

Appendix II

Enhanced Cross-Border Cooperation

At its May 2004 meeting, the Committee reiterated its view that closer coordination between supervisors is essential to implement the New Accord effectively and efficiently. The Accord Implementation Group continues to discuss the practical implications of the high-level principles for the cross-border implementation of the new framework, which were published in August 2003.

Committee members and other supervisors are relying mainly on case studies based on actual banks' structures to explore ways to enhance communication and cooperation between home and host country supervisors. This effort also supports supervisors' commitment to communicate to internationally active banks the respective roles of home country supervisors, who would lead the coordination effort, and of host country supervisors. The Committee reiterated its commitment to pushing forward the development of these plans between home and major host countries for banking groups with major international operations, focusing on practical home/host cooperation for more advanced approaches.

In the light of its principles on cross-border cooperation, the Committee agreed on the following elaborations regarding coordination and cooperation between home and host supervisors.

- *Home and host supervisors should consider practical ways to coordinate requests for information.*

The Committee expects that those members needing detailed information about Basel II implementation and roll-out plans from foreign subsidiaries operating in their jurisdictions will ask for the information from the home country supervisors before addressing the bank. This should be interpreted in a practical way. This will not preclude host countries from discussing prudential matters with their banks directly, but will strengthen and rationalise the communication efforts among supervisory authorities. In addition, the Committee believes that home/host coordination of information requests will promote, in general, the ability of all host supervisors to exercise effective host banking supervision over foreign institutions operating in their jurisdictions.

- *Supervisors should not duplicate the necessary approval and validation work for Basel II.*

The Committee reiterates the principle that, wherever possible, supervisors should avoid performing redundant and uncoordinated approval and validation work relative to Basel II in order to reduce the implementation burden on the banks and to conserve supervisory resources. In this light, the Committee supports the principle that the home jurisdiction should play a leading role in the approval and validation of certain types of advanced techniques. As a practical application of this principle, the Committee expects that the initial validation work for most advanced IRB approaches for larger corporate exposures will be led by the home country with appropriate input from the host country supervisor and material reliance by host countries on the work of the home regulator.

- *Practical considerations regarding the recognition of AMA capital across borders.*

In response to the technical note issued in January 2004 on *Principles for the home-host recognition of AMA operational risk capital*, the Basel Committee received informal questions and comments on how supervisors intend to recognise a banking organisation's allocation of operational risk capital calculated under the "advanced measurement approach" (AMA) to activities and businesses that span more than one jurisdiction. A note outlining the Committee's current views on practical considerations relevant to this topic appears as Appendix III. It includes a leading role for home supervisors in coordinating supervisory assessment of AMA models.

The AIG will continue to monitor developments in home/host implementation of the framework and work to enhance cooperation in this regard.