

# Association of Supervisors of Banks of The Americas



## CROSS-BORDER COLLEGES

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## **INITIAL REMARKS**

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- Cross-border colleges have proven to be an efficient vehicle for the monitoring of financial conglomerates operating in multiple jurisdictions
- They do not replace the bilateral or multilateral relationships established between supervisory agencies nor enter into conflict with local regulatory frameworks or supervisory powers and responsibilities
- Colleges are not decision making bodies but are created to share information systematically and orderly and to provide authorities with the tools and coordination mechanisms to minimize risks that may be confronted by banking groups operating in different jurisdictions



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## REGIONAL ASSESSMENT

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- Participation of EMSE supervisors in core colleges has been limited due to the home supervisor`s:
  - Assessment that their supervised operations in EMSEs are not relevant from a risk management perspective; or
  - Limited understanding of EMSE where their banks operate.
- The presence of internationally active banks in EMSE`s host countries more than regularly may present a particular systemic risk for those markets.
- The willingness of supervisors to share information may be influenced by different perspectives between the host and home supervisor on whether the bank is systemically important in either or both jurisdictions and whether the foreign operations are economically significant for the banking group.



		Parent Bank			
<i>Host country entity</i>		Systemic in home country		Non systemic in home country	
		Foreign operations significant to parent	Foreign operations insignificant to parent	Foreign operations significant to parent	Foreign operations insignificant to parent
<i>Systemic</i>		(a) High priority for both	(b) High priority for host	(c) High priority for host	(d) High priority for host
	<i>Non systemic</i>	(e) High priority for home	(f) Low priority for both	(g) Low priority for both	(h) Low priority for both

Source: Herring (2007) p. 15



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## **REGIONAL ASSESSMENT**

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- Legal constraints for information sharing – Supervisors lack the legal authority to share information with foreign counterparts or can only share information under certain conditions.
- Lack of mandatory mediation process if the supervisors could not agree on an action with respect to the supervision of the financial institution.



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## **POTENTIAL UNINTENDED CONSEQUENCES**

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- Limited power of host authorities to protect markets - Host supervisors where foreign-owned banks control the banking system have little leverage over home supervisors reviewing such banks.
- A failure of an internationally active bank in a EMSE may create important reputational risks for the Bank as a whole and for the home supervisor.
- The home supervisor may not report, may misreport or delay reporting supervisory information to the host supervisor, resulting in issues with regard to timeliness and relevance of information shared in a college.
- Host supervisors may inflate their risk assessment and require higher capital buffers to encourage the banking group to provide additional capital or resources to foreign operations.
- Home supervisors may understate the risks with the objective of avoiding sudden ring-fencing decisions by host supervisors.



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## **POTENTIAL UNINTENDED CONSEQUENCES**

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- Information asymmetry and burden-sharing - The host supervisor may lack information on the entire operation of the bank, while the home supervisor lacks information on or understanding of the impact that a failure of the bank will have in the host jurisdiction.
- In cases of cross-border insolvency, supervisors may focus on protecting their national interests. Supervisors with a long practice of cooperation can break down in times of crisis, as national interests would come to the fore.



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## REGULATORY AND SUPERVISORY GUIDANCE

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- Supervisors from emerging markets with similar interests may wish to combine efforts to have a greater influence and voice in the supervisory colleges.
- Promote greater convergence of the type and extent of supervisory powers needed to improve coordination for an effective consolidated supervision of cross-border financial institutions.
- Colleges should promote harmonization of supervisory approaches; coordinate all major supervisory decisions; plan and coordinate supervisory on-site inspections; and share the findings from such visits with other members of the college. At all times, national discretion for the exercise of powers must be kept.
- When needed, ad hoc training (with the participation of both home and hosts) shall be established so as to cope with supervisory, coordination and communication deficiencies.



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## REGULATORY AND SUPERVISORY GUIDANCE

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Complement BCBS recommendations:

- Secrecy and confidentiality: The use of MOUs is the main tool for information sharing between supervisors. A key requirement in these agreements is that information must be kept confidential between both parties, and should be used only for supervisory practices under a reciprocity standard between both supervisors. However, nothing substitutes close linkages among supervisors to build trust.
- Information Sharing: Lack of power, will or formal processes:
  - Regardless of formal arrangements information sharing networks need to be established through informal mechanisms (conference calls, workshops, events).
  - Supervisors' willingness to share information is critical for effective supervisory s of the existing formal documentation, it is imperative for cooperation; thus, it is fundamental for supervisors to develop trust between them. The relationship between supervisors is not only professional, but also personal in nature depending on the level of trust and familiarity that has been built between them.



Complement BCBS recommendations:

▪ Supervisory Colleges:

- Host authorities should notify the home authorities when a banking subsidiary is important for the host's financial system. Thus, the host authority should apply for membership of the relevant college of supervisors, in case there is one. In this sense, there must be a mechanism to ensure that all relevant (i.e. taking into consideration the systemic importance for the host supervisor not for the home supervisor) jurisdictions are invited to supervisory colleges.
- Information should have an adequate depth and content, in line with the concerns that the host supervisor may have. Home supervisors should take the lead in drafting a proposal of agenda.
- To facilitate the exchange of confidential information, home supervisors may require host supervisors to sign a confidentiality agreement prior to attending a supervisory college.
- Home and host supervisors should request preparatory conference calls to gain awareness of the relevant supervisory concerns that the host supervisor may have. Also, host supervisors should gain an understanding of the significant issues that concern home supervisor. In this sense, it is desirable for home authorities to distribute, ex ante, any documents that will be discussed at the supervisory college.



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## REGULATORY AND SUPERVISORY GUIDANCE

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Complement BCBS recommendations:

▪ Cross Border Supervision:

- Home and host authorities should ensure that adequate measures are taken to conduct an effective cross-border consolidated supervision. When granting a license, home and host authorities decide to engage in a process of cooperation and information sharing.



**Thank you!**