

## Coordinator paper

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### ***Objective***

1. Given the goal of improving cooperation through information-sharing, the objective is to provide to supervisors guidance for the possible identification of a coordinator or coordinators and a catalogue of elements of coordination from which supervisors can select the role and responsibilities of a coordinator or coordinators in emergency and non-emergency situations.

### ***Background***

2. As financial conglomerates are comprised of legal entities subject to the oversight of two or more supervisors, there is a greater need for supervisors to cooperate on a cross-border and cross-sector basis. Communication and information-sharing are the *sine qua non* of cooperation. This paper sets out principles for that cooperation and communication between and among supervisors with respect to, primarily, internationally active financial conglomerates.

3. In this context, it may be beneficial to designate one of the supervisors involved (the "coordinator") to facilitate information-sharing efforts in a timely and efficient manner. In many cases, the coordinator will be the supervisor that carries out consolidated supervision or which is responsible for the largest part of the conglomerate.

4. Among the factors that come into play in determining whether to appoint a coordinator and, if so, in defining the role and responsibilities of the coordinator are the legal framework, statutory authorities of individual supervisors and accountabilities to legislative and other bodies, the capabilities and resources of individual supervisors, the supervisory techniques and remedial actions employed by supervisors, the ability of supervisors to share information cross-sectorally and cross-border, the business activities, risk profile and structure of the conglomerates, and the availability of information from the conglomerate to individual supervisors. The differences in such factors preclude the elaboration of a single role and a single set of responsibilities for the coordinator. Rather those differences argue for developing a catalogue of elements of coordination that supervisors could turn to in defining the role and responsibilities for the coordinator, depending on the circumstances.

5. This catalogue would include different forms of information-sharing. Supervisors could make use of this catalogue to define the role of the coordinator in emergency and non-

emergency circumstances. Examples of possible roles that could be developed from the catalogue would include coordinating the exchange of information in emergencies, making group-wide assessments in emergency and non-emergency circumstances, and coordinating supervisory activities among the directly concerned supervisors. In certain circumstances, it may be appropriate not to appoint a coordinator. (For the purposes of this paper, an emergency would include, among other things, any event, regardless of geographic origination, that would likely have a material adverse effect on the solvency or liquidity of financial conglomerates).

### ***Factors affecting the choice of options***

6. Objectives and approaches, often determined by responsibilities and authorities under national law, vary among the various supervisors involved in the oversight of regulated entities which are part of financial conglomerates. These divergences in objectives and approaches have implications as to informational and other needs of the different supervisors and will affect whether a coordinator is necessary for a particular group, the choice of a coordinator and the role and responsibilities that coordinator may have. For example, in a situation where a regulated entity in a group is subject to significant structural or supervisory firewalls that insulate the entity from the affairs of other entities in the group and is not a material entity in that group, the informational and other needs of that entity's supervisor with respect to other entities may be less than or different from those of another more significant regulated entity that is more closely integrated into the operations of other entities in the group.

7. Differences in the organisational structure of groups also have implications as to informational and other needs of the various supervisors involved. For example, in a group whose legal, business line and managerial structures diverge significantly, the supervisors of the various entities may be more interested in information about related entities and about the location and functioning of relevant controls than supervisors of entities in a more traditional group whose business activities, management and controls are organised more along the lines of the legal entities. Likewise where a group is headed by a regulated entity and that entity is subject to consolidated supervision, the needs of a subsidiary's supervisor for information about significant parts of the whole group may be different from needs of the supervisor of a subsidiary in another group that is headed by an unregulated holding company and whose regulated entities are subjected to solo supervision only. Accordingly, the role and responsibilities of the coordinator will likely be different in each case.

8. The choice of roles and responsibilities of a coordinator will also be influenced by the need to balance the benefits of improved coordination against the risks of creating (or appearing to

create) a new level of supervisory oversight or an extension of a governmental safety net to additional entities, regulated and unregulated, within a conglomerate. Adding (or appearing to add) a layer of oversight or extending (or appearing to extend) a safety net can undermine market discipline, increase regulatory burden or increase moral hazard. In some jurisdictions, the desire to avoid these risks will be stronger than in others and will tend to result in a different role for the coordinator.

9. Recognition must also be given to the practical constraints facing a coordinator and these issues must be resolved before a coordinator is appointed and its role defined.. For example, the choice of a coordinator and the definition of its role will be influenced by the capabilities and the extent of resources of the supervisors involved. In addition, there is a limit to the number of supervisors with which the coordinator can be in effective contact. Judgements will also need to be made on the scope and nature of the information to be shared. While flows of information from various supervisors to the coordinator should be relatively unimpeded, there may be circumstances which affect the timing and comprehensiveness of information the coordinator shares with other supervisors, e.g. a delay may be necessary when a solution to a serious problem is in the sensitive stages of negotiation or when informing supervisors needs to be coordinated with the conglomerate's public disclosure obligations. Similarly, in an emergency, any proposed arrangements established for a coordinator cannot in any way interfere with the actions that need to be taken by relevant authorities to address the emergency. Therefore, any arrangements would necessarily have to be flexible to allow for adjustments to given circumstances.

### ***Guiding principles***

10. The following principles provide guidance to supervisors of regulated entities in financial conglomerates in deciding on the need for and identification of a coordinator and on the role and responsibilities of such coordinator so identified.

#### **1. Arrangements between supervisors relating to the coordination process should provide for certain information to be available in emergency and non-emergency situations.**

11. Solo supervisors should identify the types of information needed for them to fully and efficiently discharge their supervisory responsibilities in respect of regulated entities residing in financial conglomerates. In emergencies, this would assist the information flow necessary for supervisors to assess the impact of the emergency on the entity subject to their oversight and to facilitate regulatory action, if necessary.

**2. The decision to appoint a coordinator and the identification of a coordinator should be at the discretion of the supervisors involved with the conglomerate.**

12. A single coordinator is considered generally preferable to multiple coordinators. However, there may be circumstances where it may be appropriate to share the responsibility for coordination, and more than one coordinator could be identified.

13. In most instances, it would be apparent which supervisor would act as a coordinator. In those cases where it is not apparent, the supervisors involved should decide amongst themselves who would be best suited to act in that capacity. Possible bases have been elaborated to provide some guidance in identifying a coordinator and are attached (Annex 2).

14. Information sharing in emergency situations will normally be easier if a coordinator has been identified previously since it will avoid burdening the resolution efforts by consultations on the identity and role of the coordinator. However, the circumstances of particular emergencies may require different coordinating mechanisms, including a different coordinator than the one previously identified.

**3. Supervisors should have the discretion to agree amongst themselves the role and responsibilities of a coordinator in emergency and non-emergency situations.**

15. Supervisors should establish amongst themselves the role and responsibilities of the coordinator. A catalogue of possible elements of those roles and responsibilities have been set out in Annex 1.

16. The coordinator should be expected to take the initiative in shaping the role of the coordinator and communicate its preferred approach to other relevant supervisors for their reaction.

**4. Arrangements for information flows between the coordinator and other supervisors and for any other form of coordination in emergency and non-emergency situations should be clarified in advance where possible.**

17. In order to facilitate the coordinator's activities, it would be beneficial for supervisors to agree to arrangements for providing and receiving information, the nature of information to be provided by supervisors to the coordinator and vice versa and under what circumstances, and for other supervisory coordination in light of the legal and organisational circumstances of

both the conglomerate and the supervisors involved. Such arrangements should specify the tasks to be performed by the coordinator in terms of information gathering from regulated entities, unregulated entities where permitted by law or the conglomerate, from the various supervisors involved or from a combination of those sources. In emergency situations, arrangements made in advance may require modifications to take into account the unique properties of the emergency.

**5. Supervisors' ability to carry out their supervisory responsibilities should not be constrained by reason of a coordinator being identified and a coordinator assuming certain responsibilities.**

18. Solo supervisors are subject to legislative requirements and national accountabilities which may influence the timing and nature of their actions, constrain their ability to act in particular circumstances and dictate specific supervisory responses to events and developments. The identification of a coordinator does not alter these legislative requirements and national accountabilities nor does it relieve solo supervisors of their responsibilities. Coordination arrangements cannot constrain a supervisor's lawful responsibility to take whatever actions are necessary or consult with any other party in resolving financial problems or crises.

**6. The identification of a coordinator and the determination of responsibilities for a coordinator should be predicated on the expectation that those responsibilities would enable supervisors to better carry out the supervision of regulated entities within financial conglomerates.**

19. There may be circumstances where a coordinator's role would be played by the supervisor carrying out consolidated supervision, so that little change would arise from the appointment of a coordinator.

20. There may be circumstances where a coordinator would not provide any added value in terms of efficiency in the supervision of regulated entities within a group. In such circumstances where other means of cooperation are assessed to be adequate by the supervisors involved, there would not be any reason to identify a coordinator.

21. Each component of the coordinator's role should be subjected to periodic critical review by the relevant supervisors to ensure that the component adds value in terms of enhanced supervision of regulated entities within a group. As the financial conglomerate's structure and activities change and as the legal and supervisory structure evolves, the need for and the role and responsibilities of the coordinator should be re-assessed.

**7. The identification and assumption of responsibilities by a coordinator should not create a perception that responsibility has shifted to the coordinator.**

22. It is recognised that the identification of a coordinator and the agreement between supervisors as to its role and responsibilities does not remove from the various supervisors involved their obligations under national legislation. Supervisors should avoid communications with the regulated entities or with other entities in the group which could give the impression to the group or to the market that the coordinator has assumed legal responsibility where this is in fact not the case.

*Catalogue of possible elements of coordination*

| <b>Information sharing**</b>  | <b>Group-wide assessment**</b>   | <b>Supervisory activities**</b>  |
|---|--|--|
| Adverse information is communicated by supervisors to the coordinator.  | Availability of information on group-wide structure, financial condition, key group-wide exposures and intra-group exposures is ascertained periodically by coordinator.                 | Planned supervisory activities by supervisors is communicated to coordinator.  |
| All relevant information is communicated by supervisors to the coordinator.   | Key information on group-wide structure, "large" group-wide exposures, intra-group transactions and financial condition is maintained by the coordinator.                                | Planned supervisory activities by the coordinator and other supervisors are exchanged.   |
| Coordinator stands ready to answer all inquiries from other supervisors.  | Key information on group-wide structure etc. is provided to relevant supervisors if they wish to make a group-wide assessment.   | Avoidance of overlap in supervisory activities through bilateral discussions of the coordinator and other supervisors.                   |
| Coordinator receives information from a variety of sources and provides key information to relevant supervisors if a problems appears to be emerging. | Coordinator makes an assessment of key areas (e.g. large exposures, financial condition and intra-group exposures) and addresses any issues with regulated entities in the conglomerate. | Participation of the coordinator in on-site visits or examinations of an institution's foreign activities where legal and appropriate.   |
| Coordinator receives information from a variety of sources and provides key information to relevant supervisors.                                      | Coordinator makes an assessment of key areas (e.g. large exposures, financial condition and intra-group exposures) and communicates potential problems to relevant supervisors.          | Coordination of planned supervisory activities and supervisory actions when a serious problem arises crossing jurisdictional lines.      |
| Coordinator facilitates extensive information flows under certain circumstances, e.g. emergencies.  | Coordinator makes group-wide assessment and discusses observations with relevant supervisors.  | Coordinated reviews or examinations of a business line crossing several legal entities, or a global risk management or control function. |

\*\*Elements in one category are not linked in any way to the elements in other categories.



***Possible bases to assist in identifying a Coordinator***

The following are examples of approaches that supervisors may take in selecting a coordinator.

- Where the conglomerate is headed by a supervised bank, securities firm or insurance company, the supervisor of that parent entity, in normal circumstances, should be the Coordinator.
- Where the conglomerate is headed by a supervised bank, securities firm or insurance company but there is a dominant regulated entity in the conglomerate, for example, in terms of balance sheet assets, revenues or solvency requirements, an option would be for the supervisor of the dominant entity to be the Coordinator.
- Where the conglomerate is headed by a supervised holding company, the supervisor of the holding company, in normal circumstances, should be the Coordinator.
- Where the conglomerate is headed by a supervised holding company but there is a dominant regulated entity in the conglomerate, for example, in terms of balance sheet assets, revenues or solvency requirements, an option would be for the supervisor of the dominant entity to be the Coordinator.
- Where the conglomerate is headed by an unsupervised holding company, an option would be for the supervisor of the dominant regulated entity in the conglomerate, for example, in terms of balance sheet assets, revenues or solvency requirements, to be the Coordinator.