

**MEMORANDUM OF UNDERSTANDING  
ON HIGH-LEVEL PRINCIPLES OF CO-OPERATION AND CO-ORDINATION  
AMONG THE BANKING SUPERVISORS  
OF SOUTH EASTERN EUROPE**

**Athens**

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# MEMORANDUM OF UNDERSTANDING ON HIGH-LEVEL PRINCIPLES OF CO-OPERATION AND CO-ORDINATION AMONG THE BANKING SUPERVISORS OF SOUTH EASTERN EUROPE

## INTRODUCTION

1. The Bank of Albania, the Bank of Greece, the Bulgarian National Bank, the Central Bank of Cyprus, the National Bank of the Republic of Macedonia<sup>1</sup>, the National Bank of Romania and the National Bank of Serbia (in alphabetical order), hereinafter referred to as "the Parties", taking into account recent developments in the financial markets, the increasing importance of large cross-border establishments and the consequent challenges for central banks and banking supervisors, express their mutual interest and willingness to promote a more structured co-operation in the field of banking supervision in order to enhance financial stability in South Eastern Europe and improve the effectiveness and efficiency of supervisory measures.

## OBJECTIVES

2. More specifically, the Parties,
  - in compliance with the existing legal framework applicable in the jurisdiction of each Party;
  - without prejudice to the provisions of the existing bilateral agreements, already concluded between supervisory authorities of South Eastern Europe;
  - taking into account the internationally recognised best practices, concerning supervisory cross-border co-operation, as set by the Basel Committee on Banking Supervision, the relevant European Union Directives and the related supervisory guidelines;
  - in close collaboration and based on the principles of reciprocity and mutual trust;

agree to base their co-operation on the principles and procedures laid down in this Memorandum of Understanding, in order to:

- facilitate the exchange of information, views and assessments among banking supervisors and to promote a better understanding of each others' methods and approaches with the aim of encouraging the convergence of supervisory practices;
- identify significant differences in national laws and regulations, that might imperil convergence process and take necessary steps to assure clear understanding of these differences among Parties and their possible influence on convergence process;

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<sup>1</sup> Reference to the titled full style name, as adopted by the specific central bank, is made without prejudice to Greece's position pertaining to the use of the word "Macedonia"

- enable supervisors to develop a common understanding of the risk profile of large cross-border banking groups in the region;
- foster co-ordination of supervisory activities in the region, enhancing supervision of credit institutions<sup>2</sup>, at a solo and in particular at group level and optimising supervisory action plans;
- build mutual trust and understanding between the supervisory authorities of the region, in order to avoid duplication of supervisory efforts and alleviate, to the extent possible, supervisory burden for credit institutions with cross-border presence. At a later stage, and if deemed necessary by the Parties involved, this will enable authorities, to reconsider, on an evolutionary manner, the allocation of some supervisory tasks to the benefit of both home and host countries;
- identify and address issues concerning the stability of national financial systems that may have potential contagion and spill-over effects on the region;
- enhance the preparedness of supervisory authorities for the management of a crisis with cross-border implications;
- enable the development of a common understanding of the risk profile of a group as a starting point for risk-based supervision at both group and solo levels.

## **Article 1**

### **Legal issues**

3. The Parties agree to co-operate for the harmonisation, on a best-effort basis, of identified significant differences between the national legal frameworks pertinent to banking supervision, taking into account the national legislations, the Basel Committee on Banking Supervision standards, the relevant European Union Directives and the related supervisory guidelines.
4. Especially the Parties will co-operate, to identify and to understand the differences in the supervisory treatment of various risks, as a result of national discretions aiming at enhancing to enhance mutual recognition mutual recognition.
5. The Parties agree that special consideration should be given for the identification and treatment, in the best possibly way, of any legal obstacles in sharing information with other supervisory authorities.
6. Each Party will communicate to other Parties, on a semi-annual basis, major changes in its legal framework pertinent to supervision. This communication will be part of the regularly exchanged information mentioned in Article 3 par.13.

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<sup>2</sup> In certain national legislations the term *bank* is used, instead of Credit Institution, for an institution that performs the same activities as those defined by the European Directives for the credit institutions.

## **Article 2**

### **Home / Host co-operation**

7. The Parties agree to co-operate in a way ensuring that banking groups on a consolidated basis and credit institutions on a solo basis are adequately and efficiently supervised and that home and host supervisors, acquire the necessary information to perform/fulfil their supervisory tasks/duties.
8. In this respect and in the long run, supervisory tasks allocated to the home and host supervisors could be re-examined mainly in accordance to the significance and the systemic importance of each group and subsequently of individual institutions. The relevant provisions of EU Directive 2006/48/EC and CEBS' *Guidelines on supervisory cooperation for cross-border banking and investment firm groups* could serve as the basis for this process.
9. To this extent, the Parties, acting as home or host authorities, agree first to list the issues that warrant an allocation of tasks and then to examine in the long run the possibility and the appropriateness of gradual allocation of tasks aiming to a more effective and efficient supervision of banking groups, operating on a cross-border basis.
10. Any allocation of tasks to home or host supervisors to be concluded under the provisions of this multilateral Memorandum of Understanding, are intended only to improve efficiency and effectiveness in the performance of supervisory tasks and does not deprive the supervisory authorities concerned of their power to supervise credit institutions and branches of foreign banks that fall under their competence or to take action against institutions of a group within the bounds of their own jurisdiction. Similarly, the authorities are not released from their obligations under their national Law.

## **Article 3**

### **Information Exchange**

11. To facilitate the implementation of this Memorandum of Understanding, the Parties recognise the need to establish a more formal communication mechanism, enabling the exchange of information both at top management - and at line supervisors' level.
12. The Parties also agree to formulate a list of information, considered useful for home or host supervisors, which will be exchanged on a semi-annual basis, as well as on an ad hoc basis when deemed necessary. The Basel Committee on Banking Supervision paper on *Home-host information sharing for effective Basel II implementation* and the CEBS' *Guidelines on supervisory co-operation for cross-border banking and investment firm groups* could serve as the basis for drafting this list.

## Article 4 Convergence of supervisory practices

### Supervisory methods and practices

13. The Parties agree that in trying to streamline supervisory practices the interests of, home and host supervisors, should be taken into consideration.
14. In this respect the Parties could share their experiences on the methods of supervision they apply in a more structured way, enabling the comparison of the national supervisory review processes and the identification of differences or overlapping that could be addressed.
15. The Parties recognise the importance of the role of the consolidating supervisors, who will be given the means to fulfil their co-ordinating tasks.
16. The Parties are determined to foster convergence in supervisory methods and practices by:
  - encouraging the development of networks between line supervisors of different entities within a group, as described in Article 9;
  - setting-up expert teams to deal with specific issues (e.g., Basel II, provisioning, etc);
  - enabling joint inspections to be carried out by the home and host authorities directly involved in the supervision of the specific entity;
  - exchanging views in order to understand different practices and cultures and to develop a common supervisory culture;
  - exchanging staff and organising joint training seminars;
  - consultation with market participants.
17. The Parties agree to reconsider the gradual harmonisation of their national reporting requirements, in line with the common reporting on capital requirements (COREP)
18. Without prejudice to the provisions of paragraph 11, the Parties will examine methods to co-operate in order to ease administrative burden for subsidiaries, which are obliged to apply two different set of rules, at group and solo level, mainly through the convergence of supervisory practices.
19. This co-operation could be based on the concept introduced by the *High-level principles for the cross-border implementation of the New Accord*, issued by Basel Committee on Banking Supervision and the provisions of the European Union Directive 2006/48/EC.
20. The Parties agree to set up a working group in order to foster convergence in supervisory practices especially in the area of implementation of the Basel II framework and the European Union Directives 2006/48/EC and 2006/49/EC.

**Article 5**  
**Monitoring Banking Groups' systems and controls**

21. With regard to the banking groups operating on a cross-border basis the Parties agree to co-operate for a more effective supervision of groups' internal governance, internal control systems, risk management and compliance function in order to assure that all major risks are managed adequately not only on a solo but also on a consolidated basis.
22. To this extent, the Parties agree to exchange on an annual basis views on the degree of convergence they have succeeded in this field, by:
- testing the performance of specific centralised functions in all the units of major banking groups, operating in the region; and
  - enabling authorities directly involved with the supervision of a specific banking group and its individual units, to assess jointly the risk profile of this group.

**Article 6**  
**Financial stability - Macro prudential issues**

23. The Parties agree to contribute to and co-operate in the monitoring of risks and vulnerabilities to the financial stability of the national financial systems, deriving from cross-border activities, as well as dealing with issues that may have potential contagion and spill-over effect to the region.
24. To this end, mapping exercises could be performed on a regular basis to identify the systemic importance of foreign entities for host economies, as well as the significance of each entity for the group they belong to.
25. The information concerned could be exchanged on an annual basis and might be mostly of qualitative nature and relevant to the following topics:
- Macroeconomic and financial market developments;
  - Banks' condition and outlook;
  - Condition of non-financial corporates and households linked with banks' asset quality;
  - Market risks;
  - Regulatory developments.

Qualitative information might be complemented by the authorities' insights, as well as quantitative information, if deemed necessary.

**Article 7**  
**Crisis Management**

26. The Parties, within the limits of their roles and responsibilities, in preserving financial stability, recognise the need to gradually develop a framework for co-operation for the management of crises with cross-border implications.

27. In the course of developing such a framework, when deemed appropriate, the Parties agree to adhere to the general principle that the handling and eventual resolution of crises at individual credit institutions are primarily the responsibility of the credit institutions involved, as well as of their managers and shareholders and that competent authorities (or the Parties) are to assist the brokering of market-led solutions in the first place.
28. The Parties, making good use of existing national crisis management plans, will closely co-operate to develop gradually suitable intraregional arrangements, allowing for:
- a clear understanding of the respective roles of home and host-country authorities in the case of a crisis;
  - a more concrete cross border co-operation, comprising a crisis management group, contact lists and communication procedures;
  - a prearranged process for exchanging views and information with authorities, other than the Parties, likely to be involved in the management of a crisis;
  - an effective co-ordination of crisis management actions;
  - a joint communication policy to the public;
  - the regular review of the crisis management arrangements.
29. The Parties, recognising the cross-border implications a crisis on a national level might have, agree that the crisis management arrangements introduced by the ECB and CEBS, adapted to the specific conditions of the region, might form the basis for the design and the gradual implementation of a crisis management action plan.
30. The Parties agree that in order to prevent moral hazard any crisis management arrangements to be concluded within the framework of the present Memorandum of Understanding will not be publicised (or published) or communicated to the markets.

### **Article 8** **Co-operation in the field of AML/CFT**

31. The Parties, taking into consideration that banking groups operating on a cross-border basis are exposed to money laundering and/or terrorist financing risks, which may be accentuated by their size and structure, recognise the need to enhance their co-operation for the prevention of those groups being used for money laundering and/or financing of terrorism.
32. Without prejudice to possible legal limitations, the Parties will co-operate to ensure that the cross-border banking groups apply effective Know-Your-Customer and Customer-Due-Diligence policies and procedures across their operations.
33. Without prejudice to the competence and responsibilities of the national Financial Intelligence Units (FIUs), the Parties will exchange views on

trends and methods (typologies) of money laundering and/or financing of terrorism prevailing in the region with a view to developing guidance for the institutions under their supervision.

## **Article 9**

### **Implementation substructures**

34. The Parties, taking into consideration the difficulties that may arise in the course of implementation of the present Memorandum of Understanding, consider appropriate to adopt a flexible administrative scheme, comprising the following:

- ***The College of Supervision Heads:*** It is the co-ordinating body, responsible for the development and the implementation of an Annual Action Plan, approved by the Governors. Apart from normal time procedures, the College could be responsible for the design and implementation of Crisis Management Arrangements.

Each Party is represented in this College by the Head of banking supervision or his/her alternate, duly appointed. There will be normally two meetings per year, each meeting preferably in a different country, chaired by the representative of the hosting authority.

In its first meeting the members of the College will endorse a statute concerning organisational and administrative issues.

In exceptional cases requiring co-ordination of actions, the College might meet on an ad hoc basis. In such cases; it will be chaired by the representative of the authority responsible for the supervision on a consolidated basis of the specific banking group.

- ***Networks of line supervisors:*** In practice, this structure is a form of a more systematic communication of line supervisors, responsible for the supervision of units of a specific banking group, operating in different countries of the region, allowing them to exchange on a regular basis views and information, useful for the performance of their tasks, in line to paragraph 10, thus facilitating the day-to-day supervision of banking groups.

Basically, the networks' members will communicate electronically and the actions of each network will be co-ordinated by the consolidating supervisor of the banking group the network is dealing with.

- ***Ad hoc experts' working groups:*** Groups of non-permanent nature, with a specific mandate, usually to deal on an ad hoc basis with a specific issue, identified by the College or a network.

These groups will be mandated by the College and chaired by a member of the College.

35. Any action taken within the framework of this Memorandum of Understanding must be in line with the strategic objectives set by the Governors.



## Article 10 Confidentiality

36. The Parties consider that any information obtained in accordance with the provisions of this Memorandum of Understanding should remain confidential, except for the purposes determined below, in accordance with the relevant provisions of the existing bilateral agreements and/or the standards for the protection of information set by the Basel Committee on Banking Supervision publication on Essential elements of a statement of co-operation between banking supervisors (May 2001) and the provisions on professional secrecy of EU Directive 2006/48/EC.
37. In this regard it is recognised that members and employees of the Parties are bound by an obligation to hold confidential the information obtained in the course of their duties. No provision of this Memorandum shall give rise to the right on the part of any person, entity or governmental authority other than the Parties, directly or indirectly, to obtain any information or to challenge the execution of a request for information under this Memorandum.
38. A Party may use the information furnished pursuant to this Memorandum solely for the purposes of this Memorandum or for other purposes specified in and subject to the provisions of paragraphs 39, 40 and 41;
39. In the event of a request issued by a competent official person, either in the course of a criminal proceeding or of a court-ordered winding-up of a supervised institution, or pursuant to an order issued by a court in the course of proceedings related to the discharge of the carrying out by a Party of its legal tasks, for disclosure by a Party of information that originates from the other Party, the Party to which the request has been addressed shall notify the Party that originated the information of such a request and shall seek, to the extent permitted by the laws of the Party to which the request has been addressed, prior approval before disclosing this information.
40. If a Party is forced to testify in a parliamentary investigation to disclose confidential information received from the other Party, it shall consult with the later Party before disclosing such confidential information. The Party forced to disclose confidential information shall advise the requesting body if the Party that originated the information did not consent to sharing the information and that a forced disclosure could adversely affect the future transmission of confidential information by foreign supervisory authorities. It shall request that the information be kept confidential by the requesting body.
41. In any other event of a request for disclosure by a Party of information that originates from the other Party, in particular when the information relates to an individual client of a supervised institution, the Party to which the request has been addressed shall seek and receive, to the extent permitted by the laws of the Party that originated the information, prior

approval before disclosing this information.

### Article 11 Miscellaneous

42. This Memorandum of Understanding shall become effective on the date of its signing. It shall be concluded for an unlimited period.
43. This Memorandum of Understanding is open to any central bank and supervisory authority, responsible for the supervision of credit institutions, that have presence in the region of South Eastern Europe region, wishing to participate in the proposed framework of co-operation, provided that all the provisions of the present Memorandum of Understanding are unconditionally accepted and that the present document is duly countersigned.
44. Any of the conditions of this Memorandum of Understanding may be amended, relaxed, or waived by unanimous agreement of all the Parties.
45. In case of difficulties in implementing this Memorandum of Understanding, the Parties intend to examine the situation and decide, if necessary, either its modification, or its suspension or its termination.
46. After termination, the confidentiality provisions shall continue to apply to any information provided under this Memorandum of Understanding prior to its termination.
47. The anticipated termination of this Memorandum of Understanding will not affect the conclusion of the actions for co-operation that would have been formalised while it was in force.
48. This Memorandum of Understanding is signed in Athens, on 6<sup>th</sup> July 2007, in seven copies in English each text being equally authentic.

Ardian Fullani, Governor, Bank of Albania

Nicholas C. Garganas, Governor, Bank of Greece

Petar Goshev, Governor, National Bank of the Republic of Macedonia

Mugur Isărescu, Governor, National Bank of Romania

Ivan Iskrov, Governor, Bulgarian National Bank

Radovan Jelašić, Governor, National Bank of Serbia

Athanasios Orphanides, Governor, Central Bank of Cyprus