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Joint Forum releases *Principles for the Supervision of Financial Conglomerates*

The Joint Forum issued today its final report on Principles for the Supervision of Financial Conglomerates. The Joint Forum, which comprises the Basel Committee on Banking Supervision, the International Organization of Securities Commissions and the International Association of Insurance Supervisors, addresses issues common to the banking, securities and insurance sectors, including the regulation of financial conglomerates.

The updated *Principles for the Supervision of Financial Conglomerates* supersede the *Compendium of documents produced by the Joint Forum* in 2001. In revising its principles, the Joint Forum's aim was to focus on closing regulatory gaps, eliminating supervisory "blind spots" and ensuring effective supervision of risks arising from unregulated financial activities and entities. Importantly, these updated principles are structured in a manner that should facilitate their implementation across jurisdictions and over time.

Dr Therese M Vaughan, Chair of the Joint Forum and Chief Executive Officer of the US National Association of Insurance Commissioners, stated that "the global adoption of these supervisory principles and their application in proportion to the risks posed will help strengthen the global financial system." She added that, at a minimum, the principles should be applied to large internationally active financial conglomerates.

The principles are organised into five sections and expand on and supplement the 2001 Compendium in a number of ways:

Supervisory powers and authority

The principles are directed to both policy makers and supervisors highlighting the need for a clear legal framework that provides supervisors with the necessary

powers, authority and resources to perform, with independence and in coordination with other supervisors, comprehensive group-wide supervision.

Supervisory responsibility

The principles reaffirm the importance of supervisory cooperation, coordination and information exchange. They clarify the importance of identifying a group-level supervisor whose responsibility is to focus on group-level supervision and the facilitation of coordination between relevant supervisors. New principles have been included which relate to the role and responsibilities of supervisors in implementing minimum prudential standards, monitoring and supervising activities of financial conglomerates and taking corrective action as appropriate.

Corporate governance

The principles underscore the importance of fit and proper principles and also provide, through a series of new principles, guidance for supervisors intended to ensure the existence of a robust corporate governance framework for financial conglomerates. These new principles relate to the structure of the financial conglomerate, the responsibilities of the board and senior management, the treatment of conflicts of interest and remuneration policy.

Capital adequacy and liquidity

The principles highlight the role of supervisors in assessing capital adequacy on a group basis, taking into account unregulated entities and activities and the risks they pose to regulated entities. They include new principles on group-wide capital management. The principles also provide guidance on internal capital planning processes that rely on sound board and management decisions, incorporate stressed scenario outcomes, and are subject to adequate internal controls. A new principle on liquidity assessment and management is also introduced – providing guidance for supervisors intended to ensure that financial conglomerates properly measure and manage liquidity risk.

Risk management

The principles set out the need for a financial conglomerate to have a comprehensive risk management framework to manage and report group-wide risk concentrations and intra-group transactions and exposures. Greater emphasis is placed on the financial conglomerate's ability to measure, manage and report all material risks to which it is exposed, including those stemming from unregulated entities and activities. The principles focus on group-wide risk management culture and appropriate tolerance levels; addressing risks associated with new business areas and outsourcing; group-wide stress-tests and scenario analyses for the prudent aggregation of risks; bringing off-balance sheet activities within the scope of group-wide supervision.

Comments received from a public consultation helped the Joint Forum refine this final report of its *Principles for the Supervision of Financial Conglomerates*. The report is available on the websites of the Bank for International Settlements (www.bis.org), IOSCO (www.iosco.org) and the IAIS (www.iaisweb.org).