Cross Border Supervisory Cooperation

World Bank/International Monetary Fund/Federal Reserve System

Seminar for Senior Bank Supervisors from Emerging Economies

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October 18, 2006
Plan of presentation

- Importance of cooperation
- Sources of Guidance
- Formal aspects and types of cooperation
- Basel CP 25
- Basel High Level Principles
- Effective Home-Host Cooperation for Basel II
- Cooperation in a problem situation
- Practical aspects
Why is cross border cooperation important?

- Authorization
- Day to day supervision of banks abroad or foreign banks at home
- Supervision on a consolidated basis
- Supervisory actions
- Problem bank resolution
- Crisis management
- Liquidation
Supervisory cooperation is relevant for the Fund

- Quality of supervision
- Convergence
- Financial stability
Formal aspects of cooperation

- Informal arrangements
- Formal Arrangements
  - Exchange of letters
  - Bilateral Memoranda of Understanding (MoU)
  - Multilateral MoU
  - Binding multilateral arrangements
Incomplete information and incomplete tools.....

- Home supervisor has more information about parent/head office
- Host supervisor has more information about local operations
- Home supervisor is closer to top management
- Host supervisor only has easy access to local management

.....But full responsibility....
Main guidance sources

General Basel Committee Guidance:
- March 1983: Authorization of foreign establishments
- May 1983: The “Concordat”
- April 1990: Supplement to the Concordat (information flows between supervisors)
- July 1992: “Minimum Standards”
- October 1996: The Supervision of Cross Border Banking
- 2006 Basel Core Principles for Effective Banking Supervision: CP 25
- Your own MoUs
Basel II-related guidance

- August 2003: High Level Principles for the Cross Border Implementation of the New Accord
- June 2006: Home-host information sharing for Effective Basel II Implementation
Types of cooperation

- Bi-lateral contacts
- Tri-partite meetings between home, host and the bank
- Multilateral contacts, conferences, regional groups
- Supervisory “colleges” of home and hosts
- Conference calls
- Exchange of information with regard to individual institutions
- (Joint) on-site inspections in the host/home country
- Ad hoc information requests
- Coordination of actions

Whatever works best
Get organized

- International banks tend to operate regionally: also build cooperation and communication with colleague-supervisors in the region: host-host cooperation
- This helps identify problems in the bank
- And also helps “get through” to home supervisors
- Try to “harmonize” cooperation structures with various home supervisors; avoid a confusing multitude of different arrangements
Revised CP 25

- Cooperation and information exchange
- Nine “essential” assessment criteria
- Need to substantially meet all nine, to be assessed “compliant”
Revised CP 25 (cont’d)

EC 3: what information should the home provide to the host?

- Overall framework of supervision in which the banking group operates
- Information allowing a proper perspective of the activities of the bank within the host jurisdiction
- Information on specific activities in the host jurisdiction
- Significant problems at headquarters or elsewhere in the group
- Materiality criterion: host needs to inform home supervisor of materiality of bank to the host
EC 4: What information should the host provide to the home?

- Non-compliance with host supervisory requirements
- Adverse developments in local operations
- Adverse supervisory assessments of the bank’s operations or management in the host country
- Remedial actions
- Materiality criterion: home needs to inform host about materiality of bank to the home
Revised CP 25 (cont’d)

Other essential criteria

- EC 1: information exchange should be adequate to carry supervisory responsibilities
- EC 2: For material operations, identify all relevant supervisors and conclude and communicate arrangements for cooperation
- EC 5: Same quality supervision for foreign and domestic institutions
- EC 6: Before licensing of foreign bank: establish that home supervisor has no objection and exercises global consolidated supervision
- EC 7: Home country access to offices and subsidiaries of bank in host jurisdiction
- EC 8: Host supervisor supervises “shell banks” and booking offices
- EC 9: Consult counterparts before taking actions
Basel II-related cooperation

- Six “High Level Principles” (August 2003)
  - No change in legal responsibilities of home and host
  - Home is responsible for oversight of Basel II implementation on a consolidated basis
  - Host needs must be understood and recognized by home
  - Enhanced and pragmatic cooperation between supervisors with legitimate interests, coordinated by home
  - Avoid redundant and uncoordinated approval and validation work
  - Coordinated by home, communicate respective roles of home and host to banking groups
Basel II-related cooperation (cont’d)

- Home – host information sharing for effective Basel II implementation (June 2006)
  - Focus on significant foreign subsidiaries
  - Sub can be insignificant for the group, but systemically important for the host
  - Timely provision of relevant information
  - Be prepared to explain why you need the information
  - Local management needs to know
  - Oral information versus written
Examples of “bank to host” information

- Plans for Basel II implementation
- Plans for meeting Pillar 2 requirements
- Basel II adjustments for local markets
- Local systems, controls, organization and validation
- Readiness gaps and how to address them
Examples of “home to host” information

- Relevant parts of application packets
- Home supervisor’s assessment
- Key elements of models
- Concerns about safety and soundness
- Schedules for on-site work
- Relevant (parts of) examination reports
- Pillar 2 implementation
- Assessments of rating agencies
Examples of “host to home” information

- Information to help perform supervision on a consolidated basis
- Local market information
- Host assessment of Basel II implementation by local sub or branch
- Supervisory concerns
- Relevant (parts of) inspection reports
- Host assessments of ECAIIs
Cooperation in a crisis or problem situation

- Much more pressure
- Tends to be slower: people are cautious, will be held accountable
- Arrangements need to be very robust: clear, simple, well-rehearsed (war games)
- List of contacts, with effective back-up system
- Written arrangements (part of MoU or separate MoU)
- Critical issues: differences in legal framework, LOLR and burden sharing
- Dealing with the media
“KYC”

- Know your supervisory counterpart
- Know the full global structure of the bank
- Meet periodically with your counterparts
- Meet with top bank management
- Know the broad legal and supervisory framework of the home/host country
Cooperation is Communication

- **Use common sense in your communications:**
  - Build a framework: Initial get-together, supervisory colleges, establish names and procedures, MoU
  - Know whom to contact; have a list: BCBS list of supervisors, BIS directory, business card collection
  - Select the medium: phone, e-mail, letter
  - Prepare the message (keep it simple)
  - Be selective in your communications
  - Know when to communicate orally, and when in written form; for some purposes written information is needed
  - Confirm conversations in writing, as needed
  - Be conclusive: sum up, make sure the other person has understood.
  - The “sergeant-major’s method”: (1) say what you are going to say, (2) say it, and (3) recap what you just said