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International Organisation of Securities Commissions and the
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SUPERVISION
OF
FINANCIAL
CONGLOMERATES

Papers prepared by the
Joint Forum on Financial Conglomerates

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Introduction

The Joint Forum on Financial Conglomerates (Joint Forum) was established in early 1996 under the aegis of the Basle Committee on Banking Supervision (Basle Committee), the International Organisation of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) to take forward the work of the Tripartite Group whose report was released in July 1995. The Joint Forum is comprised of an equal number of senior bank, insurance and securities supervisors representing each supervisory constituency. Thirteen countries are represented in the Joint Forum: Australia, Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Spain, Sweden, Switzerland, United Kingdom and United States. The EU Commission is attending in an observer capacity.

In accordance with its mandate which was agreed by the Basle Committee, IOSCO and the IAIS (collectively "the parent organisations"), the Joint Forum has reviewed various means to facilitate the exchange of information between supervisors within their own sectors and between supervisors in different sectors and has investigated legal or other barriers which could impede the exchange of information between supervisors within their own sectors and between supervisors in different sectors. Also, based on its mandate, the Joint Forum has examined ways to enhance supervisory coordination, including the benefits and drawbacks to establishing criteria to identify and define the responsibilities of a coordinator, and is working on developing principles toward the more effective supervision of regulated firms within financial conglomerates.

The Joint Forum prepared a number of papers dealing with these matters which were released by the Basle Committee, IOSCO and the IAIS for consultation with industry and the supervisory community on a global basis from mid-February 1998 to 31 July 1998.

About 60 written submissions were received on the papers. These came from a mix of governmental and supervisory agencies, industry and other interested parties worldwide. The views of industry were largely provided through their associations and in some cases through supervisory agencies.

The submissions received were supportive of the work of the Joint Forum. Numerous suggestions for modifying, refining or otherwise clarifying the papers were made.

In addition to the global consultation process, the Joint Forum conducted practical testing exercises on its work on capital adequacy and considered further the practical issues involved in the identification of coordinators. The Joint Forum finalised the papers in light of the comments received during the consultation process and the results of its additional work. The Basle Committee and the Technical Committees of IOSCO and the IAIS have endorsed the

papers and are now prepared to release these with a recommendation to members of the parent organisations to implement the principles therein. The Basle Committee and the Technical Committees of IOSCO and the IAIS also commend the regulatory tools, techniques and other guidance set out in the papers to those members.

The Basle Committee and the Technical Committees of IOSCO and the IAIS have noted concerns expressed in a number of comments from industry to the effect that the adoption of new international standards would result in an increase in the regulatory burden. The Committees would like to avoid this to the greatest extent practical and encourage supervisors, in applying the principles and other guidance in the papers to avoid any unnecessary duplication including wherever possible by acting in coordination with other supervisors.

It is noted that the Joint Forum's focus has been, primarily, on diversified financial firms with complex organisational and management structures whose large scale activities cross national borders and sectoral boundaries. However, the lessons drawn and the guidance prepared could also apply to smaller conglomerates or conglomerates that only operate domestically.

The papers are as follows:

- A. *Capital Adequacy Principles* paper
- B. *Supplement to the Capital Adequacy Principles* paper
- C. *Fit and Proper Principles* paper
- D. *Framework for Supervisory Information Sharing* paper
- E. *Principles for Supervisory Information Sharing* paper
- F. *Coordinator paper*
- G. *Supervisory Questionnaire*.

The *Capital Adequacy Principles* paper outlines measurement techniques and principles to facilitate the assessment of capital adequacy on a group-wide basis for financial conglomerates. This paper was significantly refined as a result of the consultation process and testing of the principles. The more significant changes include:

- emphasising that the suggested measurement techniques do not replace existing sectoral rules for the assessment of capital adequacy but are used to complement existing approaches
- addressing the treatment of unregulated non-financial entities
- dealing with the combining and tailoring of the measurement techniques
- making it clear that the choice of measurement technique is left at the supervisors' discretion.

The *Supplement to the Capital Adequacy Principles* paper illustrates situations that can be faced by supervisors in practical applications of the measurement techniques.

The *Fit and Proper Principles* paper provides guidance to ensure that supervisors of entities within a financial conglomerate are able to exercise their responsibilities to assess whether those entities are soundly and prudently managed.

The *Framework for Supervisory Information Sharing* paper sets out a general framework for facilitating information-sharing between supervisors of regulated entities within internationally active financial conglomerates.

The *Principles for Supervisory Information Sharing* paper provides to supervisors involved in the oversight of regulated financial institutions residing in financial conglomerates guiding principles with respect to supervisory information sharing. The Ten Key Principles on Information Sharing issued by the G-7 Finance Ministers in May 1998 which complement the principles developed by the Joint Forum, are annexed to this paper.

The *Coordinator* paper provides 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. In May 1998, the G-7 Finance Ministers endorsed the principles in this paper and urged the supervisory bodies to take quickly the decisions on the implementation of these proposals, as some national supervisors move towards establishing coordinators for their major groups. Many of the submissions received from industry and the supervisory community suggested modifying the principles in various ways generally with a view to enhancing effective coordination. After examining actual experiences in supervisory coordination, the Forum concluded that it would be preferable to proceed to implementation of the principles rather than to attempt further refinement at this stage.

The *Supervisory Questionnaire* is a tool to assist supervisors in better understanding each others' objectives and approaches. It is expected that experience gained in using the Questionnaire, will result in changes to enhance its coverage and make it a more useful tool to better understand supervisors' objectives and approaches.