



BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS

## Press release

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### **Joint Forum releases cross-sectoral reports**

The Basel Committee on Banking Supervision (Basel Committee), the Technical Committees of the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) today announced the release of two reports prepared by the Joint Forum. The reports released cover, first, cross-sectoral comparisons of risk management practices and regulatory capital and, second, core principles developed by the three parent committees for their respective sectors.

Both reports provide an overview for supervisors in the banking, insurance and securities sectors. While these documents are not being issued for comments, industry feedback to the respective sector supervisor on key points is most welcome and will be considered by the parent organisations (Basel Committee, IOSCO and IAIS) in the further work of the Joint Forum.

Joint Forum documents are available from the websites of the BIS ([www.bis.org](http://www.bis.org)), IAIS ([www.iaisweb.org](http://www.iaisweb.org)) and IOSCO ([www.iosco.org](http://www.iosco.org)).

**THE JOINT FORUM**  
BASEL COMMITTEE ON BANKING SUPERVISION  
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS  
INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS  
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**Risk management practices and regulatory capital**

The report *Risk management practices and regulatory capital* responds to the parent committees' request to compare these approaches to gain a better understanding of current industry practices in all three sectors. It was developed by a Joint Forum working group made up of supervisors from all three sectors. In preparing this report, the working group has drawn on interviews with market participants, rating agencies and analysts, as well as on its own experience.

The chairman of the Joint Forum, Jarl Symreng of Sweden, noted that: "This report fills an important gap in supervisory understanding by putting together in one place a significant amount of information about capital regulations in the different sectors as well as their underlying rationales. I believe it will prove a valuable resource to all who are interested in these important issues."

The main sections of the report focus on:

- Differences in core business activities
- Similarities and differences in risk management tools
- Approaches to capital regulation in the three sectors
- Cross-sectoral risk transfers and investments

The report concludes: "Approaches to risk management and capital are likely to continue evolving rapidly for the foreseeable future. Against this background, supervisors will be confronted with a fundamental tension in the years ahead. Sectoral approaches to capital regulation well reflect the traditional business activities and perspectives within each sector and thus remain quite different from one another. Nevertheless, it is clear that some convergence between the sectors is currently occurring, which may or may not gather pace in the foreseeable future. To the extent that the degree of convergence increases, supervisors will increasingly need to re-evaluate their sectoral regimes for capital and provisions to ensure that they provide an appropriate means of evaluating the capital held by firms in relation to their activities. In this context, the Joint Forum remains committed to providing a mechanism for enhancing the mutual understanding and cooperation among supervisors that will be necessary in addressing these challenges."

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### **Core principles**

In March 2000, the Joint Forum set up a working group to compare the core principles issued by the Basel Committee, the IAIS and IOSCO by identifying common principles and understanding differences where they arise. This report is based on the findings of the Group.

The Joint Forum hopes that this analysis will help those assessing jurisdictions against the core principles gain a familiarity with, and understanding of, the core principles of all sectors and thus become more effective in their work. While each sector worked independently in drafting its core principles, there was a great deal of similarity in the approaches taken; in all cases, the process involved extensive and broad consultations within the sector.

In both structure and content, the core principles reflect characteristics of the respective sector and the nature of the supervised financial institutions, intermediaries and markets. The Joint Forum has sought to be comprehensive and balanced, drawing on intrinsic characteristics where necessary to explain differences. It has emphatically avoided making any judgments as to whether the core principles are right or wrong, recognising that each is designed to meet sector-specific needs.

#### **Conclusions and observations made:**

- Each set of core principles provides an overview of the key elements of the supervisory regime in that sector at the time they were written. However, the pace of developments in the financial sector since then would require consideration of the need to keep the core principles updated. The impact of this varies between the sectors according to the structure of the relevant documents.
- There is no evidence of underlying conflict or contradiction between the three sets of core principles at the highest levels.
- There are numerous areas of common ground (eg authorisation, organisation of supervision, intervention). However, it was established that in some cases there are significant differences in the application of similar principles (eg different capital treatment of similar risks in different sectors).
- There are numerous differences between the core principles – some arising from intrinsic differences between the three sectors, others not readily explained in this way. Differences are found in preconditions, group-wide supervision, cooperation and information sharing, safeguarding of client assets and application of uniform prudential standards.

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**Note for editors**

The Joint Forum was established in early 1996 under the aegis of the Basel Committee, IOSCO and the IAIS, to take forward the work of a predecessor group, the Tripartite Group, in examining supervisory issues relating to financial conglomerates. The Joint Forum comprises an equal number of senior bank, insurance and securities supervisors representing each supervisory constituency. Thirteen countries are represented in the Joint Forum: Australia, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States. The EU Commission attends in an observer capacity. The Chairman of the Joint Forum is Mr Jarl Symreng, Head of the Insurance and Mutual Funds Division of Finansinspektionen, Sweden.

The Joint Forum of banking, securities and insurance supervisors has been working to enhance mutual understanding of issues related to the supervision of firms operating in each sector. These efforts reflect the development of financial conglomerates, the increasing globalisation of financial markets and the development of new financial instruments. The growing emergence of financial conglomerates and the blurring of distinctions between the activities of firms in each financial sector have heightened the need for cooperative efforts to improve the effectiveness of supervisory methods and approaches. The Basel Committee, IOSCO and the IAIS consider the coming together of representatives of each supervisory constituency in the Joint Forum to be of great value in building the cooperative spirit necessary to address the supervisory challenges arising from financial conglomerates and common to all three financial sectors.