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Colleges of Supervisors – 10 Common Principles

1. Introduction

The Committee of European Banking Supervisors (CEBS) and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), and their Interim Working Committee on Financial Conglomerates (IWCFC), since their establishment, have actively worked on enhancing the cooperation between the different supervisory authorities involved in the supervision of the cross-border groups, through enhancing the functioning of Colleges 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 groups, specifically large groups.

Following the ECOFIN roadmap of 4 December 2007 as well as the Council Conclusions on the EU supervisory framework and financial stability arrangements of 14 May 2008, the EU Committees of Supervisors have been asked to study the possibilities to introduce a common set of operational guidelines for the operation of Colleges of supervisors and monitor the coherence of the practices of the different Colleges. In this note, ten common principles are presented as relevant for the banking, insurance and financial conglomerates sector regarding the functioning of Colleges of supervisors based upon existing work and recent experience on the functioning of Colleges of supervisors in a crisis situation¹.

2. Common Principles

Principle 1: The supervisors of the Member States involved in the supervision of any of the relevant activities of a cross-border insurance group, banking group or a financial conglomerate, hereinafter called a "Group" shall form a "College" (College of supervisors).

Where appropriate Colleges can be organized offering a combination of different

¹ The proposed revisions to the Capital Requirements Directive make colleges obligatory, and these principles are in line with them.

levels of association of supervisors depending on their specific situation. In the banking sector there may be “General Colleges” consisting of all supervisors participating in general multilateral meetings, for sharing information on group-wide issues, as well as “Core Colleges”, which consist of a limited number of relevant authorities participating in restricted multilateral meetings, ensuring close cooperation in supervisory activities. If deemed necessary, supervisors of systemically relevant branches should be invited to the College. The host supervisors of significant branches may be invited to join the College. In the insurance sector, in addition to the College of supervisors consisting of general multilateral meetings, for sharing information on group-wide issues, the College may have formalised roles between the Group supervisor and the involved solo supervisors, through smaller supervisory teams, in the on-going supervision of the Group. For the supervision of financial conglomerates, for example, in addition to the Coordinator inviting Relevant Competent Authorities, other Competent Authorities, where necessary, may be invited by the Coordinator to participate in the coordination arrangements that have to be established.

Principle 2: The College of supervisors shall provide an effective and flexible permanent forum for cooperation and coordination among the authorities responsible for and involved in the supervision of the Group. Where appropriate, Colleges may cooperate with other authorities.

Supervisors shall be encouraged to avoid duplication and gaps by assisting each other in the College of supervisors. To reach this objective, they may agree on the use of voluntary delegation of tasks to each other or conduct joint work. Supervisors may cooperate with other relevant authorities – supervisors of third countries, ministries of finance and central banks.

Principle 3: The organization of the Colleges of Supervisors is proportionate to the organization, nature, scale and complexity of the Group and to the assessment of the Group’s soundness, and reflects the activities, risks and the legal structure of the Group.

The organisation of the College and the format and frequency in which the College of supervisors meet shall be determined by the Consolidating Supervisor (for a banking group)/Group Supervisor (for an insurance group) /Coordinator (for a financial conglomerate) and the College of supervisors, and be proportionate to the nature, scale and complexity of the Group, and the nature and importance of the issues discussed.

Principle 4: When forming the College of supervisors, the involved Supervisors shall communicate to each other their assessment of their respective supervised entity’s significance and risks for the Group and systemic relevance for local financial markets, and take into account each other’s assessments.

This will enable supervisors to develop a common understanding of the structure and risks of the Group as a starting point for risk-based supervision, both at Group and solo level.

Principle 5: The Colleges of supervisors shall have agreements in place, laying out the basis for the cooperation between the involved authorities and the practical organisation of the supervisory activities of the Group on a on-going basis and in a crisis situation, including engagement with Cross Border Stability Groups.

The aim of the agreements, which should reflect the nature, size and complexity of the particular group, is to provide a basis for cooperation between supervisors involved in the supervision of a group; to improve the overall supervision of the group and the more efficient use of supervisory resources; and to coordinate the requests from supervisors on the supervised Group. Developing a co-operative approach to Groups' supervision will enhance convergence between supervisors. Among other issues, the agreements include: the role and responsibilities of the involved authorities, information exchange among supervisors, sharing and delegation of tasks, communication with the Group, crisis management and possible coordination of enforcement action. Different procedures and modus of operation could emerge during emergency situations depending on the nature and severity of the crisis. In emergency situations the frequency of contacts between supervisors will rise in general. While preserving a high degree of flexibility, procedures should aim at helping supervisors in considering as to which authorities to inform, and when, in a crisis situation.

With regard to crisis situations, reference is made to existing arrangements (e.g. [the 2008 "Memorandum of Understanding on cooperation between the financial supervisory authorities, central banks and finance ministries of the European Union on cross-border financial stability"](#)) which provide for cooperation arrangements between relevant parties including, central banks and ministries of finance. Further procedures should clearly reflect the roles and responsibilities of Colleges and interaction with Cross Border Stability Groups.

For the supervision of banking groups, CEBS has published a template for [written agreements](#).

For the supervision of insurance groups, agreements have actually already been laid down in the "[Helsinki protocol](#)".

On a regular basis, the College of supervisors shall review the effectiveness of the arrangements in place.

Principle 6: The Group Supervisor (for an Insurance Group) or Consolidating Supervisor (for a Banking Group) or the Coordinator (for a Financial Conglomerate), shall initiate the cooperation process, chair the meeting of the College of supervisors, and be responsible for designing a work programme for the supervision of the Group, which shall be approved by the College of Supervisors.

Depending on the sector, the work programme may aim to obtain an adequate assessment of the risks (including risk concentrations and intra-group exposures), controls and capital positions of the Group and its legal entities and may include e.g.: (i) the gathering and dissemination of information among supervisors, (ii) the planning of joint on-site inspections and the tasks to be entrusted to each other, (iii) the conduct of regular risks assessments, and (iv) the communication with the Group.

Principle 7: The Colleges of Supervisors provide an efficient platform for the gathering and dissemination of relevant or essential information in going concern and emergency situations, developing a common understanding of the risk profile of the Group, achieving coordination of supervisory review and risk assessment at Group level as well as establishing supervisory plans for the mitigation of risks at Group level.

Involved supervisors shall, where appropriate, contribute their information and assessments of their supervised entities to the overall assessment of risks and financial soundness of the Group by the Group Supervisor/Consolidating Supervisor or Coordinator to be addressed in the College and will be vice versa informed on the results. The two-way process of communication of information between supervisory authorities is governed by strict confidentiality; it is balanced and proportionate reflecting the needs of the supervisors involved and shall cover information needed for specific supervisory tasks or actions on ongoing basis. The College of supervisors shall agree on how the information gathered will be exchanged, in which form and at which frequency.

The Colleges of Supervisors shall ensure, subject to confidentiality provisions, all relevant information needed for the supervision of the Group is collected and disseminated in a timely manner to the relevant supervisory authorities, and Cross Border Stability Groups where appropriate, and in a language understandable by each supervisor/relevant party.

Principle 8: The Colleges of supervisors promote harmonization of approaches and coordinates input to major supervisory decisions taken by individual authorities as far as possible and practicable, and draw their conclusions where appropriate.

The functioning of Colleges will also be guided by the work of the Level 3 Committees given their roles and duties as set out in the EU legislation and the Charters of the Committees. Supervisory authorities shall consult with each other prior to making any important decisions that might affect the Group as a whole, or other entities within the Group. While the College does not have decision making powers, it plays a role in the coordination of supervisory activities and enhancement of supervisory cooperation.

Principle 9: The Colleges of supervisors shall have on their regular agenda, planning and coordination of supervisory on-site inspections, including joint supervisory examinations, and the findings of such visits will be shared by the Group Supervisor/Consolidated Supervisor/Coordinator with the other supervisors in the College of supervisors according to their respective needs and subject to confidentiality provisions.

Common on-site inspections and joint examinations are important, for example, in relation to the approval of the internal models within a Group and specifically with respect to the Groups' risk management and internal governance.

Principle 10: Within the College of supervisors, the supervisors review and evaluate risks to which the group and its entities are or might be exposed to ensure a prospective supervision and foster early-warning of major risks to the extent possible.

Supervisors shall endeavour a common evaluation of the Group in terms of its formal and operational structure, with respect to amongst other issues, its business strategy, skills and propriety of management, main internal systems, internal control, risk management processes, adequacy of capital at group level and across entities, and the overall risk profile of the Group.

3. Future Work

CEBS and CEIOPS, together with the IWCFC, are fully aware of the important role Colleges have to play when it comes to both cross-border and cross-sector supervision of Groups and Financial Conglomerates. On the basis of this assumption both Committees are closely monitoring the functioning of these Colleges, taking into account to the extent possible, experience obtained during the current crisis and to accommodate lessons learnt from the current crisis, in order to continuously improve them and the way they operate. In addition, the above mentioned principles will be reviewed in the perspective of the review of the Capital Requirements Directive, the Financial Conglomerates Directive, and the new Solvency Directive for the insurance sector.

The Committees have agreed already upon sectoral guidance for the functioning of these structures² and ³, and such guidance should constitute the benchmark for monitoring how the Colleges work in practice. Together with this guidance, additional practical work, including areas to be covered by supervisors within Colleges, has been developed and is currently being tested.

CEIOPS and CEBS will also take into account recent supervisory experiences to identify good practice and develop supervisory procedures for Colleges during a crisis situation.

A better understanding of what the sectoral committees are doing is fostered by exchanging documents, expertise and experience in the field of supervision at Group level (Banking, Insurance and Financial Conglomerates).

All the aforementioned provides the basis for improving the role of Colleges and their functioning, developing a common understanding of the practices of such Colleges, and meeting supervisory challenges and objectives.

For CEIOPS -

http://www.ceiops.eu/media/files/publications/standardsandmore/guidelines/guidelines_coordination.pdf;
<http://www.ceiops.eu/media/files/publications/standardsandmore/guidelines/StatementontheRoleoftheLeadSupervisor.pdf>;
http://www.ceiops.eu/media/docman/public_files/publications/submissionstotheec/AdviceInsuranceGroups.pdf

³ For CEBS –

<http://www.c-eps.org/getdoc/18115aae-4429-4f3d-8364-74e72aac0ef2/CP09.aspx>;
[http://www.c-eps.org/press/documents/CEBS%202007%2075%20\(Range%20of%20practices\)%20final.pdf](http://www.c-eps.org/press/documents/CEBS%202007%2075%20(Range%20of%20practices)%20final.pdf);
[http://www.c-eps.org/getdoc/5985f363-6033-4079-8ac8-2ba41e01326c/CEBS-2007-177-rev-2-\(template-for-written-agreemen.aspx](http://www.c-eps.org/getdoc/5985f363-6033-4079-8ac8-2ba41e01326c/CEBS-2007-177-rev-2-(template-for-written-agreemen.aspx)