The Joint Forum

Report on supervisory colleges for financial conglomerates

September 2014

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INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS (IAIS)
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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/across the banking, securities and insurance sectors, including the regulation of financial conglomerates. The Joint Forum comprises an equal number of senior bank, insurance and securities supervisors representing each supervisory constituency. The Basel Committee Secretariat supports the work of the Joint Forum, which is chaired by Thomas Schmitz-Lippert, Executive Director, Federal Financial Supervisory Authority, Germany. Previous publications can be reached at the Joint Forum web site (www.bis.org/bcbs/jointforum.htm).

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I. Executive summary

The Joint Forum undertook a self-assessment survey of Joint Forum members on supervisory colleges for financial conglomerates (FCs). The aim was to find out how far cross-sectoral issues and specific questions related to FCs are effectively addressed within supervisory colleges. This stocktaking exercise also provides information on the implementation of the Joint Forum Principles for the Supervision of Financial Conglomerates (the Principles[1]), and in particular Principle 6 relating to supervisory cooperation, coordination and information-sharing.

Fourteen jurisdictions responded to the survey. In general, most of the respondents have a set of principles in place for FC supervision including identification, supplementary supervision, intra-group transactions, concentration, risk management and governance monitoring. Even though the nature and format of college meetings and the review of cross-sectoral issues may differ among jurisdictions, most of the respondents cover cross-sectoral aspects and have MoUs or coordination arrangements in place. For example, in many cases, cross-sectoral issues are addressed in sectoral colleges by having part of the meeting address issues related to sub-categories of activity in the conglomerates. The supervisors responsible for monitoring these other sectors of activity participate in the relevant part of the meeting. Meetings generally take place annually, and are supplemented with regular web-based communication. Therefore, the majority of the jurisdictions that responded to the survey were of the view that cross-sectoral issues are generally adequately and effectively reviewed within FC supervisory colleges or sectoral supervisory colleges.

Some aspects of approaches and practices vary across jurisdictions:

- There are disparities between the types of FC in different jurisdictions, particularly with regard to the number and the size of FCs.
- Crisis management issues are only partly covered by the jurisdictions in both the legal/supervision framework for FCs and in supervisory colleges.
- Some jurisdictions noted a lack of coordinated enforcement actions regarding cross-sectoral aspects or had encountered difficulties with information-sharing during a stress period.

The Joint Forum identified some gaps and issues from the survey exercise:

1. Not all jurisdictions seem to have in place:
    - A specific FC supervision framework;
    - Coordination agreements with other supervisors of FCs on a cross-sectoral level;
    - Coordinating arrangements or processes for on-site and off-site supervision with other domestic or international supervisors; and

[1] Joint Forum, *Principles for the supervision of financial conglomerates*, September 2012.

- Established arrangements or processes for taking enforcement actions with other domestic or international authorities.

2. There appear to be insufficient specific mechanisms for supervisory cooperation and coordination in periods of crisis/stress, thereby possibly hindering effective intervention in times of crisis.

3. There may be scope for regulatory arbitrage owing to differences in the regulatory and supervisory framework for FCs, although no specific examples of regulatory arbitrage were mentioned in the survey responses.

In conclusion, although the Joint Forum identified from the survey several gaps and issues in relation to the implementation of Principle 6, the Joint Forum notes the general progress that has been made in this area since its previous study in 2011. One of the reasons for this progress may be that the Principles issued by the Joint Forum in 2012 have promoted enhancements to FC supervision across jurisdictions. Therefore, the Joint Forum is of the view that jurisdictions should be allowed time to make further progress with their implementation of the Principles. The Joint Forum plans to revisit the gaps identified and issues raised in relation to the implementation of the Principles in a year's time.

II. Introduction

1. Background

The Joint Forum, in its January 2010 report on the *Review of the Differentiated Nature and Scope of Financial Regulation*[2] (DNSR report), recommended that the BCBS, IOSCO, and IAIS work together to enhance the consistency of supervisory colleges across sectors and ensure that cross-sectoral issues are effectively reviewed within supervisory colleges, where needed and not already in place (Recommendation no 6).

In 2011, the Joint Forum carried out a pilot study to assess how the recommendations from the DNSR report have been implemented and in early 2012 provided its Parent Committees with an internal report (*Update on Progress in Implementing the Recommendations of the DNSR report*). This report summarised progress in implementing the DNSR recommendations and noted that, while progress has been made in implementing almost all recommendations, little progress had been made on work on supervisory colleges or, more precisely, that some progress on supervisory colleges has been made by IAIS, BCBS and IOSCO but not on a cross-sectoral basis.

Furthermore, the Joint Forum published in September 2012 the Principles for the Supervision of Financial Conglomerates (the Principles) with, among others, a principle that stresses the importance of supervisory cooperation, coordination and information-sharing: <u>Principle 6:</u> *Supervisors should establish a process to confirm the roles and responsibilities of each supervisor in supervising the financial conglomerate, and to ensure efficient and effective information-sharing, cooperation and coordination in the supervision of the financial conglomerate.*

The subsequent implementation criteria 6(c) and explanatory comment 6.4 underline that supervisory colleges provide an effective mechanism for supervisory cooperation and coordination while recognising that other mechanisms are also important.

[2] Joint Forum, *Review of the Differentiated Nature and Scope of Financial Regulation*, January 2010.

2. Objective

With this background, the Joint Forum approved a survey questionnaire that was sent to all Joint Forum members in June 2013.[3] The aim was to find out how far cross-sectoral issues and specific questions related to FCs are effectively addressed within supervisory colleges. This stocktaking exercise would also provide information on the implementation of the Principles, and in particular Principle 6 relating to supervisory cooperation, coordination and information-sharing.

The questions in the survey focused more on the legislative mandates, rules and supervisory requirements than actual practice in relation to coverage of FCs in supervisory colleges. The analysis is based on self-assessment by each participating jurisdiction; hence no firm conclusions should be drawn from responses to the survey regarding the assessment of compliance with Principle 6.

III. Survey responses

In total, 14 members[4] provided responses. However, not all questions were answered by all jurisdictions, so that the number of jurisdictions indicated in the summary below does not always add up to 14 for all questions.

1. General and scope

[Question 1–4]

The objective of this section is to obtain an insight into the nature of the financial conglomerates framework in your jurisdiction and the nature and number of financial conglomerates operating in your jurisdiction.

1.1 Q1 FC Framework

The large majority of respondents have a specific FC framework. For all European jurisdictions, the FICOD Directive[5] imposes standards across Europe for the application of a general FC framework. Most respondents have binding regulation on FCs while one respondent has guidelines in place that set out supervisory aspects for FCs.

FC frameworks have objectives that might differ in some respects between jurisdictions. However, they generally cover all the aspects of FC regulation identified in the Principles. These include: identifying FCs, ensuring group-wide supplementary supervision, monitoring intra-group transactions (IGTs) and concentration risks, and ensuring adequate risk management and governance for FCs.

3 See Annex 1.

4 Australia, Belgium, Canada, France, Germany, India, Italy, Japan, Netherlands, South Africa, Korea, Spain, United Kingdom, United States.

5 The directive (2002/87/CE) was issued in December 2002 and became effective in January 2005.

1.2 Q2 FC definition

The FICOD definition for European jurisdictions contains both qualitative and quantitative aspects. It is mainly related to cross-sectoral considerations with an additional criterion for the significance of the cross-sectoral activity (balance sheet comparison between two financial sectors). One jurisdiction applies the Joint Forum's definition,[6] while others link the definition of FCs to whether these have a significant presence in two or more market segments and are regulated or supervised by more than one of the national sectoral authorities. Other jurisdictions use a broad definition in order to provide sufficient flexibility in defining the groups that are subject to FC supervision.

1.3 Q3 Nature of FCs

One jurisdiction indicates that it has a large number of conglomerates, ie more than 400; other jurisdictions have indicated three to 12 FCs operating in their jurisdiction.

Regarding the size and nature of groups, including whether groups are banking- or insurance-led conglomerates, there are wide disparities between jurisdictions. Some jurisdictions indicated that the FCs in their jurisdiction have a concentrated market share; other jurisdictions have more dispersed financial activities across entities, including FCs, operating in their jurisdiction.

1.4 Q4 FCs excluded

Eight jurisdictions exclude certain conglomerate groups from FC supervision, mainly because the size of the less important financial sector in the FC is not significant compared to the size of the main sector activities of the group.

2. Principles 1–4: Supervisory powers and authority

[Question 5–6]

The objective of this section is to provide an overview on how supervisory powers and authority are established to ensure effective cooperation and group-wide supervision of financial conglomerates.

2.1 Q5 Coordination arrangements

Most respondents (13) have coordination arrangements in place. National supervisory authorities (NSAs) make a distinction between bilateral agreements, multilateral agreements and MoUs with other authorities. Most of the respondents use MoUs on a bilateral or multilateral basis but some jurisdictions indicate use of ad hoc colleges which insurance supervisors are invited to attend.

2.2 Q6 Responsible authorities

More than one authority is involved in all jurisdictions except for three. In these cases, the relevant authority is the prudential supervisor for all financial institutions including all FCs.

6 The Principles define a financial conglomerate as any group of companies under common control or dominant influence, including any financial holding company, that conducts material financial activities in at least two of the regulated banking, securities or insurance sectors.

The authorities involved usually include the financial market authority and those from the insurance and banking sectors. In most cases, the banking (prudential supervision) authority leads FC supervision.

3. Principles 5–9: Supervisory responsibility

[Question 7–19]

The objective of this section is to obtain an insight into the nature of the supervisory cooperation, coordination and information-sharing arrangements established in your jurisdiction and notably the format and functioning of supervisory colleges.

3.1 Q7 Objectives, roles and responsibilities of each supervisor

For most respondents (10), the objectives, roles and responsibilities of each supervisor relevant to a FC are clearly established by a legal framework. Most respondents emphasise the importance of cross-sectoral coordination and describe their main responsibilities as to assess the holding company on a consolidated basis and to identify and evaluate risks that could affect the FC. The role of coordinator would be to: (i) gather and disseminate information; (ii) maintain a supervisory overview and assessment of the FC, including its financial position; (iii) assess its compliance with relevant requirements; (iv) assess the FC's structure, organisation and internal control systems; and (v) plan supervisory activities.

3.2 Q8 Framework for FC colleges

FC colleges are generally close or identical to sector-specific colleges in respect to structures, participants and focus on group risk assessment and structure of the FC. The structure of colleges is generally shaped in Europe by EU Directives and Guidelines. In some jurisdictions, FC colleges have been established only for firms with significant cross-border activities.

3.3 Q9 FC colleges

There are disparities between jurisdictions: while some jurisdictions (six) have established colleges only for FCs that have significant cross-border activities, others (three) organise colleges for all FCs or (five) only for some other sub-set of FCs.

3.4 Q10 and Q11 Cross-sectoral nature of colleges

For half of the jurisdictions (seven), colleges are established on a cross-sectoral basis, ie with the mandatory involvement of supervisors from all relevant financial sectors and focusing on group risks. However, one EU jurisdiction stated that, while this is according to the FICOD mandatory for FCs with significant cross-sectoral activity, in practice there are no such FCs in the jurisdiction. Therefore, colleges in the jurisdiction are currently established on a sectoral basis only. Another jurisdiction also noted that colleges are currently established primarily on a sectoral basis because banking-led FCs are, on a cross-border basis, active predominantly in the banking sector. This approach seems to be in line with the majority of jurisdictions: cross-sectoral colleges will be established only if there is significant business in the other sector within the FC.

In addition, for eight respondents, cross-sectoral risks are systematically part of the agenda of colleges. One jurisdiction indicated that key topics such as capital adequacy, governance, credit risk, market risk, operational risk and liquidity are part of the agenda. In another jurisdiction, financial performance, capital and liquidity planning and positions, and overview of key risks are part of the agenda. In another jurisdiction, the following elements are part of the discussions: financial conglomerates' solvency, intra-group transactions, risk concentration and risk management, the general financial situation and, if an internal model is planned, the development and status of this internal model.

Some respondents mentioned that linkages and interactions within FCs are part of cross-sectoral reviews and are of much importance. The share of international activities, complexity of structure (clear legal overview, clear view of the underlying business lines), each jurisdiction's views of the entities they supervise, and risks arising from other sectors (non-regulated entities and other regulated entities) that could impact the regulated entity are also mentioned by some jurisdictions as being part of the agenda.

Notably, the responses to the above two questions indicate that three respondents have neither cross-sectoral colleges nor sectoral colleges that address cross-sectoral issues.

3.5 Q12 Core versus general colleges[7]

This question led to various responses with lack of homogeneity. The distinction between core and general colleges is not always established and one jurisdiction mentioned that what is essential is to have a cross-sectoral overview in the sense that the FC's overall risk profile needs to be understood. These aspects are not systematically part of the agenda in each jurisdiction but this can be justified by the fact that the other sectors are not significant or that these aspects are covered within the general college.

3.6 Q13 Frequency of face-to-face meetings

Most jurisdictions organise at a minimum an annual meeting except for one jurisdiction (where face-to-face meetings are generally held every two years). In addition, ad hoc meetings take place between formal college meetings.

3.7 Q14 Participation of FC representatives

All the respondents confirm that FC representatives participate in part of the meeting by presenting topics identified by the supervisors, as well as by presenting the group strategy and financial highlights.

3.8 Q15 Participation of other supervisors

Each jurisdiction has participants from other domestic or international supervisors in the supervisory college. Most of the coordinators have MoUs or dedicated agreements in place for the exchange of information. Many respondents mentioned collaboration for both on-site and off-site supervision activities.

3.9 Q16 Enforcement action

Some respondents (five) indicated that they do not take enforcement actions jointly with other domestic or international supervisors. In one jurisdiction, MoUs address coordination on enforcement actions. EU jurisdictions follow guidelines set out by the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA). Other respondents jointly decide enforcement actions.

[7] For this survey, core colleges consist of selected relevant sectoral supervisors while general colleges consist of all relevant sectoral supervisors.

3.10 Q17 Other platforms for information-sharing

A majority of respondents (nine) indicated that they have additional information-sharing platforms. One jurisdiction organises meetings or teleconferences with other relevant domestic authorities for informal discussion on institutional issues on a bilateral basis. Some mentioned the use of other tools, such as web-based communication platforms through which information is shared.

For several jurisdictions, the MoUs address exchange of information; in this regard, sectoral supervisors will inform other supervisory authorities of any significant events that may impact the group entity (capital adequacy, deterioration of key financial trends, penalties that may have been imposed). In some cases this occurs via a secure web-based communication platform.

3.11 Q18 Information-sharing with other supervisors

Most of the respondents (10) share with other domestic or international supervisors the relevant information from a FC and its constituent entities. A few respondents mention informal procedures, with regular informal meetings.

One jurisdiction noted the need for proactivity by the lead supervisor in exchanging information on key aspects of the FC, including reports on prudential inspections.

In another jurisdiction, relevant information shared with other supervisors includes analysis based on risk factors that are rated according to the internal score carding system of the central bank. The total score is calculated on the basis of the individual scorings of risk types. These risk factors concern: financial position, profitability, business and risk strategy, business model, risk management and control systems, credit risk, market risk, operational risk, securitisation, interest rate and concentration risk, capital/solvency ratios, core capital, and capital planning procedures.

In another jurisdiction, the following topics are covered through supervisory colleges and communication with relevant authorities: financial results, group business plan, risk management analysis (stress tests, liquidity management plan, contingency plan), on-site inspection results, and foreign authorities' supervisory inspection issues.

In Europe, colleges place documents of interest on a web portal provided by the EBA, and there are quarterly calls and regular information exchanges regarding results announcements or other significant issues.

3.12 Q19 Risk assessment

Most of the respondents (10) include risk assessments as part of the discussions at the level of the FC.

4. Principles 10–14: Corporate governance

[Question 20]

The objective of this section is to provide an overview of the extent to which corporate governance issues are addressed within supervisory colleges.

4.1 Q20 Topics discussed in colleges

Overall, most members discuss (i) the corporate governance framework; (ii) the FC's structure; (iii) suitability of board members and senior managers and key persons; and (iv) the FC's overall strategy and risk appetite. The picture is slightly different for the remuneration policy, as only five jurisdictions indicated that it is discussed in supervisory colleges.

In some jurisdictions, practice differs between colleges as to whether the following are regular items on the agenda: (i) corporate governance framework; (iii) suitability of board members and senior managers and key persons; and (v) remuneration policy. However, if relevant or necessary, these issues are discussed.

Topics usually discussed in the colleges related to corporate governance (Question 20)

Jurisdiction	(i) Corporate governance framework (Y/N)	(ii) Structure (Y/N)	(iii) Suitability of board/ senior managers/key persons (Y/N)	(iv) Overall strategy and risk appetite (Y/N)	(v) Remuneration policy (Y/N)
#1	Y	Y	Y	Y	Y
#2	Y	Y	Y	Y	Y
#3	Y	Y	Y	Y	N
#4	Y	Y	Y	Y	Y
#5	If relevant/ necessary	Y	If relevant/necessary	Y	If relevant/necessary
#6	Y	Y	Y	N	N
#7	Y	Y	Y	Y	N
#8	Y	Y	N	Y	N
#9	Y	Y	If relevant / necessary	Y	If relevant/necessary
#10	Y	Y	Y	N	N
#11	Y	Y	Y	Y	Y
#12	NA	NA	NA	NA	NA
#13	Y	Y	Y	Y	Differs between colleges
#14	Y	N	N	Y	Y

Regarding (i) the corporate governance framework, one jurisdiction indicated that this is often discussed if there has been a significant change or breakdown in internal controls or significant reputational risk issues emerge. In another jurisdiction, public information on (ii) structure of the FC is readily available and is therefore usually not discussed unless there has been a significant change such as a merger or acquisition. Generally, there has been greater discussion of the composition and effectiveness of boards of directors and senior leadership in the context of FCs' performance and strategic direction since the financial crisis.

5. Principles 15–20: Capital adequacy and liquidity

[Question 21–22]

The objective of this section is to provide an overview of the extent to which capital and liquidity issues, including relating to non-regulated entities, are addressed within supervisory colleges.

5.1 Q21 Areas covered in college discussions

The majority of jurisdictions discuss the capital management policies of the FCs in their colleges. Two jurisdictions indicated that they do not discuss this issue and one considers this issue not applicable because it currently waives FC supervision and consequently doesn't establish cross-sectoral colleges.

Capital adequacy assessment and measurement as well as the liquidity situation of the financial conglomerate are discussed in 13 jurisdictions.

Topics usually discussed in the colleges related to capital adequacy and liquidity (Question 21)

Jurisdiction	(i) capital management policies (Y/N)	(ii) capital adequacy assessment (Y/N)	(iii) liquidity situation (Y/N)	(i)–(iii) for significant non-regulated entities (Y/N)
#1	Y	Y	Y	Y
#2	Y	Y	Y	Y (but limited unregulated entities)
#3	Y	Y	Y	Y
#4	Y	Y	Y	Y
#5	Y	Y	Y	Y
#6	Y	Y	Y	Y
#7	Y	Y	Y	Y
#8	Y	Y	Y	Y
#9	Y	Y	Y	NA
#10	N	Y	Y	Y
#11	Y	Y	Y	N
#12	NA	NA	NA	NA
#13	Y	Y	Y	Y
#14	N	Y	Y	N

5.2 Q22 Non-regulated operational entities

The three topics noted (namely capital management policies, capital adequacy assessment and liquidity) are also usually discussed for non-regulated operational entities within a conglomerate that are significant to the conglomerate's financial activities. In one jurisdiction, there are no FCs with significant non-financial activities and therefore there is no need to cover them.

6. Principles 21–29: Risk management

[Question 23–25]

The objective of this section is to provide an overview of the extent to which risk management issues are addressed within supervisory colleges

6.1 Q23 Areas covered in college discussions

All 12 members answering this question confirmed that the group-wide risk management framework is among the topics related to risk management usually discussed in colleges. Internal controls are discussed by 11 members. Nine members also discuss risk tolerance levels. Two jurisdictions do not discuss this issue within their supervisory colleges. In one jurisdiction, discussion of internal controls and risk tolerance levels differs between colleges. Discussion of new business takes place in 11 jurisdictions. Stress/scenario testing is addressed in the majority of jurisdictions (10), as is risk aggregation. Risk concentrations form part of the discussion of risk management issues in 11 jurisdictions. Intra-group transactions/exposures are also discussed in supervisory colleges in 11 jurisdictions.

6.2 Q24 Non-regulated operational entities

For nine out of 14 members, non-regulated operational entities within a conglomerate that are significant to the financial activities of the conglomerate are covered by this risk management assessment. However, as indicated in the Section 5, one jurisdiction indicated that they have only a limited number of such unregulated entities. In addition, in another jurisdiction, there are no FCs with significant non-financial activities and therefore there is no need to cover them.

6.3 Q25 Additional relevant information with regard to college discussions

One jurisdiction notes that for the colleges hosted by them, no pro forma agenda is used; rather each is customised to ensure that important issues for each of the relevant FCs are covered. Nevertheless the key issues usually addressed are: overview of operations, key risks in individual regulated entities, round table for key risks areas, agreed supervisory action plans, discussion on the need to coordinate activity and sharing information at the regional level, recovery and resolution plans (RRPs) and mechanisms for sharing information with college members.

One jurisdiction added that in their jurisdiction, cross-sectoral supervision is mainly performed from the perspective of internal governance of the group and how potential and actual conflicts of interest between the different sectors in the group are handled.

Another jurisdiction indicated that, especially for larger FCs, over time the college work has become much more intensive, in particular the frequency of college meetings as well as the interaction within the college. The focus of colleges has shifted from rather general, numbers-based assessments (which still have their relevance) to more forward-looking considerations, such as the business model and its inherent risks, the qualification and skills of the management, and the distribution of risk weighted assets (RWAs), assets and risks across the jurisdictions.

In another jurisdiction, college discussions also cover interconnections between insurance and banking businesses, including distribution frameworks.

One jurisdiction cautions that the complex nature of conglomerate structures could facilitate the creation of opaque corporate structures that limit the ability of supervisors to comprehend and to detect intra-group, related party, and other complex transactions. Against this background, the jurisdiction's supervisory authorities put the main focus of their information requirements on intra-group transactions and exposures among the group entities.

7. Times of crisis or stress

[Question 26-28]

The objective of this section was to obtain an insight into the functioning of financial conglomerates supervisory frameworks in times of crisis or stress.

7.1 Q26 Crisis management issues

All respondents except two jurisdictions indicated that crisis management issues are usually addressed within colleges.

One jurisdiction noted that at least a kick-off meeting on recovery and resolution between all supervisors and ministries involved has taken place, albeit with a strong banking perspective.

Another jurisdiction notes that discussions include the financial conglomerates' contingency funding plans, liquidity risk management, capital planning, early remediation efforts and recovery plans that would be implemented during periods of financial distress.

7.2 Q27 Mechanisms of supervisory cooperation and coordination

Regarding specific mechanisms of supervisory cooperation and coordination in periods of stress, the majority of members, namely eight jurisdictions, affirm their existence.

For example, in one jurisdiction, MoUs cover information-sharing in periods of stress, and participation in appropriate crisis management groups (CMGs)[8] facilitates the management of cross-border financial stress affecting regulated entities. On a domestic level, the primary coordinating body for the jurisdiction's main financial sector agencies has signed an MoU on financial distress management and has developed a crisis management framework and toolkit to deal with crisis situations within the jurisdiction. Another jurisdiction has ladders for supervisory intervention for banks and insurers in place. Several jurisdictions mentioned the establishment of CMGs in which the relevant home/host supervisors and resolution authorities develop resolution strategies as well as firm-specific cross-border cooperation agreements (as set out by the Financial Stability Board (FSB) in its key attributes of effective resolution regimes for financial institutions). Three jurisdictions have an emergency plan with up-to-date contact lists and general procedures for times of crisis in place. In one jurisdiction, there are bilateral information-sharing agreements and there is also specific documentation on information disclosure in the resolution plan.

Six members replied that they have no specific mechanisms for supervisory cooperation and coordination in periods of stress in place. In one jurisdiction, however, the intensity of conference calls is higher, albeit so far not with a cross-sectoral character. Another jurisdiction noted that the experience of the use of colleges in crisis management is limited and could be further developed as the next step following information-sharing, consultation and cooperation.

7.3 Q28 Difficulties with sharing information

While five members replied that they had not encountered any difficulties with sharing information on cross-sectoral and cross-border issues during a period of stress, six other members replied that they have not encountered a recent period of stress.

Only three jurisdictions confirmed that they had encountered difficulties with sharing information on cross-sectoral and cross-border issues during a period of stress:

- One noted that, initially, it can be difficult to open up the lines of cross-sectoral and cross-border communication until there is a common understanding of the risks of not communicating;
- Another indicated that, in practice, there are still many challenges that can arise during a period of stress that may hinder effective intervention across borders. Against this background, there is room to further develop and strengthen international cooperation and coordination; and
- One noted that difficulties have arisen regarding the adequacy of advance planning and preparation for the implementation of recovery and resolution strategies during the financial crisis. As mentioned above, CMGs have been established to enhance planning and coordination of an orderly resolution of a cross-border systemically important financial institution.

[8] CMGs were not covered by this survey.

8. General views on coverage of FC issues within supervisory colleges

[Question 29: Are you of the view that cross-sectoral issues are adequately and effectively reviewed within existing supervisory colleges?]

Ten jurisdictions were of the view that cross-sectoral issues are generally adequately and effectively reviewed within supervisory colleges. Key aspects or arrangements that achieve this include:

- Formal cooperation arrangements with domestic and foreign supervisory authorities which include the exchange of confidential cross-sectoral information;
- Establishing networks of mutual understanding and trust with other supervisory authorities to facilitate anticipation of, and response to, cross-sectoral stress;
- Participation of all relevant supervisory authorities in the college;
- Discussing in each college broad issues related to all financial sectors, not only the main firm's management and risks;
- Quarterly FC reporting framework focused on intra-group transactions and exposures among the group entities; and
- Regular dialogue with the CEOs of designated entities of the identified FCs.

One jurisdiction pointed out that analysis of cross-sectoral issues gives a better insight into the strategy of the FC and its capital and financial situation. Another cautioned against multiplying the number of colleges for a given group. In their view, it is the responsibility of the home supervisor to ensure that the risks emerging from all sectors in which the group is involved are properly addressed.

On the contrary, four jurisdictions were of the view that cross-sectoral issues could be better addressed within supervisory colleges. One jurisdiction notes that cross-sectoral coordination is still more information-based than action-based. As a possible improvement, the jurisdiction suggested that more attention be given to dividend up-streaming and liquidity transactions between the bank and insurance parts of FCs. It was also noted that only limited focus is given to issues of regulatory arbitrage. Another jurisdiction indicated that, in some cases, supervision of FCs is based primarily on a sectoral perspective. It was also suggested that one possible way to enforce the use of cross-sectoral supervisory colleges would be if the standards of each parent body included the requirement that any supervisory college of a group considers whether there are other sectoral supervisors involved with the company/group and that a cross-sectoral college should be convened (separately or in combination with the normally scheduled supervisory college).

IV. Main findings and next steps

In general, most of the respondents have a set of principles in place for FC supervision including identification, supplementary supervision, intra-group transactions, concentration, risk management and governance monitoring. As a general observation, comparability of legal frameworks and actual practices is easier within Europe due to the FICO directive and existing guidelines regarding college meetings at the sectoral level. Furthermore, the European Joint Committee on Financial Conglomerates (JCFC) has developed detailed guidance on FC supervision in collaboration with the European supervisory authorities.

An agreement framework seems to be in place in many jurisdictions, both on a bilateral and multilateral basis, but there is some divergence on the coordination processes. Some respondents give the lead coordination role to the banking supervisor in most cases and other respondents prefer to share responsibilities with regard to the main activities of the conglomerate (particularly when the most significant activities are related to the insurance or securities sectors).

In many cases, cross-sectoral issues are addressed in sectoral colleges by having part of the meeting address issues related to sub-categories of activity in the conglomerates. The supervisor responsible for monitoring these other sectors of activity participates in the relevant part of the meeting. Meetings generally take place annually and are supplemented by regular (often web-based) communication.

A similarity across the responses was that representatives of the FCs participate in the meeting of the general college, but only on some specific topics pre-selected by the supervisors (generally on liquidity management, risk management and capital adequacy).

Some aspects of approaches and practices vary across jurisdictions:

- There are disparities between the types of FCs in different jurisdictions, more particularly with regard to the number and the size of FCs. For example, more than 400 conglomerates are reported by one jurisdiction while the number of FCs in other jurisdictions is typically much fewer but they are more concentrated in terms of market share.
- Crisis management issues are only partly covered by the jurisdictions in both the legal/supervision framework for FCs and in supervisory colleges (some jurisdictions have no established arrangements or processes with other domestic or international authorities for taking enforcement action).
- Some jurisdictions noted lack of coordinated enforcement actions regarding cross-sectoral aspects or had encountered difficulties with information-sharing during a stress period.
- College agendas and issues raised at the college meetings can vary across jurisdictions, allowing scope to focus on current issues or sources of weakness across a financial group.

Overall, the majority of jurisdictions are of the view that cross-sectoral issues are adequately and effectively reviewed within supervisory colleges. However, this view could reflect the fact that the relevant FCs, and hence supervisory colleges, are currently dominated by one sector and therefore cross-sectoral risks may be less material. Some members are of the view (not necessarily referring to their own national colleges) that cross-sectoral issues could be better addressed within supervisory colleges. The survey also showed that a few jurisdictions currently do not have cross-sectoral colleges or sectoral colleges addressing cross-sectoral issues.

The Joint Forum identified some gaps and issues from the survey exercise, including:

1. Not all jurisdictions seem to have in place:
    - A specific FC framework;
    - Coordination agreements with other supervisors of FCs on a cross-sectoral level;
    - Coordinating arrangements or processes for on-site and off-site supervision with other domestic or international supervisors; and
    - Established arrangements or processes for taking enforcement actions jointly with other domestic or international authorities.
2. There appear to be insufficient specific mechanisms for supervisory cooperation and coordination in periods of crisis/stress, thereby possibly hindering effective intervention in times of crisis.
3. There may be scope for regulatory arbitrage due to differences in the regulatory and supervisory framework for FCs, although there were no specific examples of regulatory arbitrage mentioned in the survey responses.

In conclusion, the Joint Forum identified from the survey several gaps and issues in relation to the implementation of Principle 6, and in particular supervisory colleges. At the same time, the Joint Forum notes the general progress that has been made in this area compared with its previous study in 2011. One of the reasons for this progress may be that the Principles issued by the Joint Forum in 2012 have promoted enhancements to FC supervision across jurisdictions. Therefore, the Joint Forum is of the view that jurisdictions should be allowed time to make further progress in their implementation of the Principles. The Joint Forum plans to revisit the gaps identified and issues raised in relation to the implementation of the Principles in a year's time.

Annex 1

Questionnaire

General and scope

The objective of this section is to obtain an insight into the nature of the financial conglomerates framework in your jurisdiction and the nature and number of financial conglomerates operating in your jurisdiction.

1. Is there in your jurisdiction a specific financial conglomerates framework?

Yes ☐ / No ☐

If so, please give a brief description of the nature (primary/secondary legislation, regulation, guidelines, other actions such as supervisory practices) and objectives (ie capture of group risks such as risk of multiple gearing of capital, risk of contagion, risk concentrations, conflicts of interest, complexity) of this framework.

If not, how do you ensure an effective supervision of financial conglomerates and/or achieve totally or in part the objectives of financial conglomerates supervision (eg less formalised arrangements for cooperation as related to group-wide supervision)?

2. What is the definition of a financial conglomerate and the criteria used to determine the financial groups captured by the framework (or alternatively by the less formalised arrangements for cooperation, if no such formal framework for financial conglomerate supervision is in place)? Which authority makes this determination?

Definition:
Criteria:
Determining authority:

3. How many financial groups are captured?

Please provide a brief summary for each group in terms of size (eg by size of balance sheet) and nature (ie mixed, insurance-led, banking-led):

4. Are some groups purposefully scoped out of the framework or less formalised arrangements (ie supervisory decision to apply a waiver under the framework provisions) and/or are some areas specifically scoped in or out of the framework/less formalised arrangements?

Yes ☐ / No ☐

If so, please give a brief description of those entities or areas and explain why you decided not to apply your conglomerates framework/less formalised arrangements to them:

Principles 1–4: Supervisory powers and authority

The objective of this section is to provide an overview on how supervisory powers and authority are established to ensure effective cooperation and group-wide supervision of financial conglomerates.

5. Is there a legal framework that provides the responsible supervisor with the authority and power to establish cooperation and coordination arrangements as well as to share relevant information with other supervisors of the financial conglomerate, including also on a sectoral, cross-sectoral, domestic and international level?

Yes ☐ / No ☐

If so, please give a brief description:

6. Is there more than one supervisory authority in your jurisdiction responsible for the supervision of the financial conglomerates described under question 3?

Yes ☐ / No ☐

If so, please name the involved authorities and specify if a lead authority has been defined.

Principles 5–9: Supervisory responsibility

The objective of this section is to obtain an insight into the nature of the supervisory cooperation, coordination and information-sharing arrangements established in your jurisdiction and notably the format and functioning of supervisory colleges.

7. Within your jurisdiction, what are the objectives, roles and responsibilities of each supervisor relevant to a financial conglomerate and how are they established (ie by internal decision or by legal framework)?

8. Please describe the framework for establishing colleges for financial conglomerates in your jurisdiction. Is it identical to sector-specific colleges?

9. Have you established colleges for all financial conglomerates in your jurisdiction, including those with cross-border activities, or only for particular financial conglomerates (such as those with significant cross-border activities)?

- For all cross-border financial conglomerates: Yes ☐ / No ☐
- Only for financial conglomerates with significant cross-border activities: Yes ☐ / No ☐

If so, please describe the process and/or criteria for qualifying such activities as significant (eg relevance for the group, significance for the host market etc):

- Only for some other sub-set of financial conglomerates: Yes ☐ / No ☐

If so, please describe the criteria used:

10. Are colleges established on a cross-sectoral basis, ie the mandatory involvement of supervisors from all relevant financial sectors and focusing on group risks?

Yes ☐ / No ☐

If so, please indicate which group risks and/or cross-sectoral issues are systematically parts of the agenda of these colleges:

11. Are colleges established on a sectoral basis but also addressing cross-sectoral issues and group risks?

Yes ☐ / No ☐

If so, please indicate if and what group risks and/or cross-sectoral issues are systematically parts of the agenda of these colleges:

12. Are cross-sectoral issues and/or group risks discussed in core colleges consisting of selected relevant sectoral supervisors or in general colleges consisting of all relevant sectoral supervisors? If cross-sectoral issues and/or group risks are discussed in core colleges only, please explain why this approach has been chosen in your jurisdiction.

13. What is the frequency of face-to-face meetings of colleges (either cross-sectoral colleges or sectoral-based colleges addressing cross-sectoral issues and/or group risks)?

14. Do representatives of the financial conglomerate participate in the colleges?

Yes ☐ / No ☐

If so, please elaborate the nature of their participation (for all or part of face-to-face meetings, kind of input required etc.):

15. Have you established arrangements or processes for cooperating and coordinating with other domestic or international supervisors in on-site and off-site supervision?

Yes ☐ / No ☐

If so, please describe and indicate how and to what extent these arrangements and processes are used:

16. Have you established arrangements or processes with other domestic or international supervisors for taking enforcement actions?

Yes ☐ / No ☐

If so, please describe and indicate how and to what extent these arrangements and processes are used:

17. Have you established other appropriate platforms or processes for discussing cross-sectoral issues and/or group risks and sharing information on financial conglomerates with other relevant domestic or international authorities?

Yes ☐ / No ☐

If so, please describe the platforms or processes used (eg a web-based communication platform) and indicate whether they are identical or similar to those for sectoral colleges:

18. Do you collect, review, analyse and share with other domestic or international supervisors the relevant information from the financial conglomerate and its constituent entities, including unregulated entities?

Yes ☐ / No ☐

If so, please describe the key information used:

19. Do you develop with other domestic or international supervisors an assessment of the risks of the financial conglomerate on an integrated basis?

Yes ☐ / No ☐

Principles 10–14: Corporate governance

The objective of this section is to provide an overview of the extent to which corporate governance issues are addressed within supervisory colleges.

20. Are the following topics usually discussed in the colleges?

(i) The corporate governance framework of the financial conglomerate:
Yes ☐ / No ☐
(ii) The structure of the financial conglomerate:
Yes ☐ / No ☐
(iii) The suitability of board members, senior managers and key persons:
Yes ☐ / No ☐
(iv) The financial conglomerate's overall strategy and risk appetite:
Yes ☐ / No ☐
(v) The remuneration policy of the financial conglomerate:
Yes ☐ / No ☐

Principles 15–20: Capital adequacy and liquidity

The objective of this section is to provide an overview of the extent to which capital and liquidity issues, including relating to non-regulated entities, are addressed within supervisory colleges.

21. Are the following areas usually covered in the college's discussion?

(i) The financial conglomerate's capital management policies:
Yes ☐ / No ☐
(ii) The financial conglomerate's capital adequacy assessment and measurement techniques:
Yes ☐ / No ☐
(iii) The financial conglomerate's liquidity situation:
Yes ☐ / No ☐

22. Are non-regulated operational entities within a conglomerate that are significant to the financial activities of the conglomerate covered by the assessment in Q21?

Yes ☐ / No ☐ (Please specify if your answers vary for 21.i. – iii.)

Principles 21–29: Risk management

The objective of this section is to get an overview of the extent to which risk management issues are addressed within supervisory colleges.

23. Are the following areas usually covered in the college's discussion?

(i) The general group-wide risk management framework: Yes ☐ / No ☐
(ii) internal controls: Yes ☐ / No ☐
(iii) risk tolerance levels: Yes ☐ / No ☐
(iv) new business: Yes ☐ / No ☐
(v) stress and scenario testing: Yes ☐ / No ☐
(vi) risk aggregation: Yes ☐ / No ☐
(vii) risk concentrations: Yes ☐ / No ☐

(viii) intra-group transactions and exposures: Yes ☐ / No ☐

24. Are non-regulated operational entities within a conglomerate that are significant to the financial activities of the conglomerate covered by the assessment in Q 23?

Yes ☐ / No ☐ (Please specify if your answers vary for 23(i)–(viii)

25. Please indicate any additional relevant information with regard to the college's discussion on financial conglomerates issues and/or group risks:

Others

The objective of this section is to obtain an insight into the functioning of the financial conglomerates' framework in times of crisis or stress.

26. Are crisis management issues usually addressed within colleges?

Yes ☐ / No ☐

27. Do you have specific mechanisms of supervisory cooperation and coordination in periods of stress?

Yes ☐ / No ☐

If so, please describe:

28. Have you encountered any difficulties with sharing information during a period of stress on cross-sectoral and cross-border issues?

Yes ☐ / No ☐ / N/A (no period of stress so far) ☐

If so, please describe:

Final

Please provide in this section your general views on coverage of financial conglomerate issues within supervisory colleges.

29. Are you of the view that cross-sectoral issues are adequately and effectively reviewed within existing supervisory colleges?

Yes ☐ / No ☐

If yes, what are the key aspects or arrangements that achieve this?

If no, do you have any proposal to ensure that cross-sectoral issues are effectively reviewed within supervisory colleges?

Annex 2

List of members of Joint Forum Financial Conglomerates Committee and its Supervisory colleges workstream

Co-Chairs	**Helen Rowell** **Olivier Prato (*)**	**Australian Prudential Regulation Authority** **Autorité de Contrôle Prudentiel et de Résolution**
China	Xiaopu Zhang	China Banking Regulatory Commission
France	Emmanuel Carrère Thibaut Cuny (**)	Autorité de Contrôle Prudentiel et de Résolution Autorité de Contrôle Prudentiel et de Résolution
Germany	Sabine Otto	Bundesanstalt für Finanzdienstleistingsaufsicht
Italy	Nicoletta Giusto	Commissione Nazionale per le Società e la Borsa
Japan	Takashi Hamano Hidetaka Tabata	Bank of Japan Financial Services Agency
Korea	Jae-Ryong Jeong	Financial Supervisory Service
Spain	Roberto España Jose Manuel Portero	Bank of Spain Comisión Nacional de Mercado de Valores
United States	Robert Esson	National Association of Insurance Commissioners
IMF	Jennifer Elliott	International Monetary Fund
IAIS	Lance Leatherbarrow	International Association of Insurance Supervisors
IOSCO	Alp Eroglu	International Organization of Securities Commissions
Secretariat	Motohiro Hatanaka	Basel Committee/Joint Forum Secretariat

(*) Until December 2013
(**) Chair of the Supervisory colleges workstream