THE JOINT FORUM

BASEL COMMITTEE ON BANKING SUPERVISION
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS
INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS
C/O BANK FOR INTERNATIONAL SETTLEMENTS
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Report on intra-group support measures

February 2012

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A. Executive summary

The objective of this report prepared by the Joint Forum[1] is to assist national supervisors in gaining a better understanding of the use of intra-group support measures in times of stress or unexpected loss by financial groups across the banking, insurance and securities sectors.

The report provides an important overview of the use of intra-group support at a time when authorities are increasingly focused on ways to ensure banks and other financial entities can be wound down in an orderly manner during periods of distress. The report may also assist the thematic work contemplated by the Financial Stability Board (FSB) on deposit insurance schemes and feed into the ongoing policy development in relation to recovery and resolution plans.

The report is based on the findings of a high-level stock-take which examined the use of intra-group support measures available to banks, insurers and securities firms. The stock-take was conducted through a survey by the Joint Forum Working Group on Risk Assessment and Capital (JFRAC) that was completed by 31 financial institutions headquartered in ten jurisdictions on three continents: Europe, North America and Asia. Participants were drawn from the banking, insurance and securities sectors and from many of the jurisdictions represented by Joint Forum members. Many participating firms were large global financial institutions.

The report provides an overview and analysis of the types and frequency of intra-group support measures used in practice. It is based only on information provided by participants in the survey. Responses were verified by supervisors only in certain instances.

The survey's main findings are as follows:

1. Intra-group support measures can vary from institution to institution, driven by the regulatory, legal and tax environment; the management style of the particular institution; and the cross-border nature of the business. Authorities should be mindful of the complicating effect of these measures on resolution regimes and the recovery process in the event of failure.

2. The majority of respondents surveyed indicated centralised capital and liquidity management systems were in place. According to proponents, this approach promotes the efficient management of a group's overall capital level and helps maximise liquidity while reducing the cost of funds. However, the respondents that favoured a "self-sufficiency" approach pointed out that centralised management potentially has the effect of increasing contagion risk within a group in the event of distress at any subsidiaries. The use of these systems impacts the nature and design of intra-group support measures with some firms indicating that the way they managed capital and liquidity within the group was a key driver in their decisions about the intra-group transactions and support measures they used.

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[1] The Joint Forum was established in 1996 under the aegis of the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) to deal with issues common to the banking, securities and insurance sectors, including the regulation of financial conglomerates.

3. Committed facilities, subordinated loans and guarantees were the most widely used measures. This was evident across all sectors and participating jurisdictions.

4. Internal support measures generally were provided on a one-way basis (eg downstream from a parent to a subsidiary). Loans and borrowings, however, were provided in some groups on a reciprocal basis. As groups surveyed generally operated across borders, most indicated support measures were provided both domestically and internationally. Support measures were also in place between both regulated and unregulated entities and between entities in different sectors.

5. The study found no evidence of intra-group support measures either a) being implemented on anything other than an arm's length basis, or b) resulting in the inappropriate transfer of capital, income or assets from regulated entities or in a way which generated capital resources within a group. However, this does not necessarily mean that supervisory scrutiny of intra-group support measures is unwarranted. As this report is based on industry responses, further in-depth analysis by national supervisors may provide a more complete picture of the risks potentially posed by intra-group support measures.

6. While the existing regulatory frameworks for intra-group support measures are somewhat limited, firms do have certain internal policies and procedures to manage and restrict internal transactions. Respondents pointed out that the regulatory and legal framework can make it difficult for some forms of intra-group support to come into force while supervisors aim to ensure that both regulated entities and stakeholders are protected from risks arising from the use of support measures. For instance, upstream transfers of liquidity and capital are monitored and large exposure rules can limit the extent of intra-group interaction for risk control purposes. Jurisdictional differences in regulatory settings can also pose a challenge for firms operating across borders.

7. Based on the survey and independent of remaining concerns and information gaps, single sector supervisors should be aware of the risks that intra-group support measures may pose and should fully understand the measures used by an institution, including its motivations for using certain measures over others. In order to obtain further insight into the intra-group support measures put in place by financial institutions within their jurisdiction, national supervisors should, where appropriate, conduct further analysis in this area. A high-level model questionnaire is provided in Annex II with the aim of assisting national supervisors with ongoing work relating to intra-group support measures.

B. Scope

1. Background

Financial groups which encountered problems or which failed between 2007 and 2009 during the financial crisis typically had to consider the question of whether to support a subsidiary or related entity. Although these decisions largely hinge on the potential damage to franchise and reputation, the starting point for making such decisions is based on intra-group contractual and legal obligations. The level of intra-group support and interconnectedness of legal entities within the group affects the extent to which the failure of one entity poses contagion risk for other entities within the group. It is also these contractual obligations which determine the losses ultimately suffered by creditors of each entity in the group.

As noted earlier, the objective of the Joint Forum is to assist members of its parent committees and the FSB in further understanding the types and purposes of intra-group support within financial groups. This international and cross-sector stock-tacking permits comparisons of industry approaches across jurisdictions and sectors.

2. Definition of "intra-group support measures"

Intra-group support consists of various types of support measures, in particular capital and liquidity support measures, extended between entities within a group in times of stress or unexpected loss. For the purpose of this study, intra-group support measures are

- legally enforceable commitments for financial assistance or assurance made by one group entity (usually a parent) upon which another group entity (usually a subsidiary) can call *in times of stress or unexpected loss*; or
- commitments which regulators would regard as reliable means of support.

These measures typically increase the risk of loss to the provider when called upon by a beneficiary that subsequently fails.

Support measures can vary between jurisdictions due to differing regulatory, legal or tax regimes. Support measures can stem either from contractual agreements or as a matter of law or regulation. They can take the form of ongoing or contingent support, secured or unsecured, within national boundaries or cross-border. These intra-group support measures may exist between regulated entities or between regulated and unregulated entities and can take place on a cross-sectoral basis. The direction of support may also vary in relation to the hierarchy of the group's legal control structure. Support provided by a subsidiary to its parent is referred to as "upstream" support whereas support provided by a parent to its subsidiary is referred to as "downstream" support.

Differing regulations related to intra-group support measures and the varying types of contractual agreements determined by specific market practices and/or business models have resulted in a broad range of intra-group support measures across financial groups.

3. Concerns relating to intra-group support

The importance and variety of intra-group support measures within financial groups has increased the supervisory challenges of ensuring that regulated entities and their stakeholders are protected from risks arising from the use of such support measures. In general, supervisory concerns arise when intra-group support measures:

- result in capital, income or assets being inappropriately transferred from the regulated entity, or result in intra-group creation of capital resources (ie double or multiple gearing);
- are used as a substitute for financial resources (eg using a guarantee or loan rather than capital held at the subsidiary);
- are implemented on terms or under circumstances which third parties would not accept;
- adversely affect the solvency, liquidity and profitability of individual entities within a group;
- result in contagion risk, thereby precipitating knock-on effects on financially sound entities when one entity within the group experiences stress;

- complicate group structures and therefore obscure the supervisor's view of the group and/or legal entities that operate within their jurisdictions, thus affecting both the ability to supervise on an ongoing basis, and resolution and recoverability; and
- are used as a means of regulatory arbitrage to evade capital or other regulatory requirements altogether.

There may however be positive aspects to intra-group support measures as they can provide financial resilience and create a stabilising effect on the wider group.

4. Intra-group exposures/transactions

Intra-group exposures/transactions take the form of an often complex netting of direct and indirect claims which entities within financial groups typically hold on each other. The most transparent form of intra-group exposure is a credit or a line of credit which either the parent grants to a subsidiary or one subsidiary makes available to another subsidiary. Intra-group exposures, however, can originate in a variety of other ways: for example through (a) intra-group cross shareholdings; (b) trading operations whereby one group entity deals with or on behalf of another group entity; (c) central management of short term liquidity within the group and (d) guarantees and commitments provided to or received from other companies in the group.

For the purposes of this report, intra-group support measures should be considered a subset of intra-group exposures/transactions. Wider intra-group exposures/transactions relating to "business as usual" activities are not considered to be intra-group support measures. Instead this paper focuses on intra-group support measures that are put in place in times of stress or unexpected losses.

Wider intra-group exposures/transactions not captured by this narrower definition of intra-group support may be put in place for the following reasons:

- to promote the development of group business activities (eg facilitate acquisitions, integration of acquired business, distribution arrangements, internal restructurings, sales or other disposals of assets or businesses or similar transactions);
- to enable the group to operate on an integrated basis across different legal entities, some of which may not be in the same jurisdictions;
- to support entity credit ratings in a group (eg parental support of an entity in order to obtain the same credit rating as the parent entity) and therefore ensuring competitive financing terms for entities of the group;
- to promote efficient use and fungibility of the group's capital resources across the different legal entities; and
- to manage and provide liquidity and capital resources across the group.

Notwithstanding their economic and commercial benefits, both intra-group exposures/transactions and support measures have the potential to adversely affect the solvency, liquidity and profitability of individual entities within a group. They can impede effective supervision and resolution efforts, and increase contagion risk across the group.

Gathering information on existing "business as usual" intra-group exposures/transactions was not an objective of this study. However, it should be noted that making a clear separation between intra-group exposures/transactions and intra-group support measures was not always possible in practice. For this reason, "business as usual" intra-group exposures/transactions were considered to the extent that they might change materially or be extended in times of stress or unexpected loss (thus becoming forms of "intra-group support" as defined for this study).

5. Table of participating firms

The following table shows the sector and continent (Europe, North America and/or Asia) of origin of the 31 financial groups from ten countries which participated in the survey. Both for confidentiality reasons and because many responses provided by firms were high-level rather than detailed, firm names and firm-specific responses to the questionnaire have not been included. Anonymous and summary extracts and themes have instead been provided.

	Banking	Insurance	Securities	Cross Sectoral
Home Jurisdiction	Europe North America Asia	Europe North America Asia	Europe North America Asia	Europe North America

C Key findings

1. General overview

Responses illustrated a varying understanding of the term "intra-group support" as certain firms provided information on "intra-group exposures" more generally rather than on intra-group support-measures.

Information on intra-group exposures can provide insight into the interconnectedness of financial groups, shedding light on avenues for contagion and on the group's ability to stand as an integrated single entity against adverse conditions. However, this can complicate the distinction between what is "business as usual" and what is extraordinary support in times of stress. A measure can be part of normal business practices, but can also become a support measure in a financial crisis (eg the extension of a credit line). As such, intra-group exposures that are likely to become a support measure in times of stress were given consideration.

The survey found that the measures used varied from institution to institution. Three institutions stated that intra-group support measures represent a very small portion of total intra-group exposures. Another group expressly stated that they do not have any pre-arranged support mechanisms in place, but decide on a case-by-case basis if and how they can support a group entity in times of stress. They pointed out that this is a crucial part of the management function and they choose mainly between guarantees, loans and equity injections.

A key factor to consider when assessing the interconnectedness of group entities is whether the groups manage capital and liquidity on a centralised basis or whether each entity manages in a self-sufficient or self-contained manner. The model chosen impacts the nature and design of intra-group support measures. Certain firms stated that the management of group-wide capital and liquidity was a key driver of intra-group transactions and support measures.

The most common support measures used by groups were committed facilities (senior loans), subordinated loans and guarantees. Insurance groups and conglomerates use internal group reinsurance, however, due to the nature of reinsurance, it was not considered a support measure for the purposes of this study as it is generally called upon only when certain events specified in the contract materialise and generally not when other stressful events occur.

Internal support measures generally were found to be provided on a one-way basis (eg downstream from a parent to a subsidiary). Loans and borrowings, however, were found in some groups on a reciprocal basis. The groups included within the survey generally operate across borders and, as such, stated that their support measures were provided domestically as well as internationally. Support measures also take place between regulated and unregulated entities.

Of the groups which had activities both in the banking and insurance sectors, three out of five respondents indicated that intra-group support occurred on a cross-sectoral basis.

The following sections set out

- a description of, including advantages and disadvantages of, centralised and decentralised capital and liquidity management as explained by firms - an important driver for engaging in intra-group support in times of stress;
- the nature and frequency of the specific types of intra-group support measures commonly used by respondent firms including the rationale that firms put forward in relation to the advantages/disadvantages of different types of intra-group support measures;
- respondents' views on the restrictions and regulatory requirements which apply to intra-group support measures.

2. Centralised and decentralised capital and liquidity management

(a) Centralised capital management

Seventeen of 25 respondents addressing this issue stated that they centralise their capital management. Respondents commented on the centralised capital management arrangements they used and their advantages:

- Respondents confirmed that active centralised capital management increases the efficiency of a group's overall capital management. A group's available financial resources can be managed to cover the capital requirements determined both by the internal risk model and by the requirements of supervisory authorities and rating agencies on a consolidated basis.
- One respondent stated that it used centralised capital management at a regional level. That is, centralised capital management is taking place not at the parent level but on regional level covering all the group entities (branches and subsidiaries) that are located in that region.
- One respondent stated that it operates in such a way that its various businesses operate on a standalone basis and therefore need fewer intra-group support measures than would be expected for a similar group. Notwithstanding this, its group aims to maintain excess capital centrally in order to allow maximum flexibility and to deliver on its long term strategy.
- One respondent advised that they manage capital on a group basis whereby capital is raised at the parent holding company and then injected as required into subsidiary entities. The firm stated that any excess capital generated by a subsidiary is

repatriated by the parent holding company unless local tax or regulatory capital requirements justify retaining it. Capital re-allocation from the group parent to subsidiaries is then governed by a "group application" process with a goal of optimising the use of capital across the group.

- One respondent noted that it manages its material subsidiaries on an "arm's length basis" whereby each subsidiary is required to manage its own capital (and liquidity) resources without reliance on other group entities except where support is explicitly approved. The firm stated that the group's core capital is allocated to subsidiaries in line with their local regulatory capital requirements and subsidiaries are then required to generate an appropriate return on these resources.
- One respondent stated that it manages capital centrally at its corporate treasury under a framework of internal governance rules. The firm noted that their treasury department sets domestic and international legal entity risk-based capital and solvency targets in line with regulatory and competitive business requirements. Capital plans are aligned to targets and monitored and updated throughout the year. Excess capital is directed to the holding company and managed centrally.
- One respondent noted that the objectives of their capital management process ensure that the group optimises capital whilst minimising tax through governance and control of external and internal capital movements (eg between subsidiaries).

Some respondents noted disadvantages to centralised capital management including the potential for a deterioration of the capital/funding position of a subsidiary to have contagion effects across the group.

(b) Centralised liquidity management (cash pooling)

In general, many of the respondents that had centralised capital management in place also used centralised liquidity management.

- Two respondents who used centralised capital management also stated that the group's liquidity was managed country by country.
- One of these firms explained that its group treasury function determines the policies, processes, controls, systems and reporting requirements for each country treasury which then is responsible for applying those controls across the activities of all business units in their respective country.
- Another respondent stated that its group pooling activities take place only in certain legal entities. One group stated each currency is managed in one geographic competency centre for the entire group (eg the dollar is managed from New York, Sterling and the Euro from Brussels, etc) with consolidated monitoring of all currencies by the treasury at group level. These firms did not however provide further information as to why their capital and liquidity was not managed on the same basis.
- One respondent stated that it runs a centralised liquidity stress modelling process as well as a separate legal entity stress modelling process when required by host country regulators. This group maintains a combination of substantial pools of liquidity held in various areas (in various entities, eg broker dealers). Theses pools are held on an as-needed basis (entity by entity) or as required by local law/regulation. This group stated that it is unable to allocate liquidity across sectors from a bank to a non-bank affiliate as regulatory guidelines generally prohibit support across sectors.

- Another respondent noted that it maintains an excess pool of liquidity sufficient to meet requirements in both a normal environment and a modelled stress environment. Potential outflows in a stressed environment are determined through an internal stress analysis. The group's excess liquidity is held at the group level as well as at the level of major operating entities which also maintain their own pools. Corporate Treasury manages the funds centrally. For subsidiaries with no legal, regulatory, tax or other restrictions, the group employs a central cash management framework it receiving and distributing cash to entities as required. With certain exceptions, most loans to affiliates have open/overnight maturities in order to allow for maximum flexibility.

Respondents using centralised liquidity management outlined their cash management objectives as maximising liquidity while minimising the cost of funds. One respondent noted that the objective of its liquidity management is to meet the group's commitments as they fall due whilst maintaining market confidence in the firm.

Respondents stated that central liquidity management enabled their groups to prepare for and mitigate various risks to the group's liquidity position. They noted that this ensured sufficiently high liquid assets at all times in the event of potential liquidity outflows under both normal and stress conditions, including acute stress conditions (eg in the case of a potential downgrade of the credit rating at the parent or local level).

Certain respondents also explained that cash pooling is important because it can reduce consolidated leverage. It can also reduce the need for third-party placements at the subsidiary level (and the credit risk attached) because the highest rated entity in the group, the parent company, is best positioned to access the most cost-effective funding, provide a single face to the market and effectively manage the relationships with rating agencies and institutional investors. Unlike many of the subsidiaries, the parent also has fewer restrictions on both lending and recouping funding to and from subsidiaries.

One respondent stated that centralised liquidity management had been particularly beneficial to them during the 2007-2009 financial crisis, as it limited their potential exposure to banks that ultimately failed.

Another respondent pointed out that in many cases there is an economic trade-off between intra-group support measures (eg guarantees) and intra-group funding in the normal course of business. A decision to reduce centralised funding requires higher amounts of funding to be obtained by subsidiaries in their local markets. In order to do so economically, subsidiaries have a greater incentive to use the stronger name of the parent through a parental guarantee.

(c) Decentralised capital and liquidity management ("subsidiary self-sufficiency")

In contrast, ten of 25 respondents that addressed this issue stated they did not operate on a centralised basis, but rather relied on decentralised management - an operating mode premised on the self-sufficiency of subsidiaries within a group. Two respondents explained that they demand that individual subsidiaries try to obtain resources (eg capital and funding) themselves from their own markets, rather than using centralised resources. Even though this strategy implies an increase in cost, according to these groups, it provides better diversification and clear liability pricing (ie cost pricing). One respondent noted that although their group core capital (ie equity) is allocated to subsidiaries, this could be supplemented by locally issued Tier 2 capital (ie debt).

Respondents suggested that soundness of capital and liability pricing at the subsidiary level is critical and that groups operating without it cannot truly understand their cost of resources, making them susceptible to less rational group capital allocation decisions over time. Furthermore, centralisation can result in subsidiaries becoming too dependent on their group parents for other functions (eg risk management and strategic decisions). Domestic risk models translate the group's risk expertise into a local implementation of risk assessment strategies.

A key advantage noted by respondents operating self-sufficient subsidiaries was that they allow for easier separation from the rest of the group - for example, in terms of the sale of any particular unit for commercial gain or in situations when it is necessary to isolate an entity during a crisis to limit contagion to the rest of the group.

One respondent from the insurance sector explained that they do not manage liquidity centrally. Various insurance subsidiaries in the group write different product mixes in different jurisdictions, resulting in claim patterns that can vary locally. Liquidity needs can therefore vary with local conditions. However, there is central control over what investments a subsidiary is permitted to make, and local subsidiaries have access to crisis capital from the parent.

Example:

One group has established the following capital management policy based on self-sufficient subsidiaries - both for ordinary and extraordinary business activity.

Capital management

Ordinary management of capital is based on providing local units with the capital required for them to autonomously carry out their activities and comply with local regulatory requirements. Capital levels needed in each of the local subsidiaries or groups is initially established considering the following:

- *Local regulatory requirements*
- *Type of business activity being carried out*
- *Projections for subsidiary growth*
- *Capital available at the consolidated level and prioritisation of allocation across subsidiaries.*

With capital levels thus established (including the corporate contribution if needed), it is reviewed only when justified by changes in the main determinants above. The expected dividend policy of each subsidiary is determined by the need to cover the dividend paid by the parent company but subject to local regulatory constraints. Based on the foregoing, and as a general principle, each unit is to autonomously manage its capital, self-financing its ordinary organic growth from retained income, efficient management of its risk assets, and 3) where applicable, the issuance of capital hybrids (ie securities having the characteristics of both debt and equity).

Extraordinary capital management processes could be triggered as a result of two (very different) situations:

- *In the event of possible acquisition opportunities, the group analyses the opportunity from all significant viewpoints, including the need for and availability of equity financing from various channels: group contribution, the partial sale of previously wholly-owned subsidiaries to minority investors, or the raising of new capital by already public subsidiaries.*

- *In the event of a crisis that could drain capital from a previously well-capitalised subsidiary, the group's decision-making criteria focus on (i) the trade-off between the amount to be contributed and the long-term viability and value of the local business, and (ii) the cause of the capital drain, considering, for example, if it is due to local factors outside of (local) management's control or not. Obviously, the local unit's ability to replenish its capital independently is also considered.*

Liquidity management

As a general principle, each group subsidiary independently manages its liquidity, within a corporate policy framework whose application is governed by a special committee. This autonomy requires that each subsidiary develop its own financial plans, liquidity projections and financing needs without resorting to the parent's financial resources. Subsidiaries conceive of their own issuance programs, manage their relationships with rating agencies and conduct their own road shows to autonomously ensure funding availability for their operations.

3. Specific types of intra-group support measures

The following table provides an overview of the different intra-group support measures used by respondents grouped by financial sector. It should again be noted that a number of these measures, although used for business as usual purposes, are also available for and would be used in periods of stress.

Support measure	**Banking groups** Total :11	**Insurance groups** Total :11	**Securities groups** Total :4	**Cross Sectoral groups** Total :5
Committed facilities (senior loans)	8	7	3	4
Subordinated loans	9	8	3	3
Letter of credit	0	4	0	0
Guarantee	9	9	4	5
Equity injection	4	4	1	1
Bond swaps	0	0	0	1
Bond lending / repo agreement	0	2	0	2
Letter of comfort	6	6	4	3
Declaration of backing	1	0	1	0

(a) Committed facilities (senior loans)

Of the 26 respondents that addressed this issue, 22 (covering all participating jurisdictions and all sectors) stated that they use committed facilities to supplement liquidity management. According to one respondent the primary rationale for the funding arrangements is to provide working capital financing in support of business activities.

One respondent mentioned that an advantage of committed facilities/senior loans is that they generally require only simple documentation and can be arranged quickly. Another respondent notes that it views loan facilities as an efficient method of transferring funds among legal entities in a manner that is flexible in terms of both extensions and repayments. Subordinated loans and capital are slower and more difficult to execute and repay, resulting in reduced flexibility/speed of repayment.

Certain respondents also noted disadvantages of committed facilities, specifically that they commit the liquidity of the parent.

One respondent stated that credit facilities to subsidiaries are often required by local regulators (for example in the UK and Ireland) to obtain waivers for local liquidity regulation.

One respondent stated that most of its subsidiary loans were provided by the parent entity on an unsecured basis and were to subsidiaries located in another jurisdiction. It also noted that its committed funding lines were provided to subsidiaries due to the request of host regulatory authorities in order to demonstrate the funding resilience of the group in stress tests.

One European respondent from the insurance sector noted that in the majority of cases loans from the subsidiary to the parent were used as a form of capital support. The stated rationale for using loans was to assist with group cash flow management. It noted that this is an advantage for the group as a whole. It also explained that in terms of intra-group management, these loans are agreed to on a quarterly basis and any increase in intra-group lending is subject to board agreement.

Another respondent (also an insurance group) stated that loans obtained by the unregulated holding company or other subsidiaries are in turn used by these entities to provide capital to operating insurance companies.

One respondent stated that in the normal course, the holding company provides senior loans to its subsidiaries for funding purposes. These are mainly revolving lines of credit which may be amended by the holding company. The group's banking entity provides senior lines of credit to its subsidiaries and its sister banks. In addition, selected senior loans exist between affiliates. However, any arrangement between a banking entity and a non-bank affiliate has to be collateralised in accordance with regulatory requirements.

(b) Subordinated loans

Twenty-three of the 28 respondents which addressed this issue, covering almost all participating jurisdictions, stated they use subordinated loans as a means of providing intra-group support. The groups that use subordinated loans use them to provide capital support for funding organic growth and acquisitions, and explained that these represent an alternative to equity capital due to their tax efficiency and non-dilutive nature. One respondent explained that it uses subordinated loans to meet regulatory capital or liquidity requirements of group subsidiaries as needed.

Respondents also cited disadvantages of subordinated loans, specifically, that they are of lower capital quality – ie their utility is limited from a capital requirements perspective as they are subject to regulatory limits and internal guidelines.

(c) Letters of credit

Four respondents stated that they use letters of credit. Two European respondents from the insurance sector stated that they use letters of credits for capital support purposes (specifically to meet US regulatory requirements), as they are a more efficient and cost effective alternative to paid-up capital.

Letters of credit are necessary in certain jurisdictions to obtain regulatory approval for internal reinsurance agreements. One insurance group explained that letters of credit are primarily used as source of capital to support variable annuity reserves and finance redundant life insurance reserves, and serve to satisfy the requirement that the assuming reinsurer post collateral to support its reinsurance obligations. Another insurance group explained that they used letters of credits for the capital support of a Bermuda-based subsidiary.

(d) Guarantees

Twenty-seven of the 31 respondents use guarantees. Several stated that the main motivation for the use of guarantees is capital relief for rating agency capital measurement purposes. In certain instances, guarantees are issued because the beneficiary subsidiary does not have its own credit rating and therefore the guarantee provides the subsidiary with the rating of its parent. Respondents also noted that the use of guarantees reduces the necessity for a parent to provide a subsidiary with liquidity as a subsidiary is better able to source funds independently at cost-effective levels.

Another respondent explained that guarantees can be used to meet certain customer and third-party requirements with respect to an affiliate (eg to meet industry guidelines, central counterparty or regulatory requirements). Another respondent also confirmed that guarantees are typically used when the parent provides a guarantee of subsidiary obligations to a third party (or guarantees funding obligations issued by that subsidiary). According to that respondent they most typically relate to International Swaps and Derivatives Association (ISDA) transactions (some are non-ISDA), involving commodities/repos or prime brokerage agreements in the global market space. One insurance group stated that it used a parental guarantee, to a third party in respect of the beneficiary entity’s obligations to that third party, to be called upon should the entity fail to meet its reinsurance targets. This parental guarantee was subject to monitoring by the group’s audit committee and board on an annual basis.

Other respondents stated that guarantees are often used to market an entity’s financial strength in pursuit of market opportunities or for debt issuance purposes including securitisation issuance, and are also provided to securitisation vehicles (SPVs, conduits).

One respondent explained commercial paper can be issued by the subsidiary and guaranteed by the parent bank. However, according to the firm, these guarantees do not necessarily represent an additional economic risk at the parent as proceeds from issuing debt at a subsidiary are often up-streamed to the parent entity.

One respondent noted that guarantees are also required by certain central banks (ie Primary Dealer Requirement), clearing houses, and by certain major clients. Another group, however, stated that it is not aware of any instances where guarantees are posted strictly due to a central bank requirement. This particular group does provide a blanket guarantee for substantially all of its subsidiaries (some of which may deal with central banks); however, the guarantee is not driven by a central bank requirement.

One respondent stated that unlimited guarantees to foreign subsidiaries often have to be issued by the parent in order to obtain the approval of foreign supervisors. Another respondent noted that a number of unlimited guarantees were provided in the past - with the nature of these liabilities fully disclosed to its home regulator but where in the future no unlimited guarantee would be provided without first discussing it with the regulator. It was not clear however if this was as a result of regulatory requirements or if the regulator had requested this on a firm-specific basis. Most guarantees, however, were provided on a limited basis with certain of them secured against collateral received from the beneficiary entity.

One respondent claimed that a disadvantage of using guarantees is that there is no regulatory capital relief. One insurance group cited a further disadvantage of guarantees: that they reduce Solvency 1 excess capital in extreme situations.

(e) Equity injections

Ten of the 31 respondents cited equity injections as a possible intra-group support measure (as stated above, a number of groups operate on a centralised capital management basis and it would seem reasonable to assume that equity injections are important to their capital management strategy). According to one respondent, the main advantage of equity capital is the permanence of the funds and the improvement in the leverage ratio.

Respondents cited that the key disadvantages of equity injections are that they permanently drain resources from the holding company and they are legally complex to arrange. Also, for the subsidiary, equity carries a higher cost relative to debt and is more dilutive.

(f) Bond swaps

One financial conglomerate stated that it uses bond swaps where an insurance entity swaps part of its liquid asset portfolio in return for a lower quality asset from a bank's balance sheet. This improves the liquidity position of the banking entity and reduces the liquidity of the insurer, presumably in return for the insurance entity receiving a higher yield.

(g) Bond lending agreements / Repo agreements

Similarly, two respondents used bond lending agreements between subsidiaries and the parent where the parent borrows the securities from the balance sheet of the subsidiary in order to improve the liquidity position of the parent.

One respondent stated they have a repurchase agreement in place as a form of liquidity support. Another respondent stated that on occasion, repos are used between group legal entities providing financing on a portfolio of segregated collateral. According to the group, repos are used to provide funding for select portfolios of affiliates and to allow for investment of excess funds by the lending entity.

(h) Letters of comfort / Declarations of backing / Letters of support

Nineteen of the 31 respondents (drawn from all sectors and participating jurisdictions) stated that they use letters of comfort while two respondents also use declarations of backing. However, four of the respondents stated that they use letters of comforts very rarely.

Given that a letter of comfort is not a legally binding financial contract, it is not considered to be an intra-group support measure for the purposes of this paper, however, due to its prevalence it was deemed useful to include in our findings.

According to one respondent, a commonly used letter of comfort states that the parent of the subsidiary, for a certain period of time or as long as the parent is the major shareholder of the subsidiary:

- shall exercise its right as major shareholder in such manner as to support the company in accordance with the principles of sound business practice; and
- shall do everything in its power to ensure that the company is properly managed in accordance with prudent financial policies.

Respondents explained that a letter of comfort is not a legally binding financial contract with a third party but rather is an assurance that the parent will do its best to ensure that the subsidiary is properly managed. Only in cases where the parent does not meet the above commitments can one claim for damages therefore, if the subsidiary is properly managed and the above criteria are met, the recipient of the letter of comfort has no claim on the parent company.

Another respondent stated that a letter of comfort is sometimes provided in order to assure that the subsidiary will be maintained as a going-concern from a solvency perspective.

Two groups stated that their preference is to avoid giving any form of parental support or guarantees, but where necessary would provide a letter of comfort to support an economically viable business. For one group in question, all letters of comfort were provided on an unlimited basis to (mainly foreign) subsidiaries from the parent entity.

One insurance group noted that certain of its letters of support were provided as a form of guarantee to third parties in respect of the other group entity's obligations, whereas others were provided as contingent support in order to meet an adequate level of capital under host jurisdictions' regulatory requirements. For this group in question the letters of support were provided by the parent (an unregulated holding company) to its subsidiaries (regulated insurance companies), and some were provided on a cross-border basis. For this group, all of its letters of support were provided on an unlimited basis.

According to respondents that use declarations of backing, the issuer provides that selected group entities will be able to meet their contractual liabilities at all times. If this ceases to be the case, the receiver of this declaration can sue the provider for damages. Contrary to letters of comfort, a declaration of backing is legally binding and therefore an intra-group support measure in line with our definition.

4. Restrictions and regulatory requirements which apply to intra-group support measures

This section outlines firms' perspectives on the main external and internal restrictions and other regulatory requirements which apply to intra-group support measures. The views expressed are not necessarily the views of respondents' supervisors, nor are they necessarily a reliable description of the legal and regulatory frameworks in relevant jurisdictions.

(a) Regulatory and legal restrictions

Respondents indicated that there are legal, regulatory and tax restrictions which could make it difficult to quickly transfer capital or liquidity from a foreign subsidiary to the parent or, more generally, from one affiliate to another. Even international transfers to and from branches may be restricted. One respondent stated that in contrast, downstream capital transfers from the parent to the subsidiary can usually be accomplished comparatively quickly and with significantly lower obstacles.

One respondent specified that the memorandum and articles of association (or equivalent) and applicable law will determine whether support can be provided. The firm also stated that regulatory restrictions – for example, large exposure and capital adequacy provisions – will limit the extent to which support can be extended.

One group noted that the majority of its intra-group support (including loans, letters of credit, etc) was put in place as capital support to meet regulatory requirements.

Concentration limits and restrictions on upstream guarantees between banking subsidiaries

Respondents indicated that in some jurisdictions a banking parent can easily and almost without limit support its subsidiaries provided the parent continues to meet its liquidity standards. However, banking subsidiaries face legal lending limits on the amount of liquidity they can upstream to their parent even when they have excess liquidity.

Certain respondents claimed that these legal lending limits are inefficient when managing the liquidity and funding position of a banking group overall and advised that they expect future banking regulation to further institutionalise these inefficiencies. As such, in their view, subsidiaries will need a liquidity buffer for their own positions that the greater group is not able to use.

As a general rule, almost all of the respondents stated that they were subject to severe legal restrictions in their ability to upstream, except in certain specific jurisdictions. For example, French law requires that an affiliate receive real and adequate benefit in proportion to the risk assumed and that it remains solvent after the upstream transaction.

Concentration limits and restrictions on upstream guarantees between banking and insurance subsidiaries

According to one respondent, insurance entities face concentration limits when providing funding to affiliated banking entities, however, in principle no concentration limits apply to the investment policy of own funds of an insurer.

One group stated that any arrangement (eg senior loans) between a bank entity of the group and a non-bank affiliate have to be collateralised according to US Regulation W.

According to respondents thin capitalisation rules generally limit the amount of tax efficient funding an entity can receive from its parent. When funding of an entity exceeds a given threshold relative to its capital enabled by the entity's heavy reliance on parental guarantees, funding costs are treated less advantageously from a tax point of view (as the deemed excess may economically be viewed as capital rather than funding in nature).

Large exposure rules and lending limits

Large exposure rules are seen by some as limiting the extent of intra-group transactions, particularly in Europe. One European respondent noted that the large exposures regime it was subject to restricted some intra-group exposures to 25% of their capital base, both at the solo and consolidated level. Certain respondents claim that certain subsidiaries have significant excess liquidity which cannot be used elsewhere in the group. Also certain respondents stated that regulated entities are subject to large exposure rules, but generally the potential recourse to these entities from intra-group transactions remains far beyond the applicable regulatory limitations.

One large cross-border group noted that its home regulator restricts the amount of cross-border exposures to certain countries. This respondent noted that since the group has subsidiaries incorporated and operating in certain of these countries, such geographic controls create an additional constraint on intra-group exposures. It further stated that at a time of increased pressure due to cross-border business growth, it is important for utilisation levels to be periodically reviewed in order to ensure the total exposure remains within limits, and that unnecessary intra-group cross-border country risk exposure is avoided.

One respondent claimed that, in their view, large exposure rules limit the optimal provision of committed credit facilities from one affiliate to another within a group and force the use of sub-optimal parent-subsidiary legal structures.

In the insurance sector, one respondent mentioned that each insurance regulatory domicile has inter-affiliate lending limits beyond which regulatory approval is required. Generally the borrower and the lender are subject to a test on prior year-end general admitted assets, and if exceeded, would require prior regulatory approval.

Minimum capital requirements

Banking subsidiaries around the world are subject to supervision and regulation based on, among other things, minimum capital requirements. The obligation to satisfy capital requirements is seen by certain respondents as affecting the ability of banking subsidiaries to transfer funds to the parent in the form of cash dividends, loans or advances. In addition, under the laws of various jurisdictions where subsidiaries are incorporated, dividends may only be paid out of legally available funds. Even where minimum capital requirements are met and funds are legally available, the relevant regulator could advise against the transfer of funds to the foreign parent in the form of cash dividends, loans or advances, for prudential reasons or otherwise.

Corrective action

Two insurance groups noted that corrective actions would be triggered in their jurisdiction when there is a breach of minimum regulatory requirements or certain net worth maintenance levels. Under the US insurance risk-based capital system, an individual company's capital and surplus may reach a level of impairment that triggers mandatory company actions (known as "Company Action Level"). At the Company Action Level, an insurer is required to submit a report to the regulator within specified time periods outlining a comprehensive financial plan that indentifies the conditions that contributed to the company's financial condition. The plan must contain proposals to correct the financial problems and provide projections of the financial condition, both with and without the proposed corrections. The plan must list the key assumptions underlying projections and identify the quality of, and the problems associated with, the insurer's business. If a company fails to file this comprehensive financial plan the Regulatory Action Level is triggered. However, insurance risk-based capital standards do not mandate actions by other members of a group in support of subsidiaries or affiliates. [2]

[2] US banks are subject to a separate Prompt Corrective Action regime with thresholds for minimum leverage and risk based capital levels. See 12 CFR part 6 (national banks); 12 CFR part 208, subpart D (state member banks); 12 CFR 325.103 (state non-member banks); 12 CFR part 565 (savings associations 12 CFR Part 165 (federal savings associations); 12 CFR part 390, subpart Y (state savings associations).

Excluded persons

Legislation in one jurisdiction ensures that an insurance company shall not transact under unusual conditions with specified persons or entities affiliated to the company: a major shareholder, its holding company or other related persons.

(b) Internal restrictions of the financial groups

Intra-group transactions are not only limited by law and regulation but also by internal group procedures and guidelines. Most of the firms that participated in this work stated that they have internal guidelines specifying that any investment exceeding a certain amount must be presented to the Board of Directors or its delegated commission for approval. They also stated that they have general guidelines specifying that any support involving capital must also be approved by an internal committee (eg a committee led by the finance department and comprising representatives from tax, accounting, legal and any other relevant areas).

One respondent noted that all its intra-group support facilities are limited either by the inclusion of an express limit within the documentation or through internal limits that act to restrict the level of business that the obligor is able to undertake.

Another respondent stated that it performs the Internal Capital Adequacy Assessment Process “ICAAP” for its operations in accordance with US regulatory guidance. This process creates stress test scenarios to evaluate the depth and quality of the group’s capital base and includes triggers that are monitored to evaluate the capital adequacy of the firm. The ICAAP provides governance over the process of monitoring the group’s capital base. This group also maintains a Contingency Funding Plan that measures the company’s liquidity profile under a base case and stress scenarios. The plan contains triggers and potential action steps.

(c) Ranking of intra-group claims in the case of insolvency

According to the respondents, in most jurisdictions the ranking of claims of intra-group creditors in the case of insolvency are no different than the ranking of claims of creditors external to the group. Prioritisation of the claim in insolvency depends on the loan’s seniority. Consequently, intra-group senior loans generally rank pari passu with other senior loans of the same debtor and, similarly, intra-group subordinated loans generally rank pari passu with other subordinated loans of the same debtor. It is also irrelevant whether the claim belongs to a local or foreign creditor. However, there are certain jurisdictions (eg Spain) where certain local bankruptcy or insolvency regulations redefine senior intra-group claims as subordinated claims.

One insurance group stated that subordinated loans by definition rank junior to senior loans, however in practice, senior loans to non-operating holding companies are economically subordinated loans at best as the main assets of these holding companies are equity investments in their operating companies. As such, the holding company must repay the interest and principal on its senior loans with proceeds (ie typically dividends) derived from its investments in the equities of its operating companies.

Another common exception to the normal hierarchy of claims occurs in the case of a secured claim. In this case, it will have a priority claim on the pledged assets or due to the collateralisation mechanism established in the security documentation.

(d) Disclosure requirements

Most of the groups have a duty, to the extent required by IFRS, to disclose intra-group transactions in their consolidated financial statements annually and in certain situations semi-annually. Regulated entities of the group party to these transactions may also have to disclose them in their respective statutory accounts generally filed with their local regulators.

One respondent noted differing levels of disclosure, for example, disclosure in group accounts, disclosure in audited accounts of subsidiaries, etc. It noted that support measures such as letters of support and guarantees were disclosed in their audited financial statements, albeit not individually. In one case, the group stated that a guarantee would be disclosed to the board and that counterparties would be made aware of the guarantees, however further detail was not provided.

Another respondent stated that for certain very large amounts of support material to investors in the parent holding company (or any publically traded entities in the group), the decision to provide support to a regulated subsidiary could amount to inside information in relation to the securities issued by the parent holding company (or its subsidiaries). Therefore the firm advised that this requires disclosure of support to the relevant stock exchange(s) without delay.

One respondent also mentioned the need to disclose intra-group support due to Pillar 3 reporting in banking regulations globally.

Another respondent from the US stated that disclosure is required for most intra-group support arrangements, eg disclosures contained in the NAIC Annual Statement blank and in holding company reports that are required to be filed with an insurer's domiciliary state.

(e) Monitoring

Intra-group support measures are not a separately monitored transaction type within firms. However, they are captured and regularly monitored as part of the firms' overall risk management process. The frequency of monitoring varies with the nature of the support measure. For example, measures related to liquidity management are monitored on a daily basis while other measures (eg other loans and collateral) are monitored on a quarterly basis however this varies from group to group.

Certain groups mentioned that monitoring of intra-group support takes place on a centralised basis (eg by group treasury management), and would take place as part of regular regulatory and compliance monitoring. Notably, certain intra-group support measures require sign-off by the board of directors.

D. Survey conclusions

Intra-group support measures can vary from institution to institution, driven by regulatory, legal and tax environments as well as the management style of the particular institution and the cross-border nature of the business. Authorities should be mindful of the complicating effect of these measures on resolution regimes and the recovery process in the event of failure.

The majority of respondents surveyed indicated centralised capital and liquidity management systems were in place. According to proponents, this approach promotes the efficient management of a group's overall capital level and helps maximise liquidity while reducing the cost of funds. However, the respondents that favoured a “self-sufficiency” approach pointed out that centralised management potentially has the effect of increasing contagion risk within a group in the event of distress at any subsidiaries. The choice of capital management systems impacts the nature and design of intra-group support measures. Some firms indicated that the way they managed capital and liquidity within the group was a key driver in their decisions about the intra-group transactions and support measures they used.

Committed facilities, subordinated loans and guarantees appear to be the most widely used forms of intra-group support instruments. This trend appears to be consistent across sectors and jurisdictions.

Internal support measures generally were provided on a one-way basis (eg downstream from a parent to a subsidiary). Loans and borrowings, however, were provided in some groups on a reciprocal basis. As groups surveyed generally operated across borders, most indicated support measures were provided both domestically and internationally. Support measures were also in place between both regulated and unregulated entities and between entities in different sectors.

While the existing regulatory frameworks for intra-group support measures are somewhat limited, firms do have certain internal policies and procedures to manage and restrict internal transactions. It is clear from the survey that the regulatory setting can have significant influence over the form in which institutions implement their intra-group support measures. At the same time, respondents pointed out that the regulatory and legal framework can make it difficult for some forms of intra-group support to come into force while supervisors aim to ensure that both regulated entities and stakeholders are protected from risks arising from the use of support measures. For instance, upstream transfers of liquidity and capital are monitored and large exposure rules can limit the extent of intra-group interaction for risk control purposes. Jurisdictional differences in regulatory setting can also pose a challenge for firms operating across borders.

Concerns related to intra-group support measures described in the Scope section of this report were not all confirmed by the survey. Among the interviewed firms, we found no evidence of intra-group support measures being implemented on terms or under circumstances that third parties would not accept. Some groups in fact pointed out that loans are only provided on an arm’s length basis. Similarly, we could find no evidence of support measures leading to capital, income or assets being inappropriately transferred from regulated entities, or resulting in intra-group creation of capital resources.

Taking a closer look at the motivation or participating firms, these firms stated for example that subordinated loans are being used to provide capital support for funding organic growth and acquisitions. And several groups stated that the main motivation for the use of guarantees is capital relief for rating agency capital measurement purposes. On the other hand, a good rating reduces the necessity of the parent to provide a subsidiary with liquidity, as the subsidiary is better able to source funds independently at cost-effective levels. Another concern is that intra-group support measures can complicate group structures. Even though certain groups admit this is true, they view it as nonetheless manageable.

All of this does not necessarily mean that supervisory concerns relating to intra-group support are not valid - the report is based on industry responses, and it is possible that the groups surveyed did not provide a complete picture of the risks that intra-group support may pose.

Based on the survey and independent of remaining concerns and information gaps, single sector supervisors should be aware of the risks that intra-group support measures may pose and should fully understand the measures used by an institution, including its motivations for using certain measures rather than others. In order to obtain further insight into the intra-group support measures put in place by financial institutions within their jurisdiction, national supervisors should, where appropriate, conduct further analysis in this area. A high-level model questionnaire is provided in Annex II with the aim of assisting national supervisors with ongoing work relating to intra-group support measures.

Annex 1

Glossary

Committed facilities (senior loans): Are an extension of credit whereby the lender contracts to lend up to a specific sum under pre-defined terms and conditions.

Subordinated loans: A type of loan that is junior to other debts should a company be wound up. Typical providers of subordinated loans are major shareholders or a parent company. A third-party providing funds through a subordinated loan would seek higher compensation (eg higher interest) relative to a senior loan due to the loan's subordinated status. (A loan's status, whether subordinated, secured or unsecured, is spelled out in the contract between borrower and lender.)

Letter of credit: A legal commitment issued by a bank or other entity stating that, upon receipt of certain documents, the bank will pay against drafts meeting the terms of the letter of credit. Letters of credit are frequently used for risk financing purposes to collateralise monies owed by an insured under various cash flow programs such as: incurred but not paid losses in paid loss retrospective rating programs, a means of meeting the capitalisation requirements of captives, and to satisfy the security requirements of the excess insurer in "fronted" deductible or retention programs. For captives, letters of credit serve two possible purposes: they may be used in lieu of or in addition to cash or other securities as capital, and/or to securitise the fronting insurer's reinsurance receivable created by a non-admitted reinsurer.

Letter of comfort: A letter issued to a lending institution by a parent company acknowledging the approval of a subsidiary company's attempt for financing. The 'letter of comfort' in no way guarantees the loan of the subsidiary company. It merely gives reassurance to the lender that the parent company is aware and approves of the situation.

Declaration of backing: Unrestricted letter of comfort. With a declaration of backing the issuer ensures (with only certain specific exception, eg in the case of political risk) that selected group entities are able to meet their contractual liabilities. If this should not be the case, the receiver of this declaration (typically a lender to one of the selected group entities) can sue the issuer for damages.

Profit transfer agreement: In a profit transfer agreement, one company agrees to transfer its profits to another company. This type of contract is used in Germany. The profit transfer agreement is used to consolidate profits between companies. The controlling company in this arrangement is the one that receives the profits of the controlled company. Under the rules of the agreement, the controlled company must act and operate in the best interests of the controlling company. The arrangement is essentially that of a parent company and subsidiary. However, if the controlled company suffers losses, the controlling company is obliged to provide it compensation for its losses.

Guarantee: Non-cancellable indemnity bond that guarantees timely payment of interest and repayment of principal to the buyers (holders) of a debt security.

Equity injections: The provision of cash by one entity to a second entity in the form of equity capital (ie permanent capital with no legal obligation of capital return or fixed payment) of the second entity.

Bond swaps: A strategy in which an investor sells a bond and simultaneously purchases a different bond with the proceeds of sale. There are several reasons why entities use a bond swap: for tax benefits, to alter investment exposures (eg to upgrade a portfolio's credit quality or speculate on the performance of a particular bond).

Bond/security lending agreements: An agreement between entities (eg parent and subsidiary) according to which the parent can borrow securities on the balance sheet of the subsidiary in order to improve the liquidity position of the parent.

Annex 2

Questionnaire on Intra-group Support Measures

This questionnaire is a working tool for use by national supervisors wishing to obtain further insight into the intra-group support measures in place at their financial groups. The aim is for national supervisors to benefit from the Joint Forum's experience with its industry questionnaire on intra-group support (where the questions were, in certain instances, too broad).

The set of questions below was developed with the goal of seeking to broadly understand how entities in a group support each other in times of financial stress, and therefore excludes questions related to "business as usual" intra-group exposures.

1. Central management of liquidity and capital

Do you manage either liquidity or capital centrally in the group?

Yes/No	
Please describe briefly your regime and the motivation for setting it up in this way.	

2. Different kinds of intra-group financial agreements

Please describe which of the following financial support agreements you are using in the group and for what reasons.

a) Committed facilities (senior loans)
Do you use committed facilities for liquidity support?
Are such facilities required by local regulators to allow group-wide liquidity management?
What other reasons are there for issuing senior loans to another group entity?

Description	
Reason(s)	

b) Subordinated loans
Are they used for capital support?

Description	
Reason(s)	

c) Letters of Credit
Are they used for capital support?
Are such LoC's required by local regulators (for example by US regulations to support reinsurance agreements)?

Description	
Reason(s)	

d) Letters of comfort

Description	
Reason(s)	

e) Equity injections

Description	
Reason(s)	

f) Guarantees

Description	
Reason(s)	

g) Bond swaps

Description	
Reason(s)	

h) Bond lending agreements

Description	
Reason(s)	

i) Declaration of backing

Description	
Reason(s)	

j) Other intra-group financial agreements

Description	
Reason(s)	

3. Restrictions on intra-group support measures

a) Upstream guarantees
Are there legal limitations on upstreaming guarantees which have to be considered in the jurisdiction(s) you are operating? If so, can you briefly describe them?

Yes/No	
Description	

b) [Conglomerates]: Concentration limits
If insurance entities provide funding to a related banking entity are there legal/regulatory lending limits which have to be taken into account? Can you briefly describe the limitations?

Yes/No	
Description	

c) Large Exposure Rules/Lending limits
Are there limitations stemming from Large Exposure Rules/Lending Limits? What is the limit?

Yes/No	
Description	

d) Minimum capital requirements
Do minimum capital requirements affect the ability of banking subsidiaries to transfer funds to the parent in the form of cash dividends, loans and/or advances?

Yes/No	
Description	

Could any local regulator restrict the transfer of funds to a foreign parent?

Yes/No	
Description	

e) Corrective actions
Are there any corrective actions you have to take in your jurisdiction when one or more group entities are facing financial problems in case a certain trigger is raised? If so, could you please describe the regime more in detail?

Yes/No	
Description	

f) Are there internal restrictions on intra-group support measures?

Yes/No	
Description	

4. Disclosure
Do you disclose intra-group financial support arrangements? If this is in order to comply with any standards, please state any relevant accounting or other standards (IAS, IFRS), and where and how often disclosure is made?

Yes/No	
Description	

5. Monitoring
Are group-internal transactions monitored? If so, how often?

Yes/No	
Description	

6. High level questions

a) What percentage of support takes the form of cross-border?
b) What percentage of support is cross-sectoral?
c) What percentage of support is provided to regulated vs. unregulated entities?
d) What percentage of support is Upstream vs. Downstream?
e) Does termination of support require the consent of local supervisors?
f) Describe existing limits to intra-group support measures (ie not the actual limit but rather whether a limit exists and if so whether different limits exist for cross-sectoral support, cross-border etc.)

Annex 3

Joint Forum Working Group on Risk Assessment and Capital

Co-Chairs	**Tom Crossland**	**Financial Services Authority**
	Ray Spudeck	**National Association of Insurance Commissioners**
Australia	Steven Bardy Jeremy Bray Nina Wan	Australian Securities and Investments Commission Australian Securities and Investments Commission Australian Securities and Investments Commission
Belgium	Janet Mitchell	National Bank of Belgium
Canada	Naizam Kanji Daphne Wong	Ontario Securities Commission Ontario Securities Commission
France	Emilie Fialon Fabrice Macé Francoise Buisson Patrice Aguesse	Autorité de contrôle prudentiel Autorité de contrôle prudentiel Autorité des marchés financiers Autorité des marchés financiers
Germany	Frank Pierschel Christian Buck Sofia Nikopoulos Christoph Schlecht	BaFin BaFin BaFin BaFin
Italy	Laura Pinzani	Bank of Italy
Japan	Hironori Ishizaki	Bank of Japan
Spain	Marta Estavillo Oscar Arce José Manuel Portero	Bank of Spain Comisión Nacional de Mercado de Valores Comisión Nacional de Mercado de Valores
Switzerland	Pascal Perrodo	FINMA
United Kingdom	Poonam Koria	Financial Services Authority
United States	Meg Donovan Suzanne Clair Susan Hopkins Alexandria Luk Robert Esson Mark Attar Randall Roy Manjeet Kaur	Board of Governors of the Federal Reserve Federal Deposit Insurance Corporation Office of the Comptroller of the Currency Office of the Comptroller of the Currency National Association of Insurance Commissioners Securities and Exchange Commission Securities and Exchange Commission Federal Reserve Bank of New York
EC	Martin Spolc	European Commission
IMF	John Kiff	International Monetary Fund
IAIS	Jeffrey Yong	International Association of Insurance Supervisors
Secretariat	Paul Melaschenko	Basel Committee/Joint Forum Secretariat