

THE JOINT FORUM

BASEL COMMITTEE ON BANKING SUPERVISION
INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS
INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

C/O BANK FOR INTERNATIONAL SETTLEMENTS
CH-4002 BASEL, SWITZERLAND

Joint Forum - Amplified Mandate

The Joint Forum is a group of technical experts working under the umbrella of the following three international groupings of supervisory bodies: the Basel Committee on Banking Supervision, the International Organization of Securities Commissions and the International Association of Insurance Supervisors. The work of the Joint Forum encompasses issues relating to financial conglomerates as well as issues that are of common interest to the three parent committees as described below.

The Joint Forum continues to work in cooperation with other international bodies on issues where it shares a common interest.

The Joint Forum should follow a work plan that is consistent with and reflects the priorities of its parent organisations. Topics may not necessarily be taken up or finished in the same time frame.

A. Issues of common interest to the three parent committees

(1) The Joint Forum should study issues of common interest to the three financial sectors and develop guidance and principles and/or identify best practices, as appropriate, in particular for:

- Risk assessments and management, internal controls and capital;
- The use of the audit and actuarial functions in the supervision of regulated entities and corporate groups containing regulated entities;
- Corporate governance, including fit and proper tests;
- Outsourcing by regulated firms of functions and activities;
- Different definitions of banking, insurance and securities activities and the potential that they may lead to regulatory arbitrage; and
- Identifying the core principles of the banking, insurance and securities sectors that are common and understanding the differences where they arise.

(2) The Joint Forum has specific mandates as follows:

- To undertake further work on risk assessments and capital and, if appropriate, develop further guidance and principles and/or identify best practices, with special focus on the following areas:
 - Risk Aggregation. – Approaches used by firms to manage and aggregate risks across multiple businesses and risk categories (e.g. credit, market, insurance, operational risks, etc.) and approaches used by supervisors to address the challenges of firms whose activities span multiple businesses and risk categories (e.g. capital distribution in groups).
 - Operational Risk management. – Efforts and approaches that firms are making to address operational risks in all their businesses and globally. Approaches of firms that may take on transferred operational risks.

- Credit risk management and transfer. – Promote supervisory information sharing on issues relevant to credit risk transfer and aggregation of these risks in the firm as a whole.
- Disclosure of Financial Risks. – Following up on the recommendations of the April 2001 Multidisciplinary Group on Enhanced Disclosure:
 - Consider further (1) the means of expressing vulnerability to risk concentrations in market, credit, and insurance risks; (2) credit quality disclosure; and (3) additional development of risk assessment concepts and methods, such as those relating to market liquidity risk and potential future credit exposures.
 - Evaluate (1) the degree to which regulated financial intermediaries have complied with the four key recommendations contained in the Fisher Report; and (2) the degree to which (generally unregulated) hedge funds have complied with the four key recommendations
- Cross-sectoral implications of extreme exogenous shocks. – Regulatory forbearance, cross-sectoral cooperation and co-ordination in emergency situations, prudential robustness and contingency planning.

B. Issues relating to financial conglomerates

(1) The Joint Forum should enable bank, insurance and securities supervisors to share information about issues arising from the implementation of the principles issued and techniques developed by the Joint Forum. These pertain to:

- coordination;
- supervisory information sharing;
- capital adequacy;
- fit and proper tests;
- intra-group transactions and exposures; and
- risk concentrations.

The work may involve developing best practices to give effect to the principles set out in the papers.

(2) The Joint Forum has specific mandates as follows:

- to study financial conglomerate structures that may impair effective supervision or otherwise be problematic, and, having regard to the findings of that study, if appropriate, develop guidance and principles and/or identify best practices; and
- to assess the appropriateness of group-wide methods of supervision, and, having regard to the findings of that assessment, if appropriate, develop guidance and principles and/or identify best practices.

14 June 2002

Explanatory note

Background to the Joint Forum

The Joint Forum was established in early 1996 under the aegis of the Basel Committee on Banking Supervision (Basel Committee), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) to take forward the work of a predecessor group, the Tripartite Group, in examining supervisory issues relating to financial conglomerates. The Joint Forum comprises an equal number of senior bank, insurance and securities supervisors representing each supervisory constituency. 13 countries are represented in the Joint Forum: Australia, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States. The EU Commission attends in an observer capacity. The Chairmanship of the Joint Forum rotates between the three parent organisations and is named for a two-year term. The current Chairman is Mr José María Roldán, General Director of Financial Regulation at the Bank of Spain.

The growing emergence of financial conglomerates and the blurring of distinctions between the activities of firms in each financial sector have heightened the need for cooperative efforts to improve the effectiveness of supervisory methods and approaches. The Basel Committee, IOSCO and IAIS consider the coming together of representatives of each supervisory constituency in the Joint Forum to be of great value in building the cooperative spirit necessary to address the supervisory challenges arising from financial conglomerates.

The Joint Forum's original mandate focused, primarily, on diversified financial firms with complex organisational and management structures whose large-scale activities cross national borders and sectoral boundaries. The Joint Forum believes that the lessons drawn and the guidance prepared could also apply to smaller conglomerates or conglomerates that operate domestically.

In carrying out its original mandate, the Joint Forum has, in its first stage (a) pursued practical means at domestic and international levels to facilitate the exchange of information between supervisors within their own sectors and between supervisors in different sectors, (b) investigated any legal or other barriers which could impede the exchange of information between supervisors within their own sectors and between supervisors in different sectors, (c) examined ways to enhance supervisory coordination, including the benefits and drawbacks of establishing criteria to identify and define the responsibilities of a coordinator, and (d) developed principles towards the more effective supervision of regulated firms within financial conglomerates.

The Joint Forum updated its mandate in 1999, adding an additional dimension focused on cross-sectoral issues as well as those issues related to financial conglomerates. It also cooperated with other international bodies on issues where it shares a common interest. In carrying out this new dimension of its original mandate, the Joint Forum has in the past year performed cross-sectoral comparisons on issues of common interest to the three parent committees. These included the Core Principles issued by the banking, insurance and securities sectors (following a proposal from the IMF and the World Bank through the Financial Stability Forum) and risk management systems and approaches to capital in the three sectors. Reports on these issues were published in 2001. The Joint Forum is about to finalise a cross-sectoral comparison of corporate governance and the use of audit and actuarial functions for supervisory purposes.

The parent committees agreed that going forward, the Joint Forum's mandate should remain fundamentally unchanged from the mandate formulated in 1999. Accordingly, the Joint Forum will continue its work on financial conglomerates and cross-sectoral issues including risk management and capital with particular focus on the aggregation of risks across multiple

businesses and risk categories as well as operational and credit risk management and transfer. In addition, it will follow up on the work of the Fisher Report on the subject of enhancing financial disclosures and will examine cross-sectoral implications of extreme exogenous shocks (e.g. September 11).