CONSOLIDATED SUPERVISION FRAMEWORK

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Bank Supervision Department
CENTRAL BANK OF BARBADOS

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FOREWORD

This need to effectively monitor and understand cross-border banking operations is expounded in Principle 12 and 13 of the Basel Core Principles for Effective Supervision: September 2012. Due to their nature, cross-border operations of international banking groups present unique challenges to supervisors in conducting effective supervision, which are not encountered with solo monitoring.

This paper seeks to:

- outline the Central Bank's approach to the consolidated supervision of cross-border operations licensed within its jurisdiction; and
- outline how the criteria of Core Principle 12 and 13 are applied in practice.

1. INTRODUCTION

The pace of change and innovation over the past few decades has reshaped the face of the business environment. Globalisation, financial liberalization, and cross-border operations have led to the evolution of large and complex financial institutions and structures, which require a consolidated view of business operations.

The concepts of consolidated supervision can be defined as a group-wide approach to supervision, which takes all the risks that a banking group is exposed to into account, wherever they are booked. It allows for the assessment of the risks posed to a bank as a consequence of being a member of a larger group. Such risks may include:

i) Reputational risk - a damaging loss of confidence if other members of the group get into difficulties.
ii) Contagion risk - the risk that risks undertaken by other group members could negatively affect the entire group.
iii) The financial risks caused by intra-group transactions.
iv) The risks arising from conflicts of interest.

The purpose of consolidated supervision is essentially threefold:

i) to support the principle that no banking operation, wherever located, should escape supervision altogether;
ii) to prevent double-leveraging of capital; and
iii) to ensure that all the risks incurred by a banking group, no matter where they are booked, are evaluated and controlled on a global basis.

Given the potential impact on licensees of the risks identified above, the Central Bank of Barbados (the Bank) has implemented a method of consolidated supervision consistent with Basel Core Principle 12 and 13, which uses a combination of both quantitative and qualitative assessment techniques. Consolidated supervision is not intended as a means to supervise all the members of the entire group, but rather to supervise the bank as part of the group. It is not a substitute for solo supervision.

This framework will apply to all financial institutions that engage in banking business as defined under the Financial Institutions Act, 1996-16 (FIA) or engage in international banking business as defined under the International Financial Services Act, 2002-5 (IFSA).

2. PRE-CONDITIONS FOR EFFECTIVE CONSOLIDATED SUPERVISION

The Core Principles recognise that banking supervision is only one element of wider arrangements required to promote stability in financial markets, and note certain pre-conditions that are necessary for the effective conduct of banking supervision in any country. These include:

i. Sound and sustainable macroeconomic policies;
ii. A well-developed public infrastructure;
iii. Effective market discipline;
iv. Procedures for the effective resolution of problems in banks; and
v. An appropriate level of systemic protection.

These pre-conditions also impact the conduct of effective consolidated supervision. It is further recognised that several of these elements are outside of the regulator's purview although in some cases, it may be possible for the regulator to play a role in shaping applicable public policy.

The consolidation supervision framework is comprised of the following major elements:

i. Legal infrastructure;
ii. Prudential infrastructure;
iii. Accounting standards; and
iv. A system for supervisory cooperation.

2.1 The Legal Framework

The legal framework must empower the Bank to conduct comprehensive consolidated supervision over the entire lifespan of the institutions under its purview. In this regard, the Bank must, at a minimum, be empowered with the:

- Authority at the licensing and authorisation stage to prevent the establishment or expansion of any banking group in such a manner that would impede its effective supervision;
- Authority to request sufficient information to effectively assess the banking group's risk profile and the adequacy of its risk management;
- Authority to verify the information received;
- Requisite enforcement powers to address any safety and soundness concerns which may arise within the banking group as well as compliance with laws and regulations; and
- Authority to prohibit intra-group transactions that may have undesirable consequences on the licensee.

The legal framework must be adequately supported and enforced for its full benefit to be realised. Additionally, the financial sector legislation must be periodically reviewed to assess its adequacy as the distinctions between the products and services offered by banks and non-bank financial institutions continue to blur.

2.2 Prudential Infrastructure

A robust prudential framework must incorporate both quantitative and qualitative analyses of the group's risk profile. The infrastructure must address the matters of on-site and off-site monitoring which are techniques the Bank utilizes in its continuous supervisory cycle developed with the nature and complexity of the licensee's operations in mind. Supervisors must have the flexibility to design individual supervisory programmes for each complex group, tailoring both the examination schedule and the prudential reporting requirements to the risk profile of each group.

2.2.1 Quantitative Reporting

These reports combine the assets, liabilities and off-balance sheet positions of banks and their subsidiaries, treating them as if they were a single business entity, and allowing the Bank to monitor and limit the impact of risks inherent in the group's activities. This facilitates the imposition of consolidated prudential ratios/requirements on the banking group.

In order to address the prudential concerns of contagion, conflicts of interest, lack of transparency, and regulatory arbitrage, the Bank will apply prudential ratios/ requirements on a consolidated basis to key risk areas, including:

- Capital adequacy
- Large exposures
- Connected lending
- Intra-group transactions
- Liquidity
- Foreign exchange exposures

Capital adequacy ratios and solvency requirements are indicators of the group's financial strength while prudential ratios, such as large exposures and connected lending, serve to minimise risk by placing limits on the various exposures.

2.2.2 Qualitative Reporting

This aspect of consolidated supervision is part of the Bank's risk-based supervisory programme that goes beyond the consolidation of financial accounts and the application of prudential norms thereon. It involves assessing the non-quantifiable risks posed by group members to the licensee by evaluating the group's organisational structure, management and internal controls.

The Bank will establish mechanisms to facilitate a full understanding of the group's organisational structure and the interrelationships between the various entities. From time to time, as determined, and in a manner specified by the Bank, financial groups will be required to provide information of a non-financial nature on its domestic and foreign operations to include:

- Updated organisational charts depicting the group's structure, showing every entity included in the consolidated financial statements as well as ownership percentages;
- A chart depicting the management structure, reporting lines, details of how senior management responsibilities are allocated as well as details of any changes in management personnel;
- Information on its risk management processes, internal controls, reports of internal audits or any internal/external reviews of significant business activities; and
- Information on new product offerings and significant changes to internal systems or processes/procedures.

2.2.3 On-site and Off-site Monitoring

On-site examinations allow supervisors to take a first-hand look at the operations of the licensee. Within the context of consolidated supervision, the concern remains of the supervisor's authority to conduct on-site inspections of various members of the financial group, especially those with potentially significant impact on the group's overall condition. In this regard, the Bank will, at a minimum:

- Ensure that the legal framework facilitates this process;
- Establish a coherent process for planning and executing on-site activities;
- Devise policies and procedures to ensure that such activities are conducted on a thorough and consistent basis with clear responsibilities, objectives and outputs; and
- Monitor the licensee's follow-up of supervisory concerns.

A strong off-site surveillance programme is key to consolidated supervision, particularly if the supervisor does not have the authority to conduct on-site inspections of all material group members[1]. Off-site monitoring assists in tracking developments in the sector and monitoring the changing risk profiles of sector participants. The Bank's programme for off-site monitoring should include:

- Establishing a system for the regular review and analysis of the financial condition of the banking group using prudential reports, statistical returns and other appropriate information;
- Evaluating developing risks and identifying matters for follow-up; and
- Determining the priorities and scope of further work including on-site inspections.

[1] Notwithstanding best efforts to address this through legislation there may be exceptions.

2.2.4 Crisis Management

The level of interconnectedness and integration in financial markets makes it critical that supervisory authorities are able to provide a coordinated response in the event of a crisis to maintain public confidence in the locations where the banking group operates. This is achieved by the establishment of a consolidated crisis management plan/contingency plan. This plan is aimed at:

- Strengthening preparedness in normal times by establishing a monitoring regime of early warning indicators;
- Reducing contagion to other financial institutions to reduce spill over to the real economy;
- Managing the crisis by involving all stakeholders, addressing the situation as early as possible, sharing information and determining the most appropriate solutions;
- Harmonising intervention approaches and responses to systemic risks with cross-border effects; and
- Resolving the crisis and resuming normal operations of the banking system.

As a pre-condition to a consolidated crisis management plan/contingency plan, the individual supervisory authorities should have a national crisis management plan. The contingency plans should include:

- Well-defined operating procedures that would permit timely access to the additional, detailed information that would be required in a crisis situation;
- Lender of last resort arrangements for groups with cross-border exposures;
- Clearly defined enforcement actions supported by the legal framework; and
- Well-documented liquidation procedures in the event of failure.

2.3 Accounting Standards

An entity produces consolidated financial statements when it controls one or more entities. In consolidated financial statements, the assets, liabilities, equity, income, expenses and cashflows of the parent and its subsidiaries are presented as though they are one single economic entity. The Bank does not stipulate the use of a specific accounting standard for the preparation of consolidated reports. It accepts consolidated reports produced using either generally accepted accounting principles or international financial reporting standards as the underlying procedures all require:

- combining like assets, liabilities, equity, income, expenses and cashflow of the parent and its subsidiaries;
- offsetting the carrying amount of the parent's investment in each subsidiary; and
- eliminating in full intra-group assets, liabilities, equity, income and cashflows relating to transactions between group members.

There are general factors that are critical to analysing consolidated financial statements. These include:

- Knowledge of the accounting standards used in preparing both the solo and consolidated statements;
- An understanding of the method of consolidation employed to determine if inter-company transactions have been eliminated and the parent's investment in various subsidiaries appropriately reflected; and
- An awareness of the potential differences in the treatment of:
    - loan loss provisioning;
    - asset and liability valuation;
    - recognition of income and expenses; and
    - deferral of gains and losses.

2.4 Supervisory Cooperation and Coordination

Consolidated supervision requires effective cooperation and information exchange between home supervisors and host supervisors as no foreign banking establishment should escape supervision nor be inadequately supervised. To assist supervisors in developing the framework to supervise these entities, the Basel Committee has issued guidelines of best practice[2].

Additionally, the Bank should, inter alia:

- Ensure that governing legislation provides for the establishment of systems to facilitate supervisory cooperation and coordination - both domestic and cross-border;
- Establish a system of communication with other relevant supervisors prior to licensing entrants; and
- Establish formal arrangements for the on-going sharing of information between domestic and cross-border supervisors to be set out in memoranda of understanding[3].

3. METHODS OF ENSURING EFFECTIVE CONSOLIDATED SUPERVISION

The Bank, in accordance with its powers under the FIA and the IFSA, reserves the right to address/eliminate any impediments to effective consolidated supervision of licensees. The following procedures may be implemented, at the discretion of the Bank:

(i) Where the parent of a licensee is a financial holding company, the Bank may require that the holding company be designated as a bank. The holding

[2] The major documents on this topic are: C*ore Principles for Effective Banking Supervision, Principles for the Supervision of Banks' Foreign Establishments, Information Flows between Banking Supervisory Authorities, Minimum Standards for the Supervision of International Banking Groups and their Cross-Border Establishments and The Supervision of Financial Conglomerates.*
[3] See Appendix II for a list of some of the general items included in memoranda of understanding.

company would therefore constitute a component of the consolidation group. The designation will cause the holding company to fall under the jurisdiction of the Bank and allow for unfettered access to information on the holding company and its interaction and activities with the licensed subsidiary.

(ii) Where the current structure of a banking group is not transparent and therefore does not support effective consolidated supervision, the Bank may require the restructuring of the group into a more transparent structure.

(iii) Where a licensee wishes to make new investments in subsidiaries, associates, etc., in other jurisdictions, the Bank may reject such investments where it believes that they could impair effective consolidated supervision.

4. DOMAIN OF CONSOLIDATION

There are numerous types of group structures of which a bank can be a member; however the Bank will only permit a licensee to head/be a parent of a banking group.

Banking group – This is a group headed by a bank or non trading financial holding company where more than half the group's consolidated assets and revenue relate to banking. The majority of the group entities are banks or companies carrying on specialised banking or financial activities.

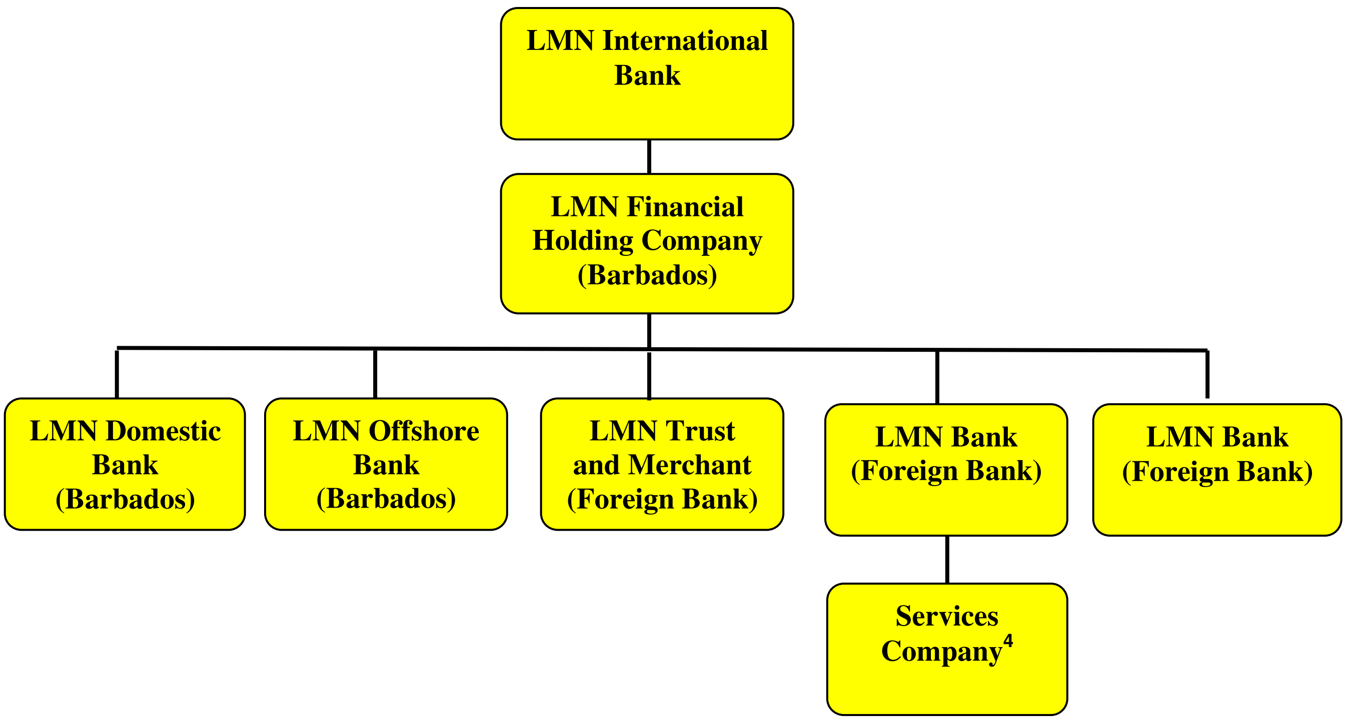
Financial conglomerate – This is a group of companies under common control whose main activities consist of providing services in at least two different financial sectors, e.g., banking, securities or insurance.

Mixed activity group – This is a group of commercial and industrial companies all under common control. Generally, less than 50% of the total group business relates to banking.

Prudential consolidation for a licensee will be required under the following circumstances:

i) Where the licensee is a financial holding company.

Diagram A1



[4] Services company - a company providing necessary support services to the financial holding company and to the entities held by the financial holding company.

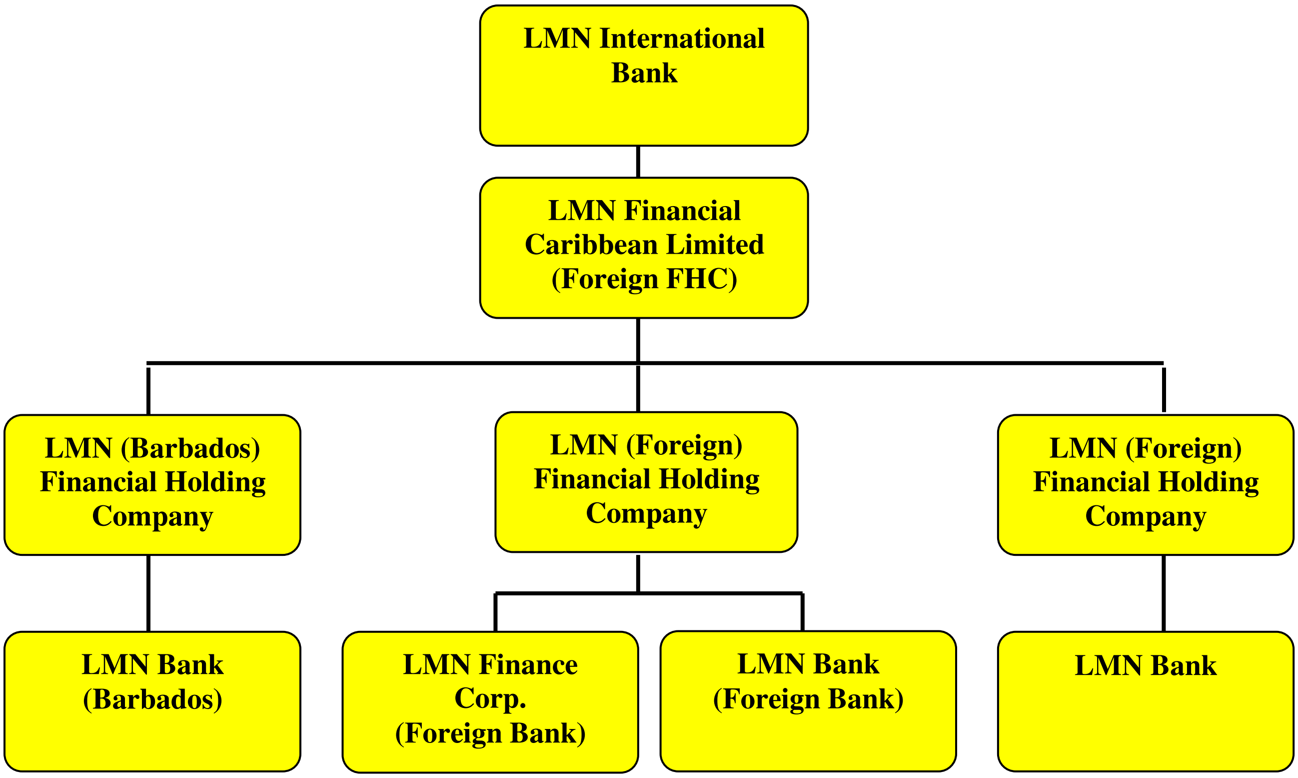
Consolidated supervision will be required at the level of LMN Financial Holding Company where it has been agreed among the other supervisors in the group that the Bank will assume the role of home supervisor. The Bank will generally assume the role of home supervisor when:

- the licensee acts in a treasury role for its group, receiving funds from members and providing short and long-term funds;
- the licensee provides centralized risk management services and control functions for the group; and
- where there is no other regional regulator in the overall group structure with a full view of operations in the region.

Conditions applied to LMN licensee will restrict it to:

- holding shares in the group subsidiary companies incorporated in countries in which the group is engaged in business activities; and
- providing banking services to subsidiaries and affiliates only.

Diagram A2



Consolidation will not be required at the level of LMN (Barbados) Financial Holding Company where:

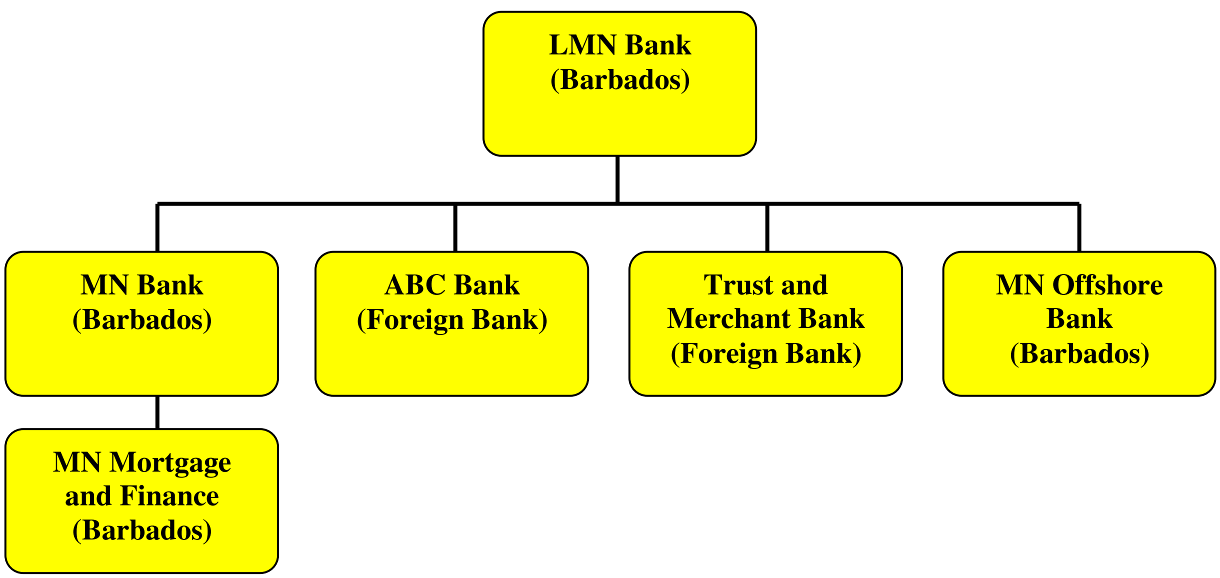
- the entity is non trading and only holds shares of subsidiaries;
- the group is subject to consolidated supervision by another banking supervisor in accordance with BCP principles;
- risk management services and control functions for the group are not centralized with an entity not under the authority of the Bank; and
- the subsidiary regulated by the Bank or by another authority to a standard acceptable to the Bank.

Conditions applied to LMN (Barbados) Financial Holding Company will restrict it to:

- holding shares in the group subsidiary companies incorporated in countries in which the group is engaged in business activities; and
- providing banking services to subsidiaries and affiliates only.

ii) Where the licensee is the parent of a company or companies which conduct banking business.

Diagram B



Consolidated supervision will be required at the level of LMN Bank (Barbados) and also at sub-group level of MN Bank (Barbados) only where the operations of the subsidiary are material, the business is complex, and the Bank opines that consolidated information on the sub-group would be useful in supervising that group.

Consolidated supervision will not be required at the level of MN Bank (Barbados) if:

- business of the subsidiary is immaterial;
- consolidated supervision is conducted at the level of the ultimate parent LMN Bank (Barbados); and
- all entities subject to regulation, therefore no risk goes unsupervised.

The Bank seeks to strike a balance between safety and soundness consideration and the costs imposed by unduly burdensome and duplicative reporting.

4.1 Exclusions

A licensee may be required to exclude a subsidiary or participation from its consolidated prudential reports, where:

- inclusion would be inappropriate or misleading;
- there are legal impediments to the transfer of information. The use of this reason for exclusion other than on a temporary basis is inconsistent with the Basel Minimum Standards and this provision would not normally be used by the Bank;
- a subsidiary or associate is acquired with a view to dispose of it within twelve months from acquisition. There must be evidence that the investment was acquired with the intention to dispose of it and that management is actively seeking a buyer; and
- the licensee or parent bank acquires during the reporting period shares against repayment of loans, regardless of the size/proportion of the shareholding and it will be held on a temporary basis in the ordinary course of business.

The Bank's prior approval must be sought for all proposals to exclude subsidiaries or from consolidation. When the Bank has agreed that a company is to be excluded from consolidation, for the purposes of the computation of capital adequacy, the related investment by the parent company in that company will be deducted from the licensee's consolidated capital and the assets will not be included in group risk weighted assets.

5. REPORTING OF CONSOLIDATED INFORMATION

Consolidated prudential reports should be submitted on a periodic basis to facilitate the home supervisor's on-going assessment of the financial group. All parents of financial groups or sub-groups and financial holding companies are required to submit consolidated returns which combine the individual activities of entities under the licensee's control. Consolidated prudential returns cover inter alia:

- Statement of assets and liabilities
- Statement of income and expenditure
- Investments
- Loan delinquency
- Classification and provisioning
- Capital adequacy
- Large exposures
- Intra-group exposure
- Related party exposure

The licensee should also submit information on corporate governance of the group, risk management and internal controls.

6. INTERNAL CONTROLS

The Bank requires licensees to have adequate internal control systems and procedures in place to facilitate the collection and preparation of data required for the consolidated returns and any other information requested by the Bank for the purpose of consolidated supervision. The procedures shall include methods used for valuation of assets and liabilities of companies included in the consolidated group. The Bank will assess these systems on a periodic basis as part of its on-site inspection processes, with respect to verification of the consolidated returns submitted.

7. CASES WHERE CONSOLIDATED SUPERVISION IS NOT APPROPRIATE

In cases where the Bank has determined that consolidated supervision is not appropriate for a licensee, which is part of a group, the Bank assesses the potential impact of the other group members on the licensee.

To facilitate this assessment, the Bank requires, either as a condition of the licence or through other means, the licensee to provide information that the Bank considers relevant on the parent company and subsidiaries/associates, etc., to allow for effective supervision of the licensee within the group. The Bank's minimum requirements in such a situation are:

(i) The licensee's parent is subject to consolidated supervision in accordance with Basel standards;
(ii) The licensee's subsidiaries are subject to supervision that is acceptable to the Bank;
(iii) Audited financial statements on subsidiaries;
(iv) A capital adequacy ratio above the required regulatory minimum based on perceived risk; and

(v) Information on the business, controls, organisation and management of the overall group, including information on the group's legal and management structure and quantitative and qualitative information on each significant business unit.

8. SUPERVISION OF CROSS-BORDER GROUP MEMBERS

The *Minimum Standards for the Supervision of International Banking Groups and their Cross-Border Establishments*, issued by the Basel Committee on Banking Supervision in July 1992, establishes four main principles:

1. All international banks should be supervised by a home country authority that capably performs consolidated supervision and has the right to prohibit corporate structures which impede supervision.
2. The creation of a cross-border banking establishment should receive the prior consent of both the host country and the home country authority.
3. Home country authorities should possess the right to gather information from their cross-border banking establishments.
4. If the host country authority determines that any of these three standards is not being met, it could impose restrictive measures or prohibit the establishment of banking offices.

8.1 Supervision Procedures as a Home Regulator of a Cross-Border Entity

Where the Bank is the home regulator for the parent of a cross-border group, the Bank's consolidated supervision process is based on a collaborative and cooperative approach with other regulatory bodies.

This approach facilitates effective consolidated supervision, as for example:

a) the home supervisor may be unable to detect major problems in a foreign entity that if left unchecked could result in significant losses, but the host regulator may be in a position to detect these problems; and
b) the home supervisor may be able to provide information to host supervisors from a consolidated perspective that at the local level, the host supervisor cannot access.

Under this approach, information flows asymmetrically between both the home and host supervisors. The Bank, as the home supervisor, will undertake to provide information that it considers material and relevant to supervisory oversight by the host regulators and relies on host regulators for effective intervention at the subsidiary level.

To facilitate information sharing/exchange the Bank establishes memoranda of understanding with host regulators, where appropriate, covering key areas such as:

(i) Procedures for information requests by the home and host regulator;
(ii) Confidentiality of information provided;
(iii) Ability of host regulators to participate in inspections initiated by the home regulator; and
(iv) Ability of the home regulator to inspect licensees of the host regulator.

In instances where the Bank as home regulator has concerns over the adequacy of supervision by the host regulator; or lack of access to information about the foreign operations of a domestic licensee, the Bank may require the licensee to:

- restructure the group on such a manner that it may be supervised by the Bank;
- take steps to ensure that each member of the group maintains adequate internal control mechanisms enabling the provision of any data or information the Bank deems relevant to its supervision;
- cease activities or operations that are considered to be the subject of inadequate oversight; and
- comply with any requirements as the Bank may think fit.

Additionally, the Bank requires relevant licensees to provide copies of the inspection reports prepared by other regulatory authorities on their cross-border operations. On an ongoing basis, these reports are reviewed to assess the financial soundness and operations of the cross-border entity, as well as the potential impact on the parent entity and the consolidated group.

8.2 Supervision as Host Regulator of a Cross-Border Entity

Where the Bank acts as the host regulator for a member of a group, the Bank first ascertains whether the group is subject to effective consolidated supervision by the home regulator.

In making this assessment, the Bank determines whether the home country supervisor is practising consolidated supervision in accordance with international best practice and standards including the Basel Core Principles, the Minimum Standards for the Supervision of International Banking Groups and the Cross-Border Establishments by the Basel Committee and any other international standards acceptable to the Bank.

If the home supervisor does not adhere to these standards, the Bank assesses the degree to which consolidated supervision is conducted and may impose measures to address its concerns, including denial of the creation of the banking establishment.

With respect to the establishment of new branches or subsidiaries of international banks in Barbados, the Bank will not issue a licence to such an entity unless it has received:

(i) The consent of the home supervisor to the establishment of a branch or subsidiary in Barbados;
(ii) Confirmation that there are no regulatory concerns of which the Bank should be aware with respect to the parent entity; and
(iii) Assurance from the home regulator that the branch or subsidiary will be consolidated as part of its consolidated supervision procedures.

Furthermore, the Bank:

(i) Assesses the strength of the parent entity's capital and the operations and organisational structure of the group; and
(ii) Establishes memoranda of understanding with home supervisors, where appropriate, of the parent of its licensees to promote information sharing.

8.3 Inspections by Home Country Supervisors

Under the Minimum Standards, home supervisors are required to exercise comprehensive consolidated supervision of the global activities of their banking organisations. To carry out this responsibility, the Bank must be able to make an assessment of all significant aspects of its licensee banks' operations that bear on safety and soundness, wherever those operations are conducted. This is done through a variety of means, including on-site examinations, access to audit reports or through the review of other pertinent information.

8.4 Standard Procedures for Cross-Border Inspections

Where the home supervisor wishes to undertake a cross-border inspection:

a) The home supervisor should contact the host supervisor to advise of an intention to make a visit to a specified branch/subsidiary within the host supervisor's jurisdiction;
b) The home supervisor should be prepared to explain to the host supervisor the purpose of the visit and what aspects of the branch or subsidiary it would wish to explore;
c) The host supervisor must be able to obtain an undertaking from the home supervisor that information obtained in the course of the visit will be used for specific and supervisory purposes and, to the maximum extent possible under applicable laws, will not be passed to third parties without the host supervisor's prior consent. The disclosure of information to third parties would be subject to those conditions outlined in the governing legislation;
d) The host supervisor must identify to the home supervisor any areas where access to information is normally restricted (e.g. information on individual customers), and the home supervisor should indicate where exceptions are needed;
e) The host supervisor has the right to participate in such inspections; and
f) Where relevant, the host supervisor should advise the home supervisor of procedures necessary to comply with local/host country legislation and, where necessary or appropriate, assist in ensuring that these procedures are correctly followed to expedite the examination.

APPENDICIES

APPENDIX I: Glossary of Terms

conflict of interests	when decisions are made which in theory may be in the best interest of the group as a whole, but are not in the best interest of a particular group entity, when evaluated on a stand-alone basis. When the "disadvantaged" entity is a regulated financial institution, supervisors have a right to be concerned. Conflicts of interest may result in mismanagement and excessive risk-taking.
contagion	the risk that difficulty in one group may spill over to other group entities due to tangible and intangible linkages between entities. Contagion within groups may arise as a result of intra-group transactions and exposures such as cross-shareholdings and inter-affiliate lending.
control	the power of a person either alone or with a related party or person, or by an agreement or otherwise to: *(a)* exercise more than fifty per cent of the voting rights at any meeting of shareholders of a licensee, company or unincorporated body; or *(b)* elect a majority of the directors of a licensee, company or unincorporated body; or *(c)* secure that the business and affairs of a licensee, company or unincorporated body is conducted in accordance with his wishes; or

(d) exercise dominant influence over the conduct of the business and affairs of a licensee, company or unincorporated body, and the terms "controlling interest" and "controlling shareholder" shall be construed accordingly.

exposure	claims, commitments and contingent liabilities arising from on- and off-balance sheet transactions and includes but is not limited to: (a) credit facilities which include loans, advances, financial leases, lines of credit, including accrued interest amounts; (b) investments including debt securities, equity securities, participations, guarantees, and acceptance; (c) contingent liabilities arising in the normal course of business, and which would arise from the drawing down in full of undrawn advised facilities, whether revocable or irrevocable, conditional or unconditional, that the licensee has committed itself to provide, arrange, purchase, or underwrite; (d) placements with another financial institution; and (e) derivative instruments.
financial group	a group whose activities include banking business and any other ancillary business as the Bank may approve.

financial holding company	means a company: a) establishing or acquiring financial entities and administering the holdings of the financial group it controls; b) providing banking and ancillary services to subsidiaries and affiliated companies in the financial group it controls; and c) engaging in any other activities approved by the Bank.
parent	an entity that has one or more subsidiaries.
related party	means: a) the holding companies, subsidiaries or affiliates of the licensee; b) any party that the licensee exerts control over or that exerts control over the licensee; c) any person who holds more than twenty per cent of the licensee's shares; d) an entity in which the licensee owns at least twenty per cent of the shares; e) a director, senior officer, or immediate relative of the licensee, the holding companies, subsidiaries and affiliates;

f) any firm in which any director or senior officer or the immediate relative of such director or senior officer controls;

g) any person, firm or corporation, if the credit facilities of that person, firm or corporation are guaranteed by a director, senior officer, or an immediate relative of the director or senior officer of the licensee; or

h) any other person or group of persons as determined by the Bank.

reputational risk	may also be a contributing factor, with an otherwise sound financial institution falling victim to a loss of confidence resulting from publicised problems at affiliated companies. This may trigger a withdrawal of funds by depositors and investors which can quickly lead to the impairment of the bank's liquidity and capital.
subsidiary	a company, fifty per cent or more of the shares of which are held, directly or indirectly, by another company.

APPENDIX II: Essential Elements in Memorandum of Understanding (MOU)

The MOU should recognise that information should be shared between the relevant authorities in country A and country B in order to facilitate effective consolidated supervision of financial institutions operating across their national borders.

Information sharing should include contact during the authorisation and licensing process, in the supervision of on-going activities of such entities and in the handling of problem institutions.

The MOU should include:

- Definitions of key terms, e.g., financial institution, home and host jurisdiction, home and host supervisor;
- A clear statement of its purpose/intent;
- Scope of MOU;
- Procedures for making requests;
- Procedures for executing requests;
- Permissible uses of information given/received;
- Confidentiality arrangements;
- Procedures for on-site inspections;
- Procedures for on-going consultation;
- Arrangements for the sharing of costs; and
- Procedures for termination of the MOU.