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## **RANGE OF PRACTICES ON SUPERVISORY COLLEGES AND HOME-HOST COOPERATION**

### **I DEFINITION OF COLLEGE OF SUPERVISORS**

Colleges of Supervisors are permanent, although flexible, structures for cooperation and coordination among the authorities responsible for and involved in the supervision of the different components of cross-border banking groups (“College”).

### **II OBJECTIVES**

The overall objectives of a College of Supervisors can be summarized into the following elements:

- Facilitate exchange of information, views and assessments among supervisors in order to allow for a more efficient and effective consolidated and solo supervision and timely action.
- Enable supervisors to develop a common understanding of the risk profile of the group as the starting point for risk based supervision at both group and solo levels.
- Achieve coordination of supervisory review and risk assessment, establishing supervisory plans, arranging any division of tasks and joint on-site visits, thus avoiding duplication of work and reducing the regulatory burden.
- Coordinate decisions taken by individual authorities and strive to reach consensus.

### **III ORGANIZATION**

- College organization depends on various factors (structure of group, concentration in certain geographic areas, systemic relevance of individual entities, type of operations, services or products of the group, and original agreements among supervisors).
- “Multi-level” colleges offer a combination of different levels of association of supervisors depending on their specific situation vis-à-vis the

banking group. The following two types of organization of colleges should normally be put in place:

- General College: general multilateral meetings which are used to share information on group-wide issues, for the general discussion of the overall supervisory policy and planning, or for projects interesting a large number of authorities, with their frequency to be determined on a case by case basis, for example yearly;
  - Core College: restricted multilateral meetings can associate in a more structured cooperative approach a limited number of authorities involved in the supervision of the main activities of a group.
- Bilateral relationships, aside from being the starting point of any cooperative approach, are used as the means for continuous dialogue between supervisory authorities.
  - The criteria for choosing participants in the different levels of the College are related to the provisions in art. 129 (2) of the Capital Requirements Directive (CRD) as well as to the importance of the subsidiaries or branches within the group and their relevance for the host markets according to CEBS GL09 (“home-host”). If deemed necessary, supervisors of systemically relevant branches should be invited to the College. Colleges may also associate non-European supervisors; different levels of association may be foreseen depending on confidentiality constraints.
  - Communication with the banking group is the responsibility of the consolidating supervisor, including the main findings of the supervisory review of the Group and any collective views agreed by the College. Host supervisors communicate to the subsidiary the measures to be applied at solo level.
  - As to the supervision of the group on a consolidated basis and in compliance with article 131 of the CRD, written arrangements among supervisors should encompass the functioning, the organization, and the coordination and cooperation procedures governing the College, both in going concern and emergency situations. These arrangements should highlight the description of the structure of the financial group and the responsibilities and respective expectations of the supervisors involved. The written arrangements may involve participants in the College coming from non-EEA countries.
  - The colleges do not have formal decision-making powers. However, the development of voluntary mechanisms for the governance of the College, in terms of permanent duties, agreed frameworks for information exchanges and for the practical implementation of the CRD, for the division of tasks and the risk assessment of cross-border groups is considered good practice.
  - Colleges should also be used to coordinate decisions and strive to reach consensus in cases of divergent views regarding the application of EU legislation and CEBS guidelines in a cross-border context.

#### **IV INFORMATION EXCHANGE AND ON-GOING COOPERATION**

- Extensive exchange of information is crucial for the effective and efficient supervision of internationally active financial groups.
- Communication of information between supervisors should be a two-way process, it should be balanced and proportionate reflecting the needs of the supervisors involved.
- Information exchange between supervisors should be organized according to the written arrangements between the supervisors and the practical framework of the College. Effective information exchange requires the consolidating supervisor to be at the centre, where it serves as a hub for the gathering and dissemination of information.
- Different means for the exchange of information can be used - meetings, telephone, e-mails, website - but the key is the application of a flexible framework.
- Different ways to exchange information and data in real-time (IT-solution), e.g., through internet based solutions (web-site managed by consolidating authority), should be explored.
- For highly sensitive information secure channels should be used. Examples are encrypted e-mails or passwords for web-access.

#### **V DELEGATION OF TASKS AND JOINT INSPECTIONS**

- Cooperation and coordination between consolidating and host supervisors should be put in place through delegation tools. Practical cooperation within the College implies that the delegation of tasks is in place. As an example, although not formal, delegation is clearly at work where two or more supervisory authorities draw up joint work schedules for validating group-wide models. Practice also shows that some host supervisors have delegated the supervision of branches liquidity management to the consolidating supervisor.
- In addition to informal delegation within the College, tasks should be formally delegated from the consolidating supervisor to the host supervisors and vice versa.
- Colleges should have on their regular agenda planning of inspections and the conduct of joint examinations.

#### **VI COOPERATION IN THE PROCESS OF JOINT MODEL VALIDATION**

- As mentioned in article 129 (2) of the CRD, supervisors should work together to determine whether or not to grant permission to a banking group to use advanced modelling of credit, market and operational risks for regulatory purposes. This implies reaching a common understanding on the practical framework of the model validation process, such as the pre-

application, approval and post-approval phases, as described in CEBS GL09 (“home-host”) and GL 10 (“model validation”).

○ In order to take a joint decision on model validation, the following practices should be observed:

➤ The College is the forum for discussing the model validation approach. Arrangements among supervisors include an agreed timetable for the pre-approval and approval processes, the division of tasks, the evaluation of the completeness of the application package and a description of the administrative proceedings of the authorities.

➤ The consolidating supervisor has to trigger the initial communication. The host supervisors concerned have to be fully involved and this includes in the pre-application phase.

➤ The minimum application package should be well specified and detailed and be widely consulted on with the host supervisors concerned. This includes discussing the language of the documentation and practical issues surrounding the assessment of its completeness. The consolidating supervisor’s application package may be integrated with the questions/requirements of the host supervisors involved in the joint decision. Although all important materials (such as application, permission) are written in a language of the consolidating supervisor’s country, documents should also be available to host supervisors in an agreed language.

➤ The pre-approval work will normally include on-site supervisory visits in order to evaluate the performance of the bank’s model and environment, after which the approval work starts, consisting of off-site work plus on-site supervisory visits regarding follow-up issues out of the pre-application phase, and coordination with host supervisors in order to reach a joint decision.

➤ The College should report back to the banking group the findings of the pre-application work.

➤ In the application phase, core information (methodological documents, banks’ self assessments, etc.) should be shared within the College or among the supervisors involved. The consolidating and the host supervisors should agree on a minimum set of practical conditions to be verified during the validation process as well as on a common set of criteria and principles to assess them, this being a pre-requisite for a more effective allocation of tasks and division of labour.

➤ Before the end of the 6 month period, the host supervisors involved should express their views formally to the consolidating supervisor, who will then issue a formal decision to the parent company taking into account the observations of the other authorities and the possible terms and conditions which might be attached to the decision.

➤ Host supervisors which are not involved in the first close cooperation process (e.g., supervisors of subsidiaries included in the ‘roll-out’ plan) should be involved in the process of information exchange. These supervisors should be invited to multilateral meetings and provided with written documentation prior to their direct involvement.

## **VII COOPERATION IN THE SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)**

- The co-operative framework within a College contributes to enhancing the consistency of supervisory assessments throughout the whole group.
- The SREP will take into consideration the internal organization of the banking group (e.g. the degree of cross-border integration of business lines or support and control functions).
- The consolidating supervisor is responsible for initiating and coordinating the supervisory review process across a banking group, the gathering and dissemination of relevant information and the coordination of any planned supervisory activities at a consolidated level. This responsibility includes taking the lead in establishing co-operative arrangements for the SREP, the risk identification and assessment of the group, the planning of supervisory actions and the performance of tasks, and the monitoring of progress in achieving the agreed objectives.
- Consolidating and host supervisors should cooperate on the ICAAP review and on the setting of ICAAP requirements in the College of supervisors. In particular, supervisors should ensure that information requests to central and local levels of the banking group are as synchronised as possible and that information is made available to all relevant supervisors.
- An overall SREP including a risk assessment (generally updated on an annual basis) serves as the basis for the planning of supervisory action at the consolidated level. All or relevant members of the College contribute to the SREP, under the coordination of the consolidating supervisor. At consolidated level the dialogue on the ICAAP and the presentation of the conclusions of the SREP for the group are taken care of by the consolidating supervisor.

Host supervisors are responsible for reviewing the SREP at local level. Each host supervisor's review and evaluation of the fulfilment of ICAAP requirements feeds input into the overall SREP process and the overall assessment of the group's risks and capital adequacy. In performing the SREP at local level, the host supervisors should take into account the characteristics of the framework under which the SREP at group level has been developed. The supervisory activities at local level are taken into consideration in the supervisory plan at consolidated level.