

March 16, 2012

Secretariat of the Joint Forum (BCBS Secretariat)
Bank for International Settlements
CH-4002 Basel
Switzerland
baselcommittee@bis.org

Dear Sir/Madam:

**Re: CBA¹ Comments on the Joint Forum's Consultation Paper:
*Principles for the supervision of financial conglomerates***

Thank you for the opportunity to comment on the Joint Forum's consultation paper entitled *Principles for the supervision of financial conglomerates*.

The CBA endorses efforts to update and enhance these internationally agreed principles which support the consistent and effective supervision of financial conglomerates, and in particular those financial conglomerates active across borders. The CBA also supports principles to ensure that financial conglomerates have a robust corporate governance framework in place, as well as strong capital and liquidity management frameworks. As the consultation paper advocates, the CBA agrees that these principles should be applied to financial conglomerates in a proportionate manner to the risks posed.

Regulation and Supervision in Canada

The CBA's largest members conduct material financial activities in the banking, insurance, and securities sectors, and would therefore be considered financial conglomerates as defined in this consultation paper. In Canada, the banking and insurance sectors are primarily regulated and supervised at the federal level by the Office of the Superintendent of Financial Institutions Canada (OSFI), while securities regulation is largely conducted by provincial securities authorities.

Given the division of regulatory powers governing the Canadian financial regulatory system, there may be legal impediments to the full implementation of some of the principles contained in

¹ The Canadian Bankers Association works on behalf of 53 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 267,000 employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions and works with banks and law enforcement to help protect customers against financial crime and promote fraud awareness. www.cba.ca.

this consultation paper. For example, federal and provincial statutes may need to be amended in order to facilitate information sharing between OSFI and provincial securities regulators. It may also be difficult to implement guidance in the paper proposing that securities regulators assess board members of financial conglomerates.

Information Sharing

The protection of the confidentiality of information is a general concern of CBA members. As such, the CBA agrees that supervisors should have arrangements in place for protecting the confidentiality of information received from other supervisors. We note, however, that the principles do not provide guidance on what types of information should and should not generally be shared under various circumstances. More detailed guidance in this area would provide greater clarity for supervisors and greater transparency for financial conglomerates on how and under what circumstances this information sharing would take place.

G-SIFIs

The CBA notes that the consultation paper is silent on the issue of G-SIFIs. As the Financial Stability Board has already identified a preliminary list of global systemically important banks, and as international work continues on the potential identification of other systemically important non-bank financial institutions, the Joint Forum may wish to provide an indication of whether G-SIFIs could be subject to different treatment under these principles in the future. The CBA does not believe that G-SIFIs should be subject to distinct treatment under these principles and reiterates its position that the principles should be applied in a proportionate manner to the risks posed.

Intragroup Conflicts

The CBA requests more detail be provided on Implementation Criterion 10(e) regarding intragroup conflicts as the rationale behind this criterion and the types of potential conflicts it attempts to address are unclear.

Outsourcing

While the CBA is supportive of Principle 25 on Outsourcing, we note that Explanatory Comment 25.3 states that financial conglomerates should not outsource certain functions under any circumstances. The CBA believes that this prohibition on outsourcing may not be consistent with the underlying principle which states that the decision to outsource a particular function should be based on its corresponding risk assessment.

Additional Comments

The CBA would also like to add two more specific comments. First, in regards to Principle 11(d): we recommend replacing the words “process for” with “controls over” and that the word “material” be added in front of “structural change”. The current wording suggests that supervisors would continually monitor all structural changes whereas the proposed wording suggests that they would monitor the control processes surrounding material changes. Second, in regards to Principle 24(c): we suggest that the sentence be rephrased to read, “Supervisors should require

that financial conglomerates have put in place adequate systems, processes, and controls prior to expanding into new products” in order to recognize that systems alone may not be sufficient.

We thank you for taking our comments into consideration and would be pleased to discuss these issues further at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to be "J. E. ...", written in a cursive style.