lines, legal entities; centralised vs. decentralised)	Question IIIE2
3.	INTERNAL AUDIT REPORTING LINES (including independence of function)	Question IIIE3
4.	FACTORS INFLUENCING SCOPE, COVERAGE AND FREQUENCY OF AUDITS (including management's future outlook for the conglomerate's internal audit function)	Question IIIE4
5.	ROLE OF OUTSOURCING	Question IIIE5
F.	**External Audit**	
1.	MANAGEMENT INFORMATION AVAILABILITY AS TO EXTERNAL AUDIT WORK (including follow-up process on findings)	Question IIIF1
2.	PRIMARY EXTERNAL AUDIT FIRM (including measures to ensure the independence of the external auditors)	[Information usually available to supervisors, or obtained during mapping] and Question IIIF3
3.	OTHER FIRMS USED FOR OTHER LEGAL ENTITIES?	[Information available to supervisors, or obtained during mapping]

4.	INTERACTION BETWEEN EXTERNAL AUDIT AND INTERNAL AUDIT	Question IIIF2
5.	RESPONSIBILITIES OF EXTERNAL AUDIT (including consulting work)	Question IIIF2

Annex B

Outline of Types of Information that would be Useful in an Emergency Situation

As the situation of a financial conglomerate worsens, the nature and scope of the problems being encountered will influence the types of information supervisors will be interested in accessing. As such, specific types of information needs cannot be anticipated in advance and will need to be determined on a case-by-case basis. Supervisors' needs will only be met if the conglomerate has in place good information systems which will permit accurate and detailed information to be retrieved in a timely and reliable manner.

In an emergency, supervisors' information needs will often be sharply focused and potentially very detailed. Supervisors may not seek the same types of information as set out below for any given emergency. While the primary information needs in an emergency will be firm-specific, there may also be a need for information relating to depositories, exchanges and clearing organisations. In order to respond to emergency situations in a timely and effective way, the information requirements of supervisors can be characterised as follows:

- Updates of information that should be on hand or readily available to supervisors;
- Information that supervisors will likely want to obtain during the course of an emergency;
- Information that will permit supervisors to assess the impact of an emergency on other financial firms under their supervision; and
- Information that provides the context of the emergency and its potential course.

In some unusual emergency circumstances, such as a major fraud or operational failure, the quality of some information from a supervised entity may be compromised. In such circumstances, supervisors will need to develop alternative sources of information or a strategy with which to obtain approximations of the financial and risk exposure information needed.

In an emergency, supervisors need to establish communication with a representative of their supervised entity (or entities) who can act as the contact person to provide requested information to the supervisors and to act as the primary liaison between the supervisors and the supervised entity. This person, which in unusual circumstances could be appointed from outside the supervised entity, should be designated as soon as possible once the emergency is detected.

The more familiar the supervisor is with the conglomerate’s operations, the better positioned it will be to act in an emergency situation. Completing the Conglomerate Questionnaire and matrix in advance of an emergency can be a useful supervisory tool.

A. Information That Should Be On Hand or Readily Available to Supervisors

Supervisors' ability to gather and accurately interpret necessary financial and operational information about the conglomerate is critical to effective supervision in an emergency. Either through ongoing supervisory work or as a result of having carried out a mapping exercise using the Conglomerate Questionnaire, relevant supervisors should be familiar with the key management information reports available at the conglomerate and knowledgeable of where information gaps or weaknesses may exist. Examples of the types of information which supervisors will generally need are set out below.

- An organisational chart or other descriptive material that depicts the supervised entity and any material holding companies, subsidiaries, or affiliates, the business line organisation structure, with the supervised entity's place in the business line(s), and the location of relevant business line management.
- Financial information on the supervised entity and its ultimate holding company, if applicable, including balance sheets and income statements and the capital structure.
- The liquidity and funding profile of the supervised entity. This information would include:
    - the liquidity of the material assets, the nature and stability of the entity's current funding sources and the availability of alternative funding, and intercompany funding arrangements;
    - 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, and significant clearing and settlement arrangements through or for other firms.
- The principal market risk and credit risk exposures of the supervised entity, which should include: on- and off-balance sheet positions, as well as significant counterparty exposures; and insurance underwriting risk, interest rate risk and investment risk.

An up-to date organisation chart would provide supervisors with the ability (1) to verify their understanding of the entire organisation's legal entity structure and how the supervised entity fits into that overall structure and (2) to facilitate, given the nature and scope of an emergency situation, the identification of affiliates that may cause the supervised entity to be at risk. Updating information briefly describing the primary activities of the supervised entity, the geographic and legal entity location of the business heads of those activities, the supervisors of all material entities and, where not obvious from financial information, the scale of the activities would also be useful.

Current financial information, including the balance sheets and income statements, would allow supervisors to analyse and assess the supervised entity's current financial condition and results of operations and to gain insight into the potential impact of current risk exposures on the entity's financial condition.

A current liquidity and funding profile of the supervised entity would enable 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. Given the importance of liquidity in emergencies, specifically with regard to banks and securities firms, the supervisor's liquidity information needs can be quite detailed, including a day-by-day breakdown of the liquidity profile and of assets, liabilities and other obligations.

Current market risk and credit risk information would provide supervisors with insights into the supervised entity's major exposures which may not be readily apparent from the financial statements. It also gives supervisors the ability to seek out additional information, such as large credit exposures by customer or counterparty or exposure to a specific counterparty. In most cases, this information should be current as of a day or two of generating the information for a periodic or requested report. For banks and securities firms, credit risk exposure information should include estimates of direct exposure (lending or placements of funds), counterparty credit exposures through over-the-counter contracts or large receivables, and clearing and settlement exposures. For insurers, market and credit risk exposure information should include the current constitution of the portfolio of insurance policies (including reinsurance protection), the composition of assets covering technical provisions and liabilities, the interest rate applied in the calculation of the mathematical provisions, how these insurance liabilities have been assessed, and an estimate of the firm's exposure to large insurance risks.

B. Information that supervisors will likely want to obtain during the course of an emergency situation

In contrast to basic financial and operational information generally available to supervisors, the information that a supervisor will likely want to obtain from a supervised entity during the course of an emergency situation would not necessarily be available to the supervisor prior to an emergency situation. It would be the particulars of the emergency -- the nature and scope of the problem -- that would indicate what information would be required by supervisors. However, the supervised entity's risk-taking, risk management, financial, operational, and control systems should be sufficient to capture and provide the desired information. Although the nature and scope of the emergency situation will determine specific information needs, those needs would generally include the following:

- What is the nature and severity of the emergency situation within the supervised entity?
- How is the supervised entity responding to the emergency situation?

This information could include the person(s) managing the emergency situation within the firm with their location, the use of any contingency plan or other set of general instructions to managers of the firm during the emergency, and the awareness and involvement of the firm's board of directors.

- What is the impact of the emergency situation on the supervised entity's exposure to counterparties, including customers, depositories, exchanges, and clearing organisations?

- How has the emergency affected the supervised entity's liquidity and funding profile?

This information could include the exposure of counterparties, including customers, depositories, exchanges, and clearing organisations, to the supervised entity, their reaction to the emergency, including willingness to enter into new funding or trading transactions with the supervised entity, upcoming settlements, and actual and expected margin and collateral calls.

- Are customer assets sufficiently safeguarded from the effects of the emergency situation and these assets fully accessible to customers?

This information could include the location of client account information, the amount of client securities and client money by custodian or manager, whether assets can be transferred, liquidated or otherwise offset, whether custodial or cash account services are provided by the supervised entity or its affiliates, and, if so, the use of customer cash or securities to obtain funding for the supervised entity or an affiliate. Information about custodial or fiduciary services provided by the supervised entity may also be of interest. Additionally, it may be useful for insurance companies to provide information about assets that are held to cover insurance company technical provisions, as these assets generally have to be held apart from other assets of the group in accordance with national law.

- To what extent are affiliates of the supervised entity affected by the emergency situation and to what extent do the affected affiliates pose a risk to the supervised entity?

This information could include whether the supervised entities' affiliates are in compliance with their regulatory capital requirements and the size and nature of intercompany balances or exposures, current flows of funds, prospective cross-entity funding or capital needs, unusual flows of funds or impediments to flows of funds.

- What is the extent, if any, of operational or support functional difficulties resulting from the emergency situation?

This information could include strains in processing transactions in securities or processing of insurance claims, or other operations, such as backlogs, unusual number of fails to deliver, trade matching or reconciliation problems, the geographic and legal entity location of major operational centres, location of back-up operational personnel and contact names, and for outsourced arrangements, any change in the relationship between the supervised entity and the outsourcer.

- To what extent are the firm's shareholders willing to support the firm during the emergency situation?

This information could include data on the level of daily trading volume in the firm's stock since the announcement of the emergency situation compared with the level of daily trading volume for some period prior to the announcement. Information regarding the change in the firm's stock price since the announcement could also be relevant.

- What options are available regarding the sale of the entire supervised entity or part of its business to another company?

This information could include the number of serious offers (if any) that have been extended by other entities to purchase all or part of the entity since the announcement of the emergency situation.

- How has the media reacted to the emergency situation?

This information could include any articles printed in newspapers or trade journals that refer to the emergency situation. Any relevant press releases issued by the supervised entity would also be of interest.

- What plans have been made to restore the firm to sound financial condition?

This information could include details on any plans that have been developed and any specific measures that have already been taken in response to the emergency situation. It is important that the impact any such plans could have on other entities (e.g., if the implementation of the plan could affect another entity's financial position) should be considered.

The information received from supervised entities in response to requests by supervisors for information will, in turn, usually lead to more specific, detailed and in-depth questions based on the specifics of the emergency situation and the involvement of the supervised entity. A contact person should be identified at a supervised entity to act as the primary liaison between the supervisor and the supervised entity during an emergency.

C. Information That will Permit Supervisors To Assess the Impact of An Emergency On Other Financial Firms Under Their Supervision

The nature and scope of an emergency situation will usually indicate to supervisors which financial firms would likely be affected by the emergency. Gathering and updating financial and operational data along with emergency situation-specific information from one or more firms most deeply involved in the emergency situation may allow supervisors to ascertain what additional information is needed from other financial firms. In other circumstances, however, the supervisor will seek to collect information from a broad group of supervised entities in its jurisdiction in order to expedite the assessment of the emergency's impact.

For those other supervised entities within a supervisor's jurisdiction, the supervisor could choose to obtain financial and operational information as well as the emergency-specific information. Alternatively, the supervisor can choose to obtain only information specifically relating to the emergency (such as specific market or credit risk exposures).

D. Information That Relates to Actions That Could Influence the Course of the Emergency

Finally, supervisors may also collect information from other supervisors and a variety of other sources in order to better understand the context of an emergency and how the course of events might develop.

- A calendar of key dates for the emergency, including important settlement dates, maturities of major funding arrangements, planned public announcements, contract announcements, and court decision dates.

- The role and involvement of other supervisors, including the existence of any actual or emerging situation that would have the potential to trigger action by the supervisor, such as a capital shortfall in another legal entity.
- Laws, regulations, bylaws and operating procedures that could be triggered as a result of technical or actual default by a supervised entity or its counterparty in an emergency.

In an emergency situation, supervisors will also need to consider the circumstances under which other supervisors and government agencies need to be contacted about the emergency.

Principles for Supervisory Information Sharing Paper

Principles for Supervisory Information Sharing
(February 1999)

Objective

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

Background

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

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

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

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

6. Information exchanges intra sector are facilitated through protocols entered into at different times. For example, the Basel Committee's *Minimum Standards for the Supervision of International Banking Groups and their Cross-border Establishments* (July 1992) as supplemented by a *Report on the Supervision of Cross-border Banking* (October 1996) established a framework for the exchange of information between supervisors. Likewise, IOSCO's *Principles for Memoranda of Understanding* (1991) established a framework for facilitating comprehensive information sharing between securities supervisors and has encouraged the development of numerous such arrangements. The IAIS *"Insurance Concordat" - Principles applicable to the Supervision of International Insurers and Insurance Groups and their Cross-border Establishments* provides the basis for intra-sectoral cooperation. Also, numerous bilateral arrangements exist amongst supervisors providing for the flow of general and specific supervisory information, in some cases in respect of individual financial conglomerates.

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

8. In this regard, in May 1998 the G7 Finance Ministers released the Ten Key Principles on Information Sharing which setout, among other things, a policy framework for legislative regimes facilitating information sharing among supervisors. The Joint Forum welcomes the Ten Key Principles and notes that:

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

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

Guiding principles

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

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

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

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

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

13. One way to facilitate supervisors' ability to enhance their understanding of the financial conglomerate and to obtain common knowledge of its strategies, organisation and management systems is through conducting a mapping exercise such as that carried out by a Task Force created by the Joint Forum to examine several large international conglomerates. There are other effective means of gaining similar insights into the structure and operations of conglomerates. Communicating meaningful information regarding a conglomerate's organisational structure, corporate governance and management oversight, its risk management processes and its control environment, whether obtained from carrying out a mapping exercise or from ongoing supervision, a combination of the two or another method, is essential to information sharing.

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

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

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

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

17. It must be recognised that there are practical limits as to the amount of information which may impact an entity under their supervision that supervisors can efficiently and effectively receive and assess on all aspects of financial conglomerates. Among the information they could receive, supervisors particularly value the judgements of other

supervisors and relevant information about the conglomerate when it is adverse, unusual or out-of-the-ordinary.

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

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

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

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

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

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

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

23. The primary supervisor should be forthcoming in communicating with other relevant supervisors information that could assist them in their supervisory activities. That information might include the nature and scope of: (1) control functions relevant to the supervisor's

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

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

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

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

26. A strong level of cooperation and trust needs to be supported through ongoing contact between supervisors. Face to face meetings to establish personal contact can be very useful in establishing trust and enhancing communication. Discussion by supervisors of general matters such as supervisory approaches or industry developments and of more specific subjects as warranted improves mutual understanding between supervisors and builds trust. Supervisors should strive for a good mutual understanding of each others' objectives and approaches. The use of the Supervisory Questionnaire is a good way for supervisors to enhance their understanding of supervisory objectives and approaches.

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

Annex 1

Ten Key Principles on Information Sharing

Set out below are the Ten Key Principles on Information Sharing issued by the G7 Finance Ministers in May 1998. The principles were published in a report of the Ministers entitled *Financial Stability - Supervision of Global Financial Institutions*.

1. **Authorisation to share and gather information**: Each Supervisor[7] should have general statutory authority to share its own supervisory information with foreign supervisors, in response to requests, or when the supervisor itself believes it would be beneficial to do so. The decision about whether to exchange information should be taken by the Provider,[8] who should not have to seek permission from anyone else. A provider should also possess adequate powers (with appropriate safeguards) to gather information sought by a Requestor.[9]

   Lack of sufficient authority can impede information sharing. Without a power to gather information for other supervisors, a Provider may be limited to providing only information it already holds, or it can obtain from public files.

2. **Cross-sector information sharing**: Supervisors from different sectors of financial services should be able to share supervisory related information with each other both internationally (e.g., a securities supervisor in one jurisdiction and a banking supervisor in another) and domestically.

3. **Information about systems and controls**: Supervisors should cooperate in identifying and monitoring the use of management and information systems, and controls, by internationally active firms.

4. **Information about individuals**: Supervisors should have the authority to share objective information of supervisory interest about individuals such as owners, shareholders, directors, managers or employees of supervised firms.

   Supervisors should be able to share objective information about individuals as they can about firms and other entities.

5. **Information sharing between exchanges**: Exchanges in one jurisdiction should be able to share supervisory information with exchanges in other jurisdictions, including information about the positions of their members.

   Exchanges have a supervisory function in many jurisdictions. Where they do, they need to be able to share supervisory information to form a view on the potential

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7 "**Supervisor**" means the entity or entities with statutory, supervisory or regulatory powers over financial firms and/or markets within their jurisdiction.

8 "**Provider**" means the supervisor to which a request for informaiton has been made.

9 "**Requestor**" means the supervisor that has asked for information.

impact of market events, on its members, and on the customers, counterparties, and financial instruments affected by it.

6. **Confidentiality**: A Provider should be expected to provide information to a Requestor that is able to maintain its confidentiality. The Requestor should be free to use such information for supervisory purposes across the range of its duties, subject to minimum confidentiality standards.[10]

While most Providers, quite properly, require a Requestor to maintain the confidentiality of information, as a condition of providing it, they should not seek to limit its use, by the Requestor, in carrying out its supervisory duties, including use in connection with (depending on legal arrangements in the country) administrative, civil or criminal cases where the Requestor, or another public authority, is a party to an action which arise from the exercise of those duties.

7. **Formal agreements and written requests**: The Requestor should not have to enter into a strict formal agreement in order to obtain information from a Provider. Nor should a written request be a prerequisite to the sharing of information, particularly in an emergency.

Information sharing arrangements, such as Memoranda of Understanding are often used to establish a framework among supervisors and can facilitate the efficient execution of requests. But the existence of such an agreement should not be a prerequisite for information sharing. Written requests can also be useful at times to provide an efficient and effective way of dealing with information requests, but, again, their absence should not be used to justify delaying a response.

8. **Reciprocity requirements**: These, too, should not be a strict precondition for the exchange of information, but the principle of reciprocity may be a consideration.

As with formal agreements, reciprocity can often be a way of encouraging and facilitating information exchange but the lack of reciprocity in a particular case should not be used by a provider as the only reason for not exchanging information that it would otherwise have been willing to share, especially in emergency cases.

9. **Cases which further supervisory purposes**: In order to ensure the integrity of firms and markets, the Provider should permit the Requestor to pass on information for supervisory or law enforcement purposes to other supervisory and law enforcement agencies in its jurisdiction that are charged with enforcing relevant laws, in cases which further supervisory purposes.

The criminal, civil and administrative components of a jurisdiction's securities, banking and insurance laws are sometimes enforced by a number of agencies. Restrictions should not be so onerous that they can prevent the effective sharing of

[10] A Requestor should keep confidential non-public information that it receives from a Provider. This means that non-public information will not be disclosed, except in connection with supervisory purposes specified by the Requestor, or when asked for by the legislative body in the Requestor's jurisdiction – which may itself be subject to confidentiality rules – where that body could otherwise compel disclosure, or when required to produce documents or testimony by a court in a proceeding in which the Requestor or its government is a party. In any event, a Requestor will provide no less protection to non-public information received from a Provider than it affords its non-public domestic information. In cases involving requests by the legislative body or the courts the Provider should be notified of the outward disclosure, where possible. In all other cases – except in an emergency – the Requestor requires the permission of the Provider to disclose information.

information. For example, exchange of information between supervisors, in cases which further supervisory purposes, should not be subject to the constraint that it cannot be passed to criminal authorities, though this should not be used to circumvent established channels of cooperation.

10. **Removal of laws preventing supervisory information exchange**: To facilitate cooperation between the supervisors of internationally-active groups, each jurisdiction should take steps to remove or modify those laws and procedures that prevent or impede the exchange of necessary supervisory information.

Laws and procedures can impede information sharing unless there are suitable gateways which allow jurisdictions to share information for supervisory-related purposes.

Coordinator Paper

Coordinator Paper
(February 1999)

Objective

1. Given the goal of improving cooperation through information-sharing, the objective is to provide to supervisors guidance for the possible identification of a coordinator or coordinators and a catalogue of elements of coordination from which supervisors can select the role and responsibilities of a coordinator or coordinators in emergency and non-emergency situations.

Background

2. As financial conglomerates are comprised of legal entities subject to the oversight of two or more supervisors, there is a greater need for supervisors to cooperate on a cross-border and cross-sector basis. Communication and information-sharing are the *sine qua non* of cooperation. This paper sets out principles for that cooperation and communication between and among supervisors with respect to, primarily, internationally active financial conglomerates.

3. In this context, it may be beneficial to designate one of the supervisors involved (the "coordinator") to facilitate information-sharing efforts in a timely and efficient manner. In many cases, the coordinator will be the supervisor that carries out consolidated supervision or which is responsible for the largest part of the conglomerate.

4. Among the factors that come into play in determining whether to appoint a coordinator and, if so, in defining the role and responsibilities of the coordinator are the legal framework, statutory authorities of individual supervisors and accountabilities to legislative and other bodies, the capabilities and resources of individual supervisors, the supervisory techniques and remedial actions employed by supervisors, the ability of supervisors to share information cross-sectorally and cross-border, the business activities, risk profile and structure of the conglomerates, and the availability of information from the conglomerate to individual supervisors. The differences in such factors preclude the elaboration of a single role and a single set of responsibilities for the coordinator. Rather those differences argue for developing a catalogue of elements of coordination that supervisors could turn to in defining the role and responsibilities for the coordinator, depending on the circumstances.

5. This catalogue would include different forms of information-sharing. Supervisors could make use of this catalogue to define the role of the coordinator in emergency and non-emergency circumstances. Examples of possible roles that could be developed from the catalogue would include coordinating the exchange of information in emergencies, making group-wide assessments in emergency and non-emergency circumstances, and coordinating supervisory activities among the directly concerned supervisors. In certain circumstances, it may be appropriate not to appoint a coordinator. (For the purposes of this paper, an emergency would include, among other things, any event, regardless of geographic origination, that would likely have a material adverse effect on the solvency or liquidity of financial conglomerates).

Factors affecting the choice of options

6. Objectives and approaches, often determined by responsibilities and authorities under national law, vary among the various supervisors involved in the oversight of regulated entities which are part of financial conglomerates. These divergences in objectives and approaches have implications as to informational and other needs of the different supervisors and will affect whether a coordinator is necessary for a particular group, the choice of a coordinator and the role and responsibilities that coordinator may have. For example, in a situation where a regulated entity in a group is subject to significant structural or supervisory firewalls that insulate the entity from the affairs of other entities in the group and is not a material entity in that group, the informational and other needs of that entity's supervisor with respect to other entities may be less than or different from those of another more significant regulated entity that is more closely integrated into the operations of other entities in the group.

7. Differences in the organisational structure of groups also have implications as to informational and other needs of the various supervisors involved. For example, in a group whose legal, business line and managerial structures diverge significantly, the supervisors of the various entities may be more interested in information about related entities and about the location and functioning of relevant controls than supervisors of entities in a more traditional group whose business activities, management and controls are organised more along the lines of the legal entities. Likewise where a group is headed by a regulated entity and that entity is subject to consolidated supervision, the needs of a subsidiary's supervisor for information about significant parts of the whole group may be different from needs of the supervisor of a subsidiary in another group that is headed by an unregulated holding company and whose regulated entities are subjected to solo supervision only. Accordingly, the role and responsibilities of the coordinator will likely be different in each case.

8. The choice of roles and responsibilities of a coordinator will also be influenced by the need to balance the benefits of improved coordination against the risks of creating (or appearing to create) a new level of supervisory oversight or an extension of a governmental safety net to additional entities, regulated and unregulated, within a conglomerate. Adding (or appearing to add) a layer of oversight or extending (or appearing to extend) a safety net can undermine market discipline, increase regulatory burden or increase moral hazard. In some jurisdictions, the desire to avoid these risks will be stronger than in others and will tend to result in a different role for the coordinator.

9. Recognition must also be given to the practical constraints facing a coordinator and these issues must be resolved before a coordinator is appointed and its role defined. For example, the choice of a coordinator and the definition of its role will be influenced by the capabilities and the extent of resources of the supervisors involved. In addition, there is a limit to the number of supervisors with which the coordinator can be in effective contact. Judgements will also need to be made on the scope and nature of the information to be shared. While flows of information from various supervisors to the coordinator should be relatively unimpeded, there may be circumstances which affect the timing and comprehensiveness of information the coordinator shares with other supervisors, e.g. a delay may be necessary when a solution to a serious problem is in the sensitive stages of negotiation or when informing supervisors needs to be coordinated with the conglomerate's public disclosure obligations. Similarly, in an emergency, any proposed arrangements established for a coordinator cannot in any way interfere with the actions that need to be taken by relevant authorities to address the emergency. Therefore, any arrangements would necessarily have to be flexible to allow for adjustments to given circumstances.

Guiding principles

10. The following principles provide guidance to supervisors of regulated entities in financial conglomerates in deciding on the need for and identification of a coordinator and on the role and responsibilities of such coordinator so identified.

1. Arrangements between supervisors relating to the coordination process should provide for certain information to be available in emergency and non-emergency situations.

11. Solo supervisors should identify the types of information needed for them to fully and efficiently discharge their supervisory responsibilities in respect of regulated entities residing in financial conglomerates. In emergencies, this would assist the information flow necessary for supervisors to assess the impact of the emergency on the entity subject to their oversight and to facilitate regulatory action, if necessary.

2. The decision to appoint a coordinator and the identification of a coordinator should be at the discretion of the supervisors involved with the conglomerate.

12. A single coordinator is considered generally preferable to multiple coordinators. However, there may be circumstances where it may be appropriate to share the responsibility for coordination, and more than one coordinator could be identified.

13. In most instances, it would be apparent which supervisor would act as a coordinator. In those cases where it is not apparent, the supervisors involved should decide amongst themselves who would be best suited to act in that capacity. Possible bases have been elaborated to provide some guidance in identifying a coordinator and are attached (Annex 2).

14. Information sharing in emergency situations will normally be easier if a coordinator has been identified previously since it will avoid burdening the resolution efforts by consultations on the identity and role of the coordinator. However, the circumstances of particular emergencies may require different coordinating mechanisms, including a different coordinator than the one previously identified.

3. Supervisors should have the discretion to agree amongst themselves the role and responsibilities of a coordinator in emergency and non-emergency situations.

15. Supervisors should establish amongst themselves the role and responsibilities of the coordinator. A catalogue of possible elements of those roles and responsibilities have been set out in Annex 1.

16. The coordinator should be expected to take the initiative in shaping the role of the coordinator and communicate its preferred approach to other relevant supervisors for their reaction.

4. Arrangements for information flows between the coordinator and other supervisors and for any other form of coordination in emergency and non-emergency situations should be clarified in advance where possible.

17. In order to facilitate the coordinator's activities, it would be beneficial for supervisors to agree to arrangements for providing and receiving information, the nature of information to be provided by supervisors to the coordinator and vice versa and under what circumstances, and for other supervisory coordination in light of the legal and organisational circumstances of both the conglomerate and the supervisors involved. Such arrangements should specify the tasks to be performed by the coordinator in terms of information gathering from regulated entities, unregulated entities where permitted by law or the conglomerate, from the various supervisors involved or from a combination of those sources. In emergency situations, arrangements made in advance may require modifications to take into account the unique properties of the emergency.

5. Supervisors' ability to carry out their supervisory responsibilities should not be constrained by reason of a coordinator being identified and a coordinator assuming certain responsibilities.

18. Solo supervisors are subject to legislative requirements and national accountabilities which may influence the timing and nature of their actions, constrain their ability to act in particular circumstances and dictate specific supervisory responses to events and developments. The identification of a coordinator does not alter these legislative requirements and national accountabilities nor does it relieve solo supervisors of their responsibilities. Coordination arrangements cannot constrain a supervisor's lawful responsibility to take whatever actions are necessary or consult with any other party in resolving financial problems or crises.

6. The identification of a coordinator and the determination of responsibilities for a coordinator should be predicated on the expectation that those responsibilities would enable supervisors to better carry out the supervision of regulated entities within financial conglomerates.

19. There may be circumstances where a coordinator's role would be played by the supervisor carrying out consolidated supervision, so that little change would arise from the appointment of a coordinator.

20. There may be circumstances where a coordinator would not provide any added value in terms of efficiency in the supervision of regulated entities within a group. In such circumstances where other means of cooperation are assessed to be adequate by the supervisors involved, there would not be any reason to identify a coordinator.

21. Each component of the coordinator's role should be subjected to periodic critical review by the relevant supervisors to ensure that the component adds value in terms of enhanced supervision of regulated entities within a group. As the financial conglomerate's structure and activities change and as the legal and supervisory structure evolves, the need for and the role and responsibilities of the coordinator should be re-assessed.

7. The identification and assumption of responsibilities by a coordinator should not create a perception that responsibility has shifted to the coordinator.

22. It is recognised that the identification of a coordinator and the agreement between supervisors as to its role and responsibilities does not remove from the various supervisors involved their obligations under national legislation. Supervisors should avoid communications with the regulated entities or with other entities in the group which could

give the impression to the group or to the market that the coordinator has assumed legal responsibility where this is in fact not the case.

Annex 1

Catalogue of possible elements of coordination

Information sharing**	Group-wide assessment**	Supervisory activities**
Adverse information is communicated by supervisors to the coordinator.	Availability of information on group-wide structure, financial condition, key group-wide exposures and intra-group exposures is ascertained periodically by coordinator.	Planned supervisory activities by supervisors is communicated to coordinator.
All relevant information is communicated by supervisors to the coordinator.	Key information on group-wide structure, "large" group-wide exposures, intra-group transactions and financial condition is maintained by the coordinator.	Planned supervisory activities by the coordinator and other supervisors are exchanged.
Coordinator stands ready to answer all inquiries from other supervisors.	Key information on group-wide structure etc. is provided to relevant supervisors if they wish to make a group-wide assessment.	Avoidance of overlap in supervisory activities through bilateral discussions of the coordinator and other supervisors.
Coordinator receives information from a variety of sources and provides key information to relevant supervisors if a problems appears to be emerging.	Coordinator makes an assessment of key areas (e.g. large exposures, financial condition and intra-group exposures) and addresses any issues with regulated entities in the conglomerate.	Participation of the coordinator in on-site visits or examinations of an institution's foreign activities where legal and appropriate.
Coordinator receives information from a variety of sources and provides key information to relevant supervisors.	Coordinator makes an assessment of key areas (e.g. large exposures, financial condition and intra-group exposures) and communicates potential problems to relevant supervisors.	Coordination of planned supervisory activities and supervisory actions when a serious problem arises crossing jurisdictional lines.
Coordinator facilitates extensive information flows under certain circumstances, e.g. emergencies.	Coordinator makes group-wide assessment and discusses observations with relevant supervisors.	Coordinated reviews or examinations of a business line crossing several legal entities, or a global risk management or control function.

**Elements in one category are not linked in any way to the elements in other categories.

Annex 2

Possible bases to assist in identifying a Coordinator

The following are examples of approaches that supervisors may take in selecting a coordinator.

- Where the conglomerate is headed by a supervised bank, securities firm or insurance company, the supervisor of that parent entity, in normal circumstances, should be the Coordinator.

- Where the conglomerate is headed by a supervised bank, securities firm or insurance company but there is a dominant regulated entity in the conglomerate, for example, in terms of balance sheet assets, revenues or solvency requirements, an option would be for the supervisor of the dominant entity to be the Coordinator.

- Where the conglomerate is headed by a supervised holding company, the supervisor of the holding company, in normal circumstances, should be the Coordinator.

- Where the conglomerate is headed by a supervised holding company but there is a dominant regulated entity in the conglomerate, for example, in terms of balance sheet assets, revenues or solvency requirements, an option would be for the supervisor of the dominant entity to be the Coordinator.

- Where the conglomerate is headed by an unsupervised holding company, an option would be for the supervisor of the dominant regulated entity in the conglomerate, for example, in terms of balance sheet assets, revenues or solvency requirements, to be the Coordinator.

Supervisory Questionnaire

Supervisory Questionnaire
(February 1999)

Introduction

The Supervisory Questionnaire (the Questionnaire) was developed by the Mapping Task Force to collect information on supervisors' objectives and approaches. The continuing work of the Joint Forum and experience gained in using the Questionnaire may result in changes to enhance its coverage, make it a more useful tool in better understanding supervisors' objectives and practices, and in facilitating arrangements for the exchange of information relating to financial conglomerates. The Matrix included at the end can be used to capture responses to the questions.

The Questionnaire should be completed, to the extent that the conglomerates are involved in each sector, by each of the banking, securities and insurance supervisory agencies in those countries where the conglomerate has a significant presence. This will permit a comprehensive matching of supervisory structures to the conglomerates' business structures and the identification of areas where specific attention or measures are needed.

I. STATED PURPOSE AND OBJECTIVES OF SUPERVISION

II. LEGAL AUTHORITY

A. Scope of licensing or registration authority/ability to grant, restricts or revoke license/registration

1. Factors considered in granting, restricting or revoking license/registration (e.g., capital adequacy, organisational structure, management)

2. Conditions under which authority/ability is used or not used

B. Changes in financial institution powers/structure

1. Source of authority by type of institution (e.g., bank, securities and insurance institutions, affiliates of regulated entities)

2. Necessity of obtaining supervisor's approval for new activities

3. Necessity of obtaining supervisor's approval to invest in subsidiaries or associated companies

4. Necessity of obtaining supervisor's approval for change of ownership/control

C. Authority to compel reports/information from institutions, from external auditors, from third parties

1. Type of entity/source

2. Scope, including affiliates of the regulated entity

D. Authority to share information

1. Other supervisors or regulators

   (a) Banking,. securities and insurance supervisors

   (b) Domestic vs. foreign

2. Law enforcement

3. Monetary authorities

4. Other third parties

5. Obligations of professional secrecy

E. Authority to make on-site visits

1. Type of entity

2. Scope of review

3. Frequency requirements

4. Affiliates of regulated entity

F. Statutory/regulatory authority to take enforcement or remedial action

1. Publicly disclosed

2. Undisclosed/non-public

3. Authority to enforce other regulators/supervisors laws

4. Authority of supervisor to stop activities of financial institution

5. Responsibility to refer matters to other regulators

6. Conditions under which authority is used or not used

G. Obligation/authority to promulgate prudential standards

H. Obligation/authority to promulgate financial integrity standards

III. METHODS OF ASSESSING FINANCIAL CONDITION

A. Monitoring/Surveillance

1. Routine reporting to supervisor

   (a) Reporting institutions (e.g. regulated entity only or consolidated reporting)

   (b) Coverage of reports (e.g., financial statements, intercompany funding)

   (c) Frequency of reports

   (d) Public availability of routine reporting

2. Types of monitoring/surveillance reports produced

   (a) Institutions covered by monitoring/surveillance and method of selection (e.g., regulated entity alone or including affiliates of regulated entity)

   (b) Types of analysis used to analyse reporting information (e.g., ratio analysis, predictive models)

   (c) Frequency of monitoring/surveillance reports

   (d) Types of follow up (e.g., meeting with management, targeted inspections)

   (e) Access to monitoring/surveillance reports and analyses (e.g., public report, confidential report)

3. Non-routine reporting to supervisor

B. On-site inspections

1. Basic information

   (a) Types of financial institutions covered (and not covered) by on-site inspections and method of selection (e.g., bank, securities and insurance institutions, affiliates of regulated entity)

   (b) Frequency of on-site inspections of institutions (and individual domestic and foreign entities)

   (c) Qualifications of personnel conducting on-site inspections (e.g., commissioned examiners, auditors, market specialists, self-regulatory organisations)

   (d) Aspects of condition and compliance reviewed during on-site inspections (e.g., capital, earnings, risk management, intercompany transactions)

(e) Scope of work on risk management (e.g., credit risk, market risk, liquidity risk, settlement risk, underwriting, claims and reserving risks, asset risk, operational risk, support functions risk, compliance with laws and regulations, internal audit)

(f) Process and procedures used to evaluate components of inspections (e.g., meetings with management, interviews with line personnel, transaction testing, review of risk management and valuation models)

2. Product of on-site inspections

(a) Type of reports (e.g., letter to management, full report for board of directors)

(b) Access to reports (e.g., public report, confidential report)

C. External auditors/self-regulatory organisations ("SROs")

1. Supervisor's ability to establish scope of the audit or review

2. Statutory obligation of auditor/SRO to supervisor

3. Access to reports

(a) Supervisors

(b) Others

IV. TOOLS OF SUPERVISION

A. Prudential regulations (e.g., lending limits, capital adequacy) and scope of application (e.g., regulated entity alone or consolidated entity)

B. Supervisory guidance (e.g., risk management guidelines, sales practices guidelines, inspection manuals)

V. OTHER MECHANISMS TO ENHANCE SOUND PRACTICES (supervisor encouraged or purely private mechanisms)

A. Codes of conduct

B Industry advisory groups

C. Other

VI. INFORMATION FLOWS AMONG SUPERVISORS

A. On-going, regular flow of information among supervisors

1. Banking, securities and insurance supervisors

2. Domestic and foreign supervisors

3. Types of information

4. Frequency of information flows

B. Flow of information under non-normal conditions

1. Banking, securities and insurance supervisors

2. Domestic and foreign supervisors

3. Types of information

4. Frequency of information flows

Matrix Record

I. STATED PURPOSE AND OBJECTIVES OF SUPERVISION

	Supervisor One	Supervisor Two	Supervisor Three

II. LEGAL AUTHORITY

	Supervisor One	Supervisor Two	Supervisor Three
A. SCOPE OF LICENSING OR REGISTRATION AUTHORITY			
1. FACTORS CONSIDERED IN GRANTING, RESTRICTING OR REVOKING LICENSE OR REGISTRATION			
2. CONDITIONS UNDER WHICH AUTHORITY OR ABILITY IS USED OR NOT USED			
B. CHANGES IN FINANCIAL INSTITUTIONPOWERS/STRUCTURE			
1. SOURCE OF AUTHORITY BY TYPE OF INSTITUTION			

2. NECESSITY OF OBTAINING APPROVAL FOR NEW ACTIVITIES			
3. NECESSITY OF OBTAINING APPROVAL TO INVEST IN SUBSIDIARIES, etc.			
4. NECESSITY OF OBTAINING APPROVAL FOR CHANGE OF OWNERSHIP/CONTROL			
C. AUTHORITY TO COMPEL REPORTS/INFORMATION FROM INSTITUTIONS, ETC.			
1. TYPE OF ENTITY/SOURCE			
2. SCOPE, INCLUDING. AFFILIATES			
D. AUTHORITY TO SHARE INFORMATION			
1. OTHER SUPERVISORS			
a. Banking, Securities and Insurance Supervisors			
b. Domestic and Foreign			

2. LAW ENFORCEMENT			
3. MONETARY AUTHORITIES			
4. OTHER THIRD PARTIES			
5. OBLIGATIONS OF PROFESSIONAL SECRECY			
6. OTHER CONDITIONS EG RECIPROCITY			
E. AUTHORITY TO MAKE ON-SITE VISITS			
1. TYPE OF ENTITY			
2. SCOPE OF REVIEW			
3. FREQUENCY REQUIREMENTS			
4. AFFILIATES OF ENTITY			

F. AUTHORITY TO TAKE ENFORCEMENT OR REMEDIAL ACTION			
1. PUBLICLY DISCLOSED			
2. UNDISCLOSED/NON-PUBLIC			
3. AUTHORITY TO ENFORCE OTHER LAWS			
4. AUTHORITY TO STOP ACTIVITIES			
5. RESPONSIBILITY TO REFER MATTERS TO OTHERS			
6. CONDITIONS UNDER WHICH AUTHORITY IS USED OR NOT USED			
G. OBLIGATION/AUTHORITY TO PROMULGATE PRUDENTIAL STANDARDS			

H.	**OBLIGATION/AUTHORITY TO PROMULGATE FINANCIAL INTEGRITY STANDARDS**		

III. METHODS OF ASSESSING FINANCIAL CONDITION

	Supervisor One	Supervisor Two	Supervisor Three
A. MONITORING/SURVEILLANCE			
1. ROUTINE REPORTING			
a. Reporting Institutions			
b. Coverage of Reports			
c. Frequency of Reports			
d. Public Availability			

e. Changes Expected in the Future (discuss any changes in reporting requirements contemplated in the near-term)			
2. TYPES OF MONITORING/ SURVEILLANCE REPORTS			
a. Institutions Covered and Method of Selection			
b. Types of Analysis Used to Analyze Information			
c. Frequency of Monitoring/ Surveillance Reports			
d. Types of Follow-Up			
e. Access to Monitoring/ Surveillance Reports			
f. Expected or Planned Changes in Surveillance/Monitoring Systems			

3. NON-ROUTINE REPORTING			
B. ON-SITE INSPECTIONS			
1. BASIC INFORMATION			
a. Types of Institutions Covered by On-site Inspections and Method of Selection			
b. Frequency of On-site Inspections			
c. Qualifications of Personnel			
d. Aspects of Condition and Compliance Reviewed During On-site Inspection			
e. Scope of Work on Risk Management			
f. Process and Procedures to Evaluate Components of Inspections			

g. Changes Planned or Expected in On-site Inspections (discuss changes in scope, frequency, specific work on internal controls and risk management)			
2. PRODUCT OF ON-SITE INSPECTIONS			
a. Type of Reports			
b. Access to Reports			
C. EXTERNAL AUDITORS/INDEPENDENT ACTUARIES/SROs			
1. SUPERVISOR'S ABILITY TO ESTABLISH SCOPE OF AUDIT/REVIEW			
2. STATUTORY OBLIGATION OF AUDITOR/ACTUARY/SRO TO SUPERVISOR			

3. ACCESS TO REPORTS			
a. Supervisors			
b. Others			

IV. TOOLS OF SUPERVISION

	Supervisor One	Supervisor Two	Supervisor Three
A. PRUDENTIAL REGULATIONS AND SCOPE OF APPLICATION			
B. SUPERVISORY GUIDANCE			

V. OTHER MECHANISMS TO ENHANCE SOUND PRACTICES

	Supervisor One	Supervisor Two	Supervisor Three
A. CODES OF CONDUCT			
B. INDUSTRY ADVISORY GROUPS			
C. OTHER			

VI. INFORMATION FLOWS AMONG SUPERVISORS

	Supervisor One	Supervisor Two	Supervisor Three
A. ON-GOING, REGULAR FLOWS			
1. BANKING, SECURITIES AND INSURANCE SUPERVISORS			
2. DOMESTIC AND FOREIGN SUPERVISORS			
3. TYPES OF INFORMATION			
4. FREQUENCY OF FLOWS			

B.	**FLOWS UNDER NON-NORMAL CONDITIONS**			
1.	BANKING, SECURITIES AND INSURANCE SUPERVISORS			
2.	DOMESTIC AND FOREIGN SUPERVISORS			
3.	TYPES OF INFORMATION			
4.	FREQUENCY OF FLOWS			

Intra-Group Transactions and Exposures Principles

Intra-Group Transactions and Exposures

(December 1999)

Purpose

1. To provide banking, securities and insurance supervisors principles for ensuring through the regulatory and supervisory process the prudent management and control of intragroup transactions and exposures by financial conglomerates.

2. Intra-group transactions and exposures (ITEs) can facilitate the synergies within different parts of the conglomerate and thereby lead to healthy cost efficiencies and profit maximisation, improvements to risk management, and more effective control of capital and funding. Often achieving these benefits is a major goal of the organisational structures that give rise to ITEs. At the same time, material ITEs represent avenues of contagion within the conglomerate and potentially complicate the resolution of failures. Achieving the appropriate balance between the benefits and risks of ITEs is an important objective for conglomerates and for supervisors, and the appropriate balance may vary across activities and types of ITEs.

Definition and Types of intra-group transactions and exposures

3. For purposes of this paper, a financial conglomerate is defined as a conglomerate whose primary business is financial and whose regulated entities engage to a significant extent in at least two of the banking, securities and insurance sectors. Each supervisory discipline has developed a perspective on ITEs in its respective industry, and this paper draws on those perspectives in considering the supervisory oversight of ITEs in a financial conglomerate.

4. ITEs take the form of direct and indirect claims between entities within financial conglomerates. ITEs can originate in a variety of ways, for example, through:

(a) cross shareholdings;

(b) trading operations whereby one group company deals with, or on behalf of, another group company;

(c) central management of short-term liquidity within the conglomerate;

(d) guarantees, loans and commitments provided to, or received from, other companies in the group;

(e) the provision of management and other service arrangements, e.g. pension arrangements or back office services;

(f) exposures to major shareholders (including loans and off-balance sheet exposures such as commitments and guarantees);

(g) exposures arising through the placement of client assets with other group companies;

(h) purchases or sales of assets with other group companies;

(i) transfer of risk through reinsurance; and

(j) transactions to shift third party-related risk exposures between entities within the conglomerate.

Principles

I. Supervisors should take steps, directly or through regulated entities, to provide that conglomerates have adequate risk management processes in place, including those pertaining to ITEs, for the conglomerate as a whole. Where necessary the supervisors should consider appropriate measures, such as reinforcing these processes with supervisory limits.

II. Supervisors should monitor material ITEs of the regulated financial entities on a timely basis, as needed, through regular reporting or by other means to help form a clear understanding of the ITEs of the financial conglomerate.

III. Supervisors should encourage public disclosure of ITEs.

IV. Supervisors should liaise closely with one another to ascertain each other's concerns and coordinate as deemed appropriate any supervisory action relative to ITEs within the group.

V. Supervisors should deal effectively and appropriately with material ITEs that are considered to have a detrimental effect on the regulated entities, either directly or through an overall detrimental effect on the group.

The work of the Study Group

5. The Study Group on Intra-Group Transactions and Exposures and Risk Concentrations conducted fact-finding work on the risk management of ITEs by way of two questionnaires: one dealing with supervisory practices and another with conglomerate practices. The results of these questionnaires are summarised below. The study group surveyed ten financial conglomerates on their management practices with respect to ITEs. These included six bank-led conglomerates with activities in securities and/or insurance business, two insurance-led conglomerates with banking or securities business, one securities-led conglomerate with banking activities and one mixed conglomerate involved in banking and insurance.

Review of supervisory practices

6. The scope of regulation of ITEs is influenced by a jurisdiction's supervisory framework. Some supervisory regimes exclude from ITE regulation transactions between subsidiaries and a regulated parent, between subsidiaries with a common regulated parent, and between sister institutions subject to the same or similar regulation in the same country. In general, ITE regulation is directed at transactions between the regulated entity and entities "outside" the immediate regulatory regime. As a result, ITEs between a regulated entity in one sector with a regulated entity in another sector would generally be subject to limitations

imposed by ITE regulations, possibly in both sectors. ITE regulations virtually always apply to transactions between a regulated entity and unregulated affiliates and holding companies.

7. Most supervisory regimes are designed to prohibit detrimental ITEs before they can occur. Supervisory efforts have been directed at those ITEs which could be avenues to weakening the financial condition of the regulated entity. Regulatory tools include prohibiting movements of capital or income outright, requiring collateralisation, limiting transfers, requiring prior approval by supervisors, and restricting specific types of transfers. In addition, most supervisory regimes require that ITEs, when they occur, be done at arm's length terms, or at least on terms that are not disadvantageous to the regulated entity. Certain supervisors require statutory reporting of ITEs or public disclosure in notes to financial statements. Others require entities to submit both consolidated income and balance sheet information and consolidating statements from all major subsidiaries in order for the supervisor to analyse ITEs.

Financial conglomerates' practices

8. Within the group of ten conglomerates surveyed, some conglomerates only monitor compliance with regulatory requirements and otherwise give little attention to ITEs. Moreover, management of these conglomerates often consider monitoring unnecessary because of the knowledge level and unified control over the two sides of the transaction. Some conglomerates also view a focus on ITEs as inconsistent with the firm's strategy to manage by business lines rather than by legal entities.

9. Certain conglomerates, however, closely monitor ITEs or impose conditions on their use, such as requiring collateral for any exposures. The Study Group was interested in the reasons behind the greater attention to ITEs at those conglomerates. For some firms, management of ITEs is an important element of corporate governance and internal control. Given the size, complexity and number of legal entities within a large, internationally active financial conglomerate, control over capital, funding, and other risk- and income-transferring mechanisms presents a means to limit or draw to senior management attention unusual or excessive activity in individual locations or legal entities. Another related motive is to ensure accurate cost accounting and profit attribution and thus the effectiveness of the management incentive systems in the conglomerate. These reasons, whilst substantially different from the concerns of supervisors described in the next section, nonetheless appear to both provide sound management of ITEs and produce the information systems and management reporting mechanisms that would allow supervisors to monitor ITEs and their management.

Analysis of Issues in the Supervision of Financial Conglomerates

10. The mere presence of ITEs is not a matter of supervisory concern. They should be seen as a means to an end which can be either beneficial or harmful to regulated entities in a conglomerate.

11. Conglomerates centralise key activities and enter into intragroup transactions and exposures (ITEs) to facilitate risk management, seek efficiencies, and manage capital and funding. The emergence of financial conglomerates and the complexities of their operations have resulted in a broad range of ITEs. Newly important types of ITEs, including derivatives and service and fee-for-service arrangements, reflect changing organisation structures and

the evolution of management and control by business lines, as documented by the work of the Joint Forum in the *Framework for Supervisory Information Sharing Paper*.

12. The importance and changing structure of ITEs within financial conglomerates increase the supervisory challenges in assessing ITEs to ensure that they are not disadvantageous to the regulated entities or to its customers. In general, supervisory concerns arise when ITEs:

- result in capital or income being inappropriately transferred from the regulated entity;
- are on terms or under circumstances which parties operating at arm's length would not allow and may be disadvantageous to a regulated entity;
- can adversely affect the solvency, the liquidity and the profitability of individual entities within a group;
- are used as a means of supervisory arbitrage, thereby evading capital or other regulatory requirements altogether.

13. ITEs can take the form of service and fee-for-service arrangements and represent ongoing obligations rather than single point-in-time transfers. Supervisors and conglomerates need to consider the value of these transactions and ascertain whether they are done at other-than-market prices or on terms that may prove to be disadvantageous to the regulated entity or to its customers. At the same time, these ITEs do not lend themselves easily to traditional forms of regulation. For these transactions, supervisors will generally hold the regulated entity accountable to manage and monitor intra-group relationships.

14. The expansion of ITEs and the change in their composition open more avenues for contagion to regulated entities in the conglomerate, and can potentially complicate the resolution of the regulated entities within a troubled or failing conglomerate. The latter concern is especially important for internationally active financial conglomerates where the insolvency regimes may vary across country and regulatory jurisdiction. In this respect, ITEs can be large enough to be a type of sectoral or group-wide concentration that may not be monitored well by many conglomerates or supervisors.

15. Resources flowing from a regulated entity to an unregulated parent or other unregulated entities in the group, via the purchase of shares or other means which results in a migration of capital from the regulated entity, can be of particular supervisory concern, although not all such transfers are detrimental. Drains on capital and double or multiple gearing in particular are addressed in the Joint Forum's *Capital Adequacy Principles* paper. The risks associated with ITEs involving unregulated entities also will be influenced by whether these entities transact solely with the conglomerate or with outside parties, since those outside parties can introduce new risks to the conglomerate. The level of concern about ITEs with unregulated entities is influenced by the effectiveness of measures available to the supervisor to obtain information from the unregulated entity or influence its behavior either directly or indirectly through regulated entities.

16. In developing supervisory policy toward ITEs, individual supervisors need to balance the supervisory concerns against the improvements to risk management, more effective control of capital and funding and cost efficiencies which are the goals of many conglomerates extensively using ITEs. The need to strike an appropriate balance points to the importance of supervisors understanding the role of ITEs in individual conglomerates and the need for supervisory monitoring. While monitoring can take different forms across supervisory regimes, from reporting to on-site examination, effective monitoring is essential.

17. Because of the bilateral nature of ITEs, regulation and other supervisory oversight at the sector level is the principal means to address supervisory concerns about ITEs. The level of supervisory oversight of ITEs in part depends on the other elements – capital regulation, examination, financial reporting, etc. – relied upon in each supervisory regime. Because these elements differ across regimes, supervisors tailor their approaches to ITEs at the sectoral level anywhere along a continuum from restrictive to relatively free, but in all approaches incorporate some element of monitoring. When consolidated supervision encompasses all or a significant portion of a conglomerate, the overview provided to the consolidated supervisor through review of consolidating financial statements or regulatory reporting of ITEs may be seen as sufficient to permit a fairly free flow of ITEs, as is the case in many jurisdictions. Such an approach should not override rules imposed by the sectoral supervisors.

18. The efficiency of conglomerate supervision may be reduced if the supervisory regimes with respect to ITEs conflict in a significant way. This may be especially true in the presence of unregulated entities. Thus, one element in shaping a sectoral strategy for ITEs is to understand thoroughly the supervisory environment of the two intra-group entities, and the specifics of ITE regulation and supervisory oversight in key jurisdictions. For each transaction, is each of the intra-group entities subject to a close degree of regulation and supervision or are there few restrictions on ITEs? The combination of the degree of regulation in these two environments will influence the level and nature of supervisory risk that may be associated with ITEs.

19. Supervisors will therefore have a strong interest in understanding the overall risk profile of the conglomerate in order to determine how ITEs affect the regulated entity. Cooperation and communication among supervisors can contribute toward that understanding.

20. The nature of supervisory concerns makes it imperative that the regulated entities within conglomerates have in place a process for measuring, monitoring and managing material ITEs, as part of their broader risk management system. Well-managed conglomerates appear to place emphasis on managing ITEs, largely for internal control and corporate governance reasons. While supervisory attention to ITEs generally arises because of concerns about contagion or weakening of the regulated entity, effective internal control and corporate governance frameworks are recognised as important tools in managing ITEs. Where the conglomerate establishes controls over ITEs, the conglomerate's monitoring systems are likely to provide the types of information about ITEs that the supervisor would like to receive in order to monitor them.

21. In addition to internal control by conglomerates and oversight by supervisors, public disclosure can contribute to sound management of ITEs by enhancing market discipline. Public disclosure by the conglomerate of its ITEs can serve two purposes. First, it can enhance market discipline by allowing other market participants to differentiate between organisations that understand and manage their ITEs effectively and those that do not, thereby assisting supervisors in promoting the adoption of sound risk management practices. Through disclosure, creditors can understand better how developments in other legal entities of the conglomerate could affect repayment of their claims, which are on individual legal entities. Second, disclosure can be helpful to supervisors in understanding material ITEs in the conglomerate. While supervisors often find that disclosures are just the starting point for further questions and discussion, such disclosures may reduce the burden faced by a financial conglomerate in dealing with a number of supervisory authorities.

22. Market discipline can only be effective if disclosures are timely, reliable, relevant and sufficient. Based on a review of published financial statements by a small sample of financial conglomerates, disclosures of ITEs are minimal and could be considerably enhanced,

especially in annual reports. The expanded range of ITEs within conglomerates, however, has the potential to produce a burdensome volume of information. In this respect, prompt, detailed information on principal relationships among the legal entities within the conglomerate outside the normal financial cycle is seen as an effective and constructive supplement to annual or other periodic disclosures. In addition, qualitative information about the management of ITEs remains essential to make quantitative information meaningful.

Guiding Principles

23. Supervisory strategy with respect to ITEs in a conglomerate necessarily reflects the powers that supervisors have to induce financial institutions to control problematic or excessive ITEs and non-arm's length transactions. In some cases, supervisors will have ample authority to supervise risk management throughout the conglomerate. In many cases, they will not. In all cases, supervisors should have sufficient authority to gather and safeguard information to enable them to monitor material ITEs across sectors and to observe how ITE-related risks are managed. Supervisors also should have the power to deal with ITEs that are manipulative or abusive, through preventive regulation, such as limits, or remedial actions, as necessary. Where supervisors lack sufficient powers, they should seek the additional authority they need.

I. Supervisors should take steps, directly or through regulated entities, to provide that conglomerates have adequate risk management processes in place, including those pertaining to ITEs. Where necessary the supervisors should consider appropriate measures, such as reinforcing these processes with supervisory limits.

24. Many of the supervisory concerns emerging from ITEs, in particular contagion effects, can be mitigated by good internal control policies within the conglomerate. Supervisors expect that financial conglomerates will have a framework in place to measure, monitor and manage ITEs. Supervisors should expect that regulated entities will monitor and control ITEs in such a manner that the financial integrity of each regulated entity is protected. Supervisors should take steps directly or through regulated entities to provide that financial conglomerates have controls in place to manage their ITEs. For example, where the supervisor does not consider the controls adequate, or there is evidence of abusive or manipulative activity, supervisors should consider imposing supervisory limits or other measures.

25. A sound risk management process for ITEs begins with policies and procedures approved by the board of directors or other appropriate body[11] and active oversight by both the board and senior management of each regulated entity. The process should include a unified framework for the measurement and monitoring of material ITEs, so that both sides of bilateral transactions can be analysed at the individual regulated entity level, as well as at the conglomerate level. Management information and reporting systems are essential to a sound

[11] Corporate governance with respect to financial institutions varies from jurisdiction to jurisdiction. In some countries, the board has the main, if not exclusive, function of supervising the executive body (senior management, general management) so as to ensure that the latter fulfils its tasks. For this reason, it is known as a supervisory board. This means that the board has no executive functions. In other countries, by contrast, the board has a broader competence in that it lays down the general framework for the management of the financial institution.

risk management approach. Finally, sufficient attention should be given to non-quantifiable, as well as quantifiable, risks.

26. As financial institutions from different sectors merge and financial conglomerates evolve, the potential size, volume and complexity of ITEs could increase. When evaluating proposed mergers or expansions, supervisors should take into account management plans to manage material ITEs at a group-wide level .

II. Supervisors should monitor material ITEs of the regulated financial entities on a timely basis, as needed through regular reporting or by other means to help form a clear understanding of the ITEs of the financial conglomerate.

27. Supervisors may be able to tailor their monitoring of material ITEs based on the nature and scope of the conglomerate's corporate governance and internal control mechanisms. Supervisors should have access to information or should be informed on a regular basis on ITEs, on both a solo and consolidated basis, that exceed a set standard rule. This implies that supervisors need to refer to both consolidated and unconsolidated financial statements to properly detect ITEs.

28. There may be financial conglomerates where there are few supervisory concerns because all material entities are regulated and business lines and other activities follow legal entity lines. In other instances, however, particularly where the conglomerate contains significant unregulated entities or has an organisational structure very different from its legal entity structure, sound management of ITEs by the regulated entities of the financial conglomerate, and possibly by the financial conglomerate as a whole, will be an important concern. Supervisors should monitor carefully both the extent of material ITEs and their management.

29. Different approaches to capital regulation and accounting rules in different financial sectors may increase the opportunities for regulatory arbitrage. Supervisors should be especially vigilant in identifying ITEs throughout the financial conglomerate that facilitate such arbitrage.

30. As ITEs evolve, reporting of these transactions must also evolve and take into account new benefits and risks that may be associated with these new structures.

III. Supervisors should encourage public disclosure of ITEs.

31. Public disclosure of ITEs can promote market discipline, in the case of ITEs, by providing insight into the relationships among the various entities in the conglomerate. Effective public disclosures allow market participants to reward conglomerates that manage the risk associated with ITEs effectively and to penalise those which do not, thus reinforcing the messages provided by the supervisor. For market discipline to be effective, disclosures need to be timely, reliable, relevant and sufficient. Given the variety of possible ITEs in a financial conglomerate, public disclosure should not simply highlight the volume of ITEs but help the reader of financial statements to gain a greater understanding of the operations of the conglomerate. This no doubt means enhancing disclosures by expanding both the qualitative information, such as the scope, significance and management of the conglomerate's major ITEs, as well as quantitative information. In addition, public disclosure can facilitate supervisory monitoring and risk assessment and lead supervisors to explore further material issues.

32. It is not intended that disclosure of ITEs be done in a way that would involve the disclosure of proprietary information or information about customers that would unreasonably violate their privacy.

IV. Supervisors should liaise closely with one another to ascertain each other's concerns and coordinate as deemed appropriate any supervisory action relative to ITEs within the group.

33. A better understanding of supervisory methods dealing with ITEs and their rationale will facilitate a group-wide assessment of the difficulties that may be encountered by conglomerates as a result of ITEs. Thus, information sharing and liaison among supervisors are important. Supervisory concerns associated with cross-jurisdiction and cross-sector ITEs may be mitigated by communication among supervisors.

34. Generally, channels to permit the exchange of information within sectors have been established. The Joint Forum has set out principles for sharing information across sectors, inter alia, in the documents entitled Principles for Supervisory Information Sharing Paper and in The Coordinator Paper. These documents, along with others in the Joint Forum package, provide principles and techniques to assist supervisors to liaise more closely and effectively with one another in the supervision of financial conglomerates.

35. One of the key considerations influencing the supervisory approach to the regulation of ITEs is the legal structure of the conglomerate and the legal framework in each jurisdiction and country in which the conglomerate has operations. In deteriorating financial scenarios, the liquidation and bankruptcy regimes of each separate legal entity will determine at what point the regulated entity is endangered and will be moved into liquidation or resolution. Supervisors need to be aware that differences in the bankruptcy/liquidation regimes exist so that they can anticipate the impact of such regimes on the regulated entities within a troubled conglomerate and coordinate as necessary and where possible with other supervisors.

V. Supervisors should deal effectively and appropriately with material ITEs that are considered to have a detrimental effect on the regulated entities, either directly or through an overall detrimental effect on the group.

36. Most supervisory regimes are designed to prohibit detrimental ITEs. If prohibited transactions occur or if a financial conglomerate is exposed to ITEs that may affect its financial stability, supervisors should take appropriate measures with respect to the regulated entities. Examples of supervisory actions include requiring that prohibited transactions be nullified or cease to continue, that the use of ITEs be modified going forward or that they be subject to other prudential measures. Supervisors may also have to use moral suasion in instances where their powers are lacking to deal with ITEs. Where ITEs cut across the regulated entities of the firm, cooperation among the relevant supervisors (as well as with the primary supervisor[12]) is important.

[12] For purposes of this document, the term "primary supervisor" 'is generally considered to be the supervisor of the parent or the dominant regulated entity in the conglomerate, for example, in terms of balance sheet assets, revenues or solvency requirements.' *Supervision of Financial Conglomerates*, Papers prepared by the Joint Forum on Financial Conglomerates, February 1999, page 101.

Risk Concentrations Principles

Risk Concentrations Principles
(December 1999)

Purpose

1. To provide to banking, securities and insurance supervisors principles for ensuring through the regulatory and supervisory process the prudent management and control of risk concentrations in financial conglomerates.

2. By combining business lines, conglomerates offer the potential for broad diversification. However, new risk concentrations may arise at the group level. In particular, different entities within the conglomerate could be exposed to the same or similar risk factors, or to apparently unrelated risk factors that may interact under some unusually stressful circumstances.

Definition and Types of Risk Concentrations

3. For purposes of this paper, a financial conglomerate is defined as a conglomerate whose primary business is financial and whose regulated entities engage to a significant extent in at least two of the banking, securities and insurance sectors. Each supervisory discipline has developed a perspective on risk concentrations in its respective industry, and this paper draws on those perspectives in establishing guiding principles for the supervision of risk concentrations in a financial conglomerate.

4. A risk concentration refers to an exposure with the potential to produce losses large enough to threaten a financial institution's health or ability to maintain its core operations. Risk concentrations can arise in a financial conglomerate's assets, liabilities or off-balance sheet items, through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. The potential for loss reflects the size of the position and the extent of loss given a particular adverse circumstance. Risk concentrations can take many forms, including exposures to:

(a) individual counterparties;

(b) groups of individual counterparties or related entities;

(c) counterparties in specific geographical locations;

(d) industry sectors;

(e) specific products;

(f) service providers; e.g. back office services, and

(g) natural disasters or catastrophes.

Principles

I. Supervisors should take steps, directly or through regulated entities, to provide that conglomerates have adequate risk management processes in place to manage group-wide risk concentrations. Where necessary the supervisors should consider appropriate measures, such as reinforcing these processes with supervisory limits.

II. Supervisors should monitor material risk concentrations on a timely basis, as needed, through regular reporting or by other means to help form a clear understanding of the risk concentrations of the financial conglomerate.

III. Supervisors should encourage public disclosure of risk concentrations.

IV. Supervisors should liaise closely with one another to ascertain each other's concerns and coordinate as deemed appropriate any supervisory action relative to risk concentrations within the group.

V. Supervisors should deal effectively and appropriately with material risk concentrations that are considered to have a detrimental effect on the regulated entities, either directly or through an overall detrimental effect on the group.

The work of the Study Group

5. The Study Group on Intra-Group Transactions and Exposures and Risk Concentrations conducted fact-finding work on the management of risk concentrations by way of two questionnaires: one dealing with supervisory practices and another with conglomerate practices. The results of these questionnaires are summarised below. The study group surveyed ten financial conglomerates on their management practices with respect to concentrations. These included six bank-led conglomerates with activities in securities and/or insurance business, two insurance-led conglomerates with banking or securities business, one securities-led conglomerate with banking activities and one mixed conglomerate involved in banking and insurance.

Review of supervisory practices

6. Supervisory attention to the nature of concentrations within financial conglomerates has paralleled the growing attention by conglomerates to possible concentrations across the three major sectors of banking, securities and insurance. Until recently, conglomerates and supervisors alike focused on concentrations almost entirely at the sector level.

7. To date, concentrations in single dimensions of risk, such as credit, country, market, liquidity and reinsurance risks, have received the most attention from supervisors at the sector level. The supervisory tools and methodologies currently in place reflect the historical concerns of supervisors in each sector and therefore vary to some extent across sectors.

8. In the insurance sector, concentrations can arise from an insurance company's assets, liabilities, and off-balance sheet exposures, including exposures to future insurance claims.[13] Supervisors use a variety of approaches to promote diversification and expect companies to have underwriting and reinsurance policies ensuring that undue concentrations are avoided. Other supervisory approaches include supervisory limits, requirements for additional technical provisions, legal restrictions on investments, restrictions on the admissibility of assets in meeting capital requirements, and review of the adequacy of the reinsurance program. Reporting is an integral part of the monitoring process by most insurance supervisors, and some supervisors require additional or more frequent reporting when insurance companies approach statutory limits. Supervisors also require insurers to have in place policies and procedures to prudently manage and control risk concentrations.

9. In the banking sector, supervisors have incorporated large exposure guidance into their national supervisory frameworks. This guidance encourages supervisors to set quantitative limits on exposures to a single counterparty or group of related counterparties, using capital as a base. In addition, some jurisdictions impose quantitative limits on investments by regulation. Generally, supervisors require banks to have in place policies and procedures to prudently manage and control risk concentrations and hold boards of directors and senior management responsible for compliance. Some bank supervisory regimes also have the ability to impose additional capital requirements or take other supervisory action if a firm has unwarranted risk concentrations.

10. In the securities sector, supervisors require firms to establish robust systems of internal control and risk management to detect and appropriately manage risk concentrations. These are supplemented by strict liquidity and credit requirements. In some jurisdictions, securities firms are subject to large exposure limits generally identical with those applied to banks. Supervisors hold boards of directors and senior management responsible for compliance with these requirements. Supervisors can impose additional capital requirements or take other action if a firm is overly exposed to a particular risk.

11. Across all three sectors, supervisors and management recognise that financial institutions face an increased risk of loss when their assets, liabilities or business activities are not diversified. Supervisors use regulation, in particular limits on large exposures, to encourage firms to control concentrations. Some supervisors have developed reporting systems to assist them in monitoring risk concentrations.

12. Supervisors in all three sectors consider that the prudent management of concentrations is integral to risk management. They expect financial institutions to have in place comprehensive systems for measuring, monitoring and managing risk concentrations. In some jurisdictions, supervisors increasingly rely on financial institutions' risk management processes to control and monitor concentrations. To that end, supervisors have issued supervisory guidance or required institutions to establish internal policies and procedures to control and monitor risk exposure in general and risk concentrations in particular.

13. Experience has led financial institutions and supervisors to broaden the concept of risk concentration over time. In recent years, financial institutions and supervisors have given increasing attention to the interaction of risks, recognising that there are circumstances where a single large transaction or set of transactions can generate unusually large losses as the market, credit and country risks interact. As a result, supervisors of regulated entities

[13] On balance-sheet liabilities of insurance companies reflect known losses and future claims; it is recognised that once claims are made, management cannot use diversification to alter its risk concentration.

within a financial conglomerate have focused increasing attention on both concentrations arising from large single risks involving exposures across the conglomerate and concentrations arising from the interaction of risks which affect exposures in more than one sector.

Financial Conglomerates' Risk Concentration Management Practices

14. The survey of conglomerates revealed an important recent development. Some conglomerates are monitoring risk concentrations across sectors on a group-wide basis, and in some cases combining insurance with banking and securities exposures. However, the majority of the small sample of conglomerates surveyed are monitoring risk concentration only at the sector level. In the past, the focus on monitoring risk concentration has been almost entirely sectoral. As a result, risk management and internal control systems designed to monitor concentrations remain more advanced at the sector level.

15. In addition to looking for exposures to common counterparties or industries across sectors, some conglomerates are focusing on the correlation and interactions of risks in making group-wide assessments of risk concentrations, following similar developments at the sector level. For example, one insurance-based conglomerate has begun to analyse the relationship between loss potential in its property/casualty insurance business and in the lending business of its banking arm, particularly in the event of a natural disaster. Another conglomerate has been developing a common set of risk factors to analyse risk across the entire group, which includes entities in all three sectors.

16. Generally, the measures that conglomerates put in place to control risk concentrations either at the group or sector level go beyond compliance with regulatory requirements. This is consistent with the expectations of most supervisory regimes. Financial institutions appear to recognise the potential for material losses stemming from an uncontrolled concentration, and that such losses could significantly weaken their competitive position in the international marketplace, resulting in a loss of customer, investor and/or depositor confidence.

17. At the conglomerates surveyed, the board of directors or other appropriate high level committee of the parent company[14] is usually responsible for approving the conglomerate's policies on risk management. Senior executive management develops and implements these policies. In some jurisdictions, both these functions may rest with the same body. To monitor compliance with policies, risk managers prepare reports on concentrations for a committee of senior managers who review, discuss and provide direction for reducing, mitigating or managing concentration risks. In most cases, positions in excess of established limits require approval from successively higher levels of management – the larger the position and the longer it exceeds the internal limits, the higher the approval necessary, sometimes as high as the board of directors. In many cases, the conglomerate's internal limits are set lower than the relevant regulatory limits.

[14] Corporate governance with respect to financial institutions varies from jurisdiction to jurisdiction. In some countries, the board has the main, if not exclusive, function of supervising the executive body (senior management, general management) so as to ensure that the latter fulfils its tasks. For this reason, it is known as a supervisory board. This means that the board has no executive functions. In other countries, by contrast, the board has a broader competence in that it lays down the general framework for the management of the financial institution.

18. Information and communication technology developments create the potential for firms to monitor risk at all levels, but management information systems to monitor compliance with limits on an ongoing basis currently exist only at the sector level. For example, many firms in the insurance sector now set and monitor underwriting limits by type of risk and thereby both limit the risk and ensure diversification of their exposures on a continuous basis. Systems with similar capabilities have been developed in the banking and securities sectors. In contrast, those conglomerates monitoring exposures across insurance and banking/securities activities appear to rely on a manual process, since the systems used to measure and monitor risk tend to differ substantially across the sectors.

19. Financial conglomerates are enhancing analytical techniques to identify, measure, monitor and control risk concentrations. Among the most important techniques now used at some conglomerates are stress testing and scenario analysis, often based on models. These techniques assess the impact of such adverse events as large changes in market values, declines in creditworthiness, or natural disasters on individual regulated entities or the conglomerate as a whole. Scenarios reflect historical experience or focus on particular vulnerabilities that the firm's risk managers identify. Stress testing also involves the systematic testing of the loss potential in a series of large changes in key risk factors. The Russian default in August 1998 reinforced the need to identify common risk factors across all elements of the firm's financial exposure. In that case, the losses experienced included repurchase agreements on Russian debt with non-Russian counterparties and credit extended to hedge funds with Russian concentrations. These were in addition to the losses on loans and other direct credit to Russian counterparties that are traditionally associated with country risk.

20. As some conglomerates have devoted greater attention to assessing the impact of correlations on risk, stress testing of correlation assumptions has become important. The 1998 disturbances in Asia and elsewhere illustrate how previously uncorrelated price movements across debt and equity markets in emerging market countries perceived to be in different economic and trading blocs could suddenly become highly correlated under stress, affecting exposures in all three sectors.

21. The developments in stress testing and scenario analysis in risk management should be encouraged and illustrate the increasing level of complexity and the growing information requirements involved in understanding how concentrations can arise. Stress testing requires comprehensive management information systems that aggregate information in a consistent and timely manner and permit positions to be analysed in a number of ways. Important elements of stress testing, however, cannot be automated, but require sound judgement. For example, judgement is required in understanding new products, analysing correlations and interpreting the results of the testing.

Analysis of Issues in the Supervision of Financial Conglomerates

22. While risk concentrations are generally seen by supervisors to be problematic, the potential for risk concentrations in a conglomerate needs to be balanced against the broad diversification benefits associated with combining business lines under the single ownership of a conglomerate. Apart from unusual, generally distressed, market conditions, cyclical effects in other markets would normally offset ebbs and flows in any one business line. In addition, a certain degree of concentration is the inevitable result of a well-articulated business strategy as well as product specialisation, the targeting of a customer base or a sound strategy of outsourcing data processing activities. The implication is that not all risk concentrations are inherently bad.

23. Nonetheless, since risk concentrations historically have been an important cause of losses in all three sectors, supervisors need to balance these benefits against the risks of concentrations at the conglomerate level. To identify some ways in which such concentrations arise, it is helpful to assess how large losses can develop in a conglomerate. Some of these are described below:

- Losses at the conglomerate level can reflect the aggregate of losses on similar types of exposures (e.g. bonds, loans and investments with the same obligor) across the sectors. These are the types of major losses which large exposure rules have traditionally tried to prevent. Losses can not only strain overall capital resources, but short-term liquidity may also be impaired if the position is very large relative to market size or market-making capacity. Positions can reach a large size relative to the market, even if the conglomerate adheres to large exposure rules at group level, because of the large capital base of some conglomerates.

- Losses at the conglomerate level could reflect risk factors that have consequences for different types of exposure in different entities. For example, a natural disaster could cause insurance losses in a conglomerate's insurance operation and credit losses in its banking operation if both offered products in the affected region

- Losses could also reflect the interaction of risk factors. For example, the loss potential in a derivative or exchange rate contract resulting from an exchange rate depreciation may be intensified if the same price movement adversely affects the repayment ability of a counterparty or the financial stability of the counterparty's country of residence. Losses can be further compounded in a conglomerate when the same external developments generate large losses in separate, apparently unrelated sectors, such as simultaneous losses after devaluation in foreign exchange trading in the bank and emerging market bond portfolios in the securities firm.

- Losses could also reflect the breakdown of previously observed correlations, such as occurs in a flight to quality in which all risky assets decline in value, where previously many of them were measured to be uncorrelated.

Losses therefore can arise from large exposures that can be simply aggregated across sectors within the conglomerate or more complex concentrations arising from the correlation or interaction of risks.

24. Moreover, even risk concentrations confined to the sector level can have spillover effects within the conglomerate. Material problems resulting from excessive risk concentrations in one entity, either regulated or unregulated, could be transmitted to other entities in the conglomerate because the entities are linked by reputation or by intra-group transactions and exposures, or both. For example, if it is known that there are serious losses in a conglomerate's securities activities, its banking operations may suffer liquidity or market access problems through reputational effects and perceived close financial linkages between the securities and banking entities. While this potential seems most important for the transmission of liquidity risk, it can be relevant for any risk when a regulated entity has a large, concentrated exposure to the entity with the concentration in the conglomerate.

25. The possibility that large losses could threaten the ongoing business operations of a financial conglomerate clearly motivates supervisory concern that risk concentrations be identified, monitored and subject to an adequate management strategy. This concern starts at the sectoral level. But concentrations arising at the conglomerate level, whether from concentrations in the individual legal entities, from risks cutting across sectors or from the interaction of risk concentrations within the conglomerate, could affect the efficacy of sectoral

supervision. In addition, where there are very different approaches to setting limits or defining concentrations or where there are unregulated entities, the differences in requirements can produce an incentive to book positions within the conglomerate to reduce or minimise the impact of regulatory constraints. Thus, supervisors should seek to make sure that their objectives for individual regulated entities within the conglomerate are not undermined either as a result of material risk concentrations and potential losses that emerge at the conglomerate level or as a result of regulatory arbitrage.

26. The additive nature of concentrations and the risk of transmission of material problems within a conglomerate point to the value of both conglomerate management and supervisors conducting a group-wide assessment of potential concentrations. Supervisors will likely find it useful to co-operate with other supervisors of the conglomerate's regulated entities to understand material risk concentrations as part of their larger efforts to determine the overall risk profile of the conglomerate.

27. The need for a group-wide assessment of concentrations highlights the importance of supervisors access to information. Whether in a system of consolidated supervision, where a group-wide assessment may be an integral part of oversight, or in other approaches to conglomerate supervision, supervisors should have access to adequate information about risk concentrations within the conglomerate, including exposures in unregulated entities. These information needs can be satisfied by the conglomerate providing necessary information to the supervisor, by a bilateral or multilateral meeting of relevant supervisors, or by enhancing the information-gathering powers of the supervisors. In addition, sectoral supervisors may benefit from any future harmonisation in measuring risk concentrations across sectors, in exchanging information. Thus, information sharing and liaison among supervisors are important. Possible approaches to supervisory cooperation are described in the Joint Forum's *Coordinator Paper* and the *Principles for Supervisory Information Sharing Paper*.

28. As conglomerates evolve, the complexity of risk concentrations in the structure of these conglomerates is increasing, and the analytical and information demands on risk management are growing. The changing insights into the nature of risk concentrations suggest that both financial conglomerates and supervisors need to continue to advance their respective approaches to risk identification and monitoring. Thus, supervisors believe it is crucial that conglomerates have adequate systems to measure, monitor, manage and control risk concentrations as part of a broader program of risk management at the group-wide level, including scenario analysis and stress testing where appropriate. In turn, as they conduct their oversight, supervisors should understand and may make use of the methodologies and systems used by financial conglomerates.

29. In addition to risk management by conglomerates and supervisory oversight, public disclosure can contribute to sound management of risk concentrations by enhancing market discipline. Public disclosure by the conglomerate of its risk concentrations can serve two purposes. First, it can enhance market discipline by allowing other market participants to differentiate between organisations that manage risk concentrations safely and soundly and those that do not, thereby assisting supervisors in promoting the adoption of sound risk management practices. Second, disclosure can be helpful to supervisors in understanding material concentrations in the conglomerate. While supervisors often find such disclosures are just the starting point for further questions and discussion, such disclosures may reduce the burden faced by a financial conglomerate in dealing with a number of supervisory authorities.

30. Market discipline can only be effective if disclosures are timely, reliable, relevant and sufficient. Based on a review of published financial statements by a small sample of financial conglomerates, disclosures of risk concentrations are minimal and could be considerably

enhanced. At the same time, the new and extensive types of analysis conglomerates are undertaking to identify concentrations have the potential to produce a burdensome volume of information. In this respect, the prompt, detailed information on particular exposures disclosed by some conglomerates outside of the normal financial reporting cycle and in response to market concerns during the 1998 financial market turmoil were widely seen as effective and constructive. This suggests that conglomerates could both expand their periodic public disclosures of risk concentrations while continuing to focus on only the most important risks, and use timely, topical disclosures to provide additional detail as necessary.

Guiding Principles

31. Supervisory strategy with respect to risk concentrations in a conglomerate necessarily reflects the powers that supervisors have to induce financial institutions to reduce excessive concentrations and other dangerous exposures. In some cases, supervisors will have ample authority to supervise risk management throughout the conglomerate. In many cases, they will not. In all cases, supervisors should have sufficient authority to gather and safeguard information to be able to monitor material risk concentrations across sectors and to understand how such risks are managed. Supervisors at the sector level should review whether they have sufficient powers to protect the regulated entity from problematic risk concentrations, for example, through requiring reductions in exposures or higher capital at the regulated entity. Where supervisors lack sufficient powers, they should seek the additional authority they need.

I. Supervisors should take steps, directly or through regulated entities, to provide that conglomerates have adequate risk management processes in place to manage group-wide risk concentrations. Where necessary the supervisors should consider appropriate measures, such as reinforcing these processes with supervisory limits.

32. Supervisory concerns emerging from risk concentrations can be mitigated by good risk management and internal control policies, and supplemented by the holding of adequate capital. Risk concentrations need to be monitored both in the legal entity and across the different sectors of the conglomerate to provide for the protection of the regulated entities. Supervisors should take steps directly or through regulated entities to provide that financial conglomerates have controls in place to manage their risk concentrations. For example, where the supervisor does not consider the controls adequate, supervisors should consider imposing supervisory limits.

33. A sound risk management process begins with policies and procedures approved by the board of directors or other appropriate body and active oversight by both the board and senior management. The process should include clearly assigned responsibility for the measurement and monitoring of risks and risk concentrations at the conglomerate level. The conglomerate should have in place a process to identify the conglomerate's principal risks, a comprehensive measurement system, a system of limits to manage large exposures and other risk concentrations, and processes of stress testing and scenario and correlation analysis. Comprehensive management information and reporting systems are essential to a sound risk management approach. Finally, sufficient attention should be given to non-quantifiable, as well as quantifiable, risks.

34. In addition, as financial institutions from different sectors merge and financial conglomerates evolve, the potential for new types of concentrations arises. When evaluating proposed mergers or expansions, supervisors should take into account management plans to manage material risk concentrations at a group-wide level.

II. Supervisors should monitor material risk concentrations on a timely basis, as needed, through regular reporting or by other means to help form a clear understanding of the risk concentrations of the financial conglomerate.

35. Supervisors should have access to information or should be informed on a regular basis of the nature and size of material risk concentrations. To facilitate that process, supervisors may find it useful to set limits or thresholds that serve as reporting or supervisory benchmarks. Given the dynamic nature of conglomerate organisations and the ease with which risk profiles can change, monitoring should be frequent. Risk concentrations or stress scenarios that generate large losses should be acted upon promptly through follow-up questions of the conglomerate's management.

III. Supervisors should encourage public disclosure of risk concentrations.

36. Public disclosure of risk concentrations at the group-wide level can promote market discipline. Effective public disclosures allow market participants to reward conglomerates that manage risk effectively and to penalise those which do not, thus reinforcing the messages provided by the supervisor. For market discipline to be effective, disclosures need to be timely, reliable, relevant and sufficient. Given the complexity and variety of possible risk concentrations in a financial conglomerate, enhancing disclosures includes expanding the range of the most important risk concentrations in periodic financial statements, especially in annual reports, while making timely and reliable disclosures of exposures outside the normal reporting cycle as necessary to provide greater detail in response to market concerns. A description of the conglomerate's risk management approach to concentrations would be a useful supplement to quantitative information. In addition, public disclosure can facilitate supervisory monitoring and risk assessment and lead supervisors to explore further material issues.

37. It is not intended that disclosure of risk concentrations be done in a way that would involve the disclosure of proprietary information or information about customers that would unreasonably violate their privacy.

IV. Supervisors should liaise closely with one another to ascertain each other's concerns and coordinate as deemed appropriate any supervisory action relative to risk concentrations within the group.

38. Risk concentrations may arise from exposures in many parts of a financial conglomerate. The effective assessment, monitoring and control of such concentrations by supervisors is likely to require sectoral expertise as well as a good understanding of the techniques used by other supervisors. Supervisors need to communicate on risk concentrations found within sectors or jurisdictions, as supervision at the sector level may not detect instances of arbitrage. In addition, supervisors may need to coordinate across sectors and jurisdictions.

39. Generally, channels to permit the exchange of information within sectors have been established. The Joint Forum has set out principles for sharing information across sectors, *inter alia*, in the document entitled *Principles for Supervisory Information Sharing Paper* and in the *Coordinator Paper*. These documents, along with others in the Joint Forum package, provide principles and techniques to assist supervisors in efforts to liaise more closely and effectively with one another in the supervision of financial conglomerates.

V. Supervisors should deal effectively and appropriately with material risk concentrations that are considered to have a detrimental effect on the regulated entities, either directly or through an overall detrimental effect on the group.

40. If a financial conglomerate is exposed to risk concentrations that may affect its financial stability, supervisors should take appropriate measures with respect to regulated entities. In some cases, supervisors may elect to take preventive measures. For example, supervisors with the necessary powers may consider establishing cross-sector limits for risk concentrations. Exceeding these limits could trigger supervisory intervention directed at controlling situations affecting the viability of the regulated entities of the conglomerate. Once a problem arises, supervisory intervention almost always begins with bringing the issue to the attention of management and the board of directors and asking them to address the supervisory concern. While supervisors generally feel they have the power to seek corrective action by the entity they regulate, actions elsewhere in the conglomerate may be necessary to effectively reduce or mitigate the concentration. Where risk concentrations cut across the regulated entities of the firm, cooperation among the relevant supervisors (as well as with the primary supervisor[15]) is important.

[15] For purposes of this document, the term “primary supervisor” ‘is generally considered to be the supervisor of the parent or the dominant regulated entity in the conglomerate, for example, in terms of balance sheet assets, revenues or solvency requirements.’ *Supervision of Financial Conglomerates,* Papers prepared by the Joint Forum on Financial Conglomerates, February 1999, page 101.