



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

March 16, 2012

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

Dear Sir

**Re: IAA comments on the Consultative Report on Principles for the Supervision of
Financial Conglomerates**

In response to the request for comments on the Consultative Report on Principles for the Supervision of Financial Conglomerates, I am pleased to transmit, on behalf of the International Actuarial Association (IAA), our comments and recommendations.

These comments have been prepared by the Insurance Regulation Committee of the IAA. If, upon reading these comments, you identify any points that you wish to pursue, please do not hesitate to contact the chairperson of the Insurance Regulation Committee care of the [IAA Secretariat](#). The IAA will be pleased to develop these ideas further with you.

Yours sincerely

Desmond K. Smith
President

**A Commentary on the Consultative Report on
PRINCIPLES FOR THE SUPERVISION OF FINANCIAL CONGLOMERATES
Released by the Joint Forum: December 2011**

International Actuarial Association and its Due Process

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our sixty-four Full Member actuarial associations, listed in an Appendix to this statement, represent more than 95% of all actuaries practicing around the world. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact on the areas of expertise of actuaries.

The IAA is pleased to be given the opportunity to provide input to the Joint Forum on its consultative document. These comments have been prepared by the Insurance Regulation Committee, the members of which are listed in an Appendix to this statement. It has also been subject to the due process required for it to constitute a formal view of the IAA, and will be posted to the IAA’s official web site.

General Comments

The difference in business models between banks, insurance and securities needs to be carefully considered. Applying the same regulation to each sector and business model may well limit desirable diversity and reinforce pro-cyclicality. It should be clearly identified that applying the same regulation to each sector may work negatively for financial stabilization.

The Internal Review suggested that the principles needed updating to reflect industry developments and to provide greater focus on special purpose entities and holding companies of financial conglomerates. For this purpose, these principles should focus on the particular governance and risk management of financial conglomerates. Since the purpose of the Review is not about fulfilling the regulatory gaps between sectors, the articles which do not relate to financial conglomerates should be removed from the principles. Should these articles not be removed, proper revisions would then be necessary.

Suitability of the international framework for conglomerates is also important for markets which are dominated by subsidiaries of overseas companies. International firms would like to be able to use assets in subsidiaries to meet unexpected claims elsewhere in the group. Restrictions on an international parent repatriating surplus capital, to help other parts of their global operations, should not be unreasonable. Nevertheless, a small country regulator may wish to ensure that there are sufficient safeguards for their customers.

Comments on each article

Implementation criteria 1(b)

The definition of “unsuitable persons” should be added to the glossary. Can corporations be “persons” in this context? Would a person with no or limited financial experience be considered “unsuitable”?

Principle 2

We think that “enable” should be replaced by a stronger verb, such as “mandate”, as this is essential to the purpose of this entire principles document.

Explanatory comments 3.2 last sentence

There should be some mention of a due process to adjudicate disputed decisions.

Implementation criteria 4(a)

We do not think acquiring resources is always practical, therefore add: “or subcontract” after “Supervisors should have adequate levels of financial resources to acquire and maintain...”.

Implementation criteria 4(b)

The ongoing supervision of financial conglomerates will be currency unit-intensive. This level of supervision does not exist today. Can suggestions for funding such supervision be included?

Implementation criteria 5(c)

We do not see how this will work with entities operating across multiple jurisdictions. Will legislation have to be proposed and enacted that allows the local jurisdiction’s regulations to be superseded?

Explanatory comments 5.2

Guidance would be helpful for the criteria to determine the “largest” part of the conglomerate, i.e., based on the most assets, most earnings, most risk, biggest market share in a jurisdiction, etc.

Principle 7

Should this not be the function of the Joint Forum? If each set of regulators supervising a financial conglomerate established its own standards, then the desired level of uniformity would not be achieved.

Principle 10

Should each member of the group have a required capital level based on a consistent risk tolerance?

Explanatory comments 10.7

What is the specific intent of this explanatory comment?

Principle 11

In addition to a transparent organizational and managerial structure, should “risk-sharing” arrangements be added? Risk-sharing contracts/treaties exist and are not part of an ownership structure or management chart.

Implementation criteria 11(d)

To the end of the sentence add “and risk sharing agreements”.

Principle 13

In our opinion, the Board should not be doing this; this is the responsibility of senior management. Rather than define it, the Board should review and approve the strategy and risk appetite of the financial conglomerate, and ensure it is in enacted.

Implementation criteria 14(a)

We think this is a good idea. Many practices can be judged as appropriate or inappropriate, but we think there will be many layers of gray in between. The Joint Forum should identify practices that are appropriate and inappropriate so that interpretation and enforcement will be consistent for all financial conglomerates. In addition, regulators can serve a valuable function for encouraging and highlighting better emerging practice.

Implementation criteria 14(c)

In addition to “entities”, “counterparties” should be added. These counterparties are all covered under these principles and are regulated by the same supervisors.

Implementation criteria 15(d)

It would be helpful to define what is meant by an “independent” review process; i.e., by an audit firm, a consulting firm, a unit of the financial conglomerate that is not in a related business unit (e.g., Internal Audit)?

Implementation criteria 15(i)

Since the causes which make the capital position fall below the internal capital target can be varied, identifying the actions beforehand can lead to the possibility of failing to take appropriate actions. Therefore, this article should be revised to read: “Supervisors should require that the capital planning process identify the possible actions that management is expected to take when its capital position falls below, or is anticipated to fall below, its internal capital target. Proper actions would include communication amongst the related sections as to the cause and required actions when the capital position falls below its internal capital target.”

Implementation criteria 15(k)

While it is understandable to not rely on receipts from a sister company in a period of distress, the guarantee should be considered an obligation when looking at the sister company.

Principle 26

The different entities in different jurisdictions will be subject to different stresses. Therefore, the impact of each unique stress should be applied to the entire conglomerate to understand the impact of diversification. It should also be recognized that there are multiple stresses that may occur concurrently across sectors and territories; these impacts should be measured as well.

Explanatory comments 28.2

Given that the information obtained by the supervisory process contains highly confidential information, procedures are needed to ensure the confidential sharing of that information with other regulators. Consideration should be given to the fact that sharing such information publicly could impact the market and market behaviour. Given that disclosure is important to protect policyholders, there nonetheless remains the possibility of harm to interests of

policyholders through reputation risk caused by disclosure. Careful discussion is necessary on the treatment of items to be disclosed or not to be disclosed.

Therefore, we suggest the following phrase be added at the end of the original sentence: “as long as the disclosure does not negatively impact on confidentiality and the protection of policyholders.”

Appendix A

Members of the IAA Committee on Insurance Regulation

Toshihiro Kawano	Chairperson
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James E Rech	Co-Vice-Chairperson
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Jacques Tremblay	Canadian Institute of Actuaries
H.W.M. Van Broekhoven	Het Actuarieel Genootschap
Lucia Chona Ventura	Actuarial Society of the Philippines
Eret Võsa	Eesti Aktuaaride Liit
Igor Zoric	Udruženje Aktuara Srbije

Full Member Associations of the IAA

Caribbean Actuarial Association
Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)
Actuaries Institute Australia (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Institut des Actuairens en Belgique (Belgique)
Aktuarsko Društvo U Bosni I Hercegovini (Bosnia and Herzegovina)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Bulgarian Actuarial Society (Bulgaria)
Canadian Institute of Actuaries/Institut Canadien des Actuairens (Canada)
China Association of Actuaries (China)
Actuarial Institute of Chinese Taipei (Chinese Taipei)
Institut des Actuairens de Côte d'Ivoire (Côte D'Ivoire)
Hrvatsko Aktuarsko Društvo (Croatia)
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Suomen Aktuaariyhdistys (Finland)
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Deutsche Aktuarvereinigung e.V. (DAV) (Germany)
Hellenic Actuarial Society (Greece)
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Society of Actuaries in Ireland (Ireland)
Israel Association of Actuaries (Israel)
Istituto Italiano degli Attuari (Italy)
Institute of Actuaries of Japan (Japan)
Japanese Society of Certified Pension Actuaries (Japan)
The Actuarial Society of Kenya (Kenya)
Latvijas Aktuaru Asociacija (Latvia)
Lebanese Association of Actuaries (Lebanon)
Lietuvos Aktuariju Draugija (Lithuania)
Persatuan Aktuari Malaysia (Malaysia)
Colegio Nacional de Actuarios A.C. (Mexico)
Association Marocaine des Actuairens (Morocco)
Het Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)
Den Norske Aktuarforening (Norway)
Pakistan Society of Actuaries (Pakistan)

Actuarial Society of the Philippines (Philippines)
Polskie Stowarzyszenie Aktuariuszy (Poland)
Instituto dos Actuários Portugueses (Portugal)
Academia de Actuarios de Puerto Rico (Puerto Rico)
Russian Guild of Actuaries (Russia)
Udruženje Aktuara Srbije (Serbia)
Singapore Actuarial Society (Singapore)
Slovenska Spolocnost Aktuarov (SSA) (Slovakia)
Slovensko Aktuarsko Drustvo (Slovenia)
Actuarial Society of South Africa (South Africa)
Col.legi d'Actuaris de Catalunya (Spain)
Instituto de Actuarios Españoles (Spain)
Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Society of Actuaries of Thailand (Thailand)
Institute and Faculty of Actuaries (United Kingdom)
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