CONSOLIDATED SUPERVISION GUIDELINE

FOREWORD

The purpose of the guideline is to provide direction to licensees with regard to the Bank's application of its consolidated supervision framework with specific emphasis on the criteria to be used in reporting capital requirements, credit exposures and connected party exposures on a consolidated basis. The guideline is applicable to all licensed holding companies and other licensees which have subsidiaries.

This guideline should be read in conjunction with the other relevant guidelines issued by the Bank.

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1. INTRODUCTION

Consolidated supervision facilitates the regulator's understanding of the strengths and risks across a financial group and addresses financial, management and operational deficiencies that may pose a danger to the safety and soundness of the group. It represents a comprehensive approach to supervision which takes account of all the risks that may affect a licensee regardless of whether these risks are carried in the books of the licensee or members of the financial group it controls.

The Central Bank of Barbados' (the Bank) approach to implementing Consolidated Supervision takes account of the requirements of core principles 12 and 13 of the revised Core Principles for Effective Banking Supervision[1]. (See Appendices)

The Bank implements consolidated supervision through a combination of quantitative and qualitative methods. A major element of the quantitative aspect is the production of prudential reports on a consolidated basis and a review of audited financial results of the consolidated group and its individual members. These reports combine the assets, liabilities and off-balance sheet positions of licensees treating them in effect as if they were a single business entity. The balance sheet values of assets and liabilities of the parent and subsidiaries under its control are combined on a line by line basis, all intra group transactions eliminated and the share capital of the consolidated subsidiaries excluded in order to avoid double-counting of capital.

The qualitative aspect is more focused on the problems caused by the increasing complexity of financial groups which generally do not occur or are less significant with single banking entities. Such information is not captured in a single number or a ratio but is meaningful for the supervision of the group. Key among these matters/problems are:

Contagion

This is the risk that difficulty in one entity in the group may spill over to other group entities due to tangible and intangible linkages between entities. The potential transfer of capital or the potential for a negative event in one entity to impact the other members of the group are the key concerns for regulators. Contagion can arise from an actual exposure or from the public perception of an exposure. The increasing incidents of inter-connected trades, cross investment among financial institutions, and loan syndication make contagion a growing concern.

[1] Revised Core Principles for Effective Banking Supervision endorsed by the Basel Committee on Banking Supervision – September 2012

Transparency of legal and managerial structures

The size and highly complex structure of the group may make effective supervision difficult. Complex corporate structures may be used to exploit disparities in requirements among different regulators or across jurisdictions. Supervisors need to develop a thorough understanding of the legal and managerial structures, particularly when a group has adopted a matrix management structure under which staff report to more than one manager or director.

Regulatory arbitrage

Differences in prudential regulation across jurisdictions can lead to regulatory arbitrage; where institutions use differences in regulation in different territories to evade regulatory requirements. The exchange of supervisory information across jurisdictions is therefore important in addressing this matter.

Double gearing

This occurs when an entity holds capital issued by another entity within the same group and the capital is used simultaneously as a buffer against risk in the two entities. In such a situation the external capital of the group is geared up twice; first by the parent and then a second time by the dependant. The practice of double gearing overestimates the group's capital, as the sum of the capital of the group entities is higher than the consolidated capital. Only capital issued to external investors can provide support to the group.

The application of consolidated supervision does not supersede the need for solo supervision at the level of individually licensed banks. Rather, consolidated supervision should be seen as a complement to solo supervision. Activities of other group companies and events elsewhere in the group could negatively impact a licensee in ways that cannot be detected solely through consolidated supervision. For example, intra-group relationships in the form of transactions between the bank and other group members can only be revealed through solo supervision. Moreover, the adequacy of the licensee's capital can only be assessed on a solo basis. Hence, the Bank will continue to monitor licensees which are parent companies or financial holding companies (FHCs) on both a consolidated and solo basis.

2. APPLICATION

This Guideline applies to all entities that are licensed under the Financial Institutions Act, 1996-16 (FIA) and the International Financial Services Act, 2002-5 (IFSA) that are parent companies or financial holding companies for banking groups.

3. SCOPE OF CONSOLIDATION

There are numerous types of group structures[2] of which a licensee can be a member, however the Bank will only permit a licensee to head/be a parent of a banking group. If a banking group is part of a larger group of non-banking entities, then the banking group would be ring-fenced and the consolidation would be restricted to that banking group.

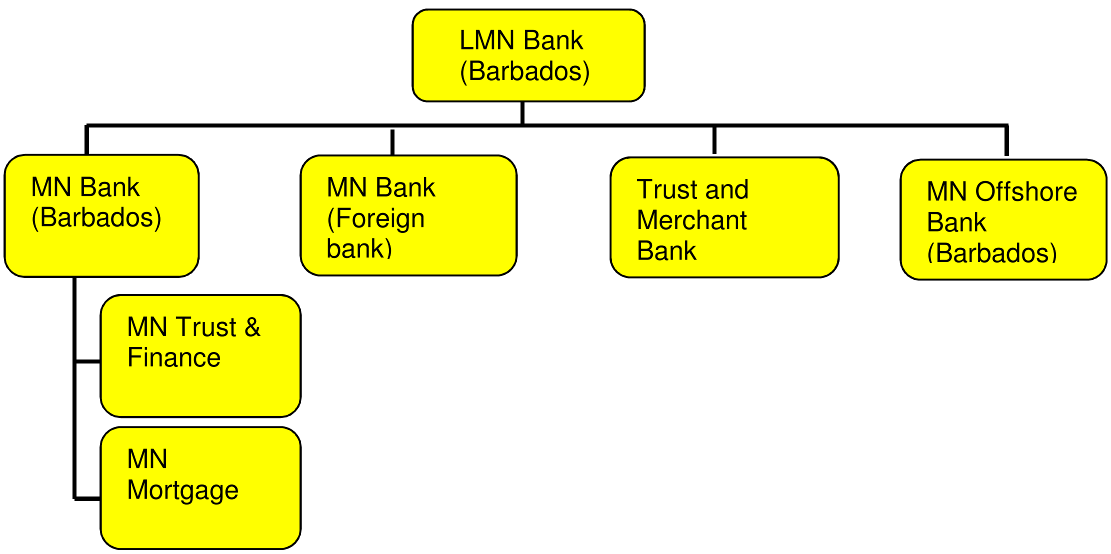
A banking group is a group headed by a bank or non trading financial holding company where more than half the group's consolidated assets and revenue relate to banking. The majority of the group entities are banks or companies carrying on specialised banking or financial activities.

Consolidated prudential returns covering a group or part of a group, and in the form and content specified by the Bank, will be required under the following circumstances:

(i) Where the licensee is the parent of companies which conduct business as defined in FIA or IFSA; (See Chart 1)

[2] Group structures are mixed group, financial conglomerate or banking group.
Mixed group – group of whose activities include commercial, industrial and financial activities; less than 50% of the total group business relates to banking.
Financial conglomerate - group of companies whose main activities consist of providing services in at least two different financial sectors.

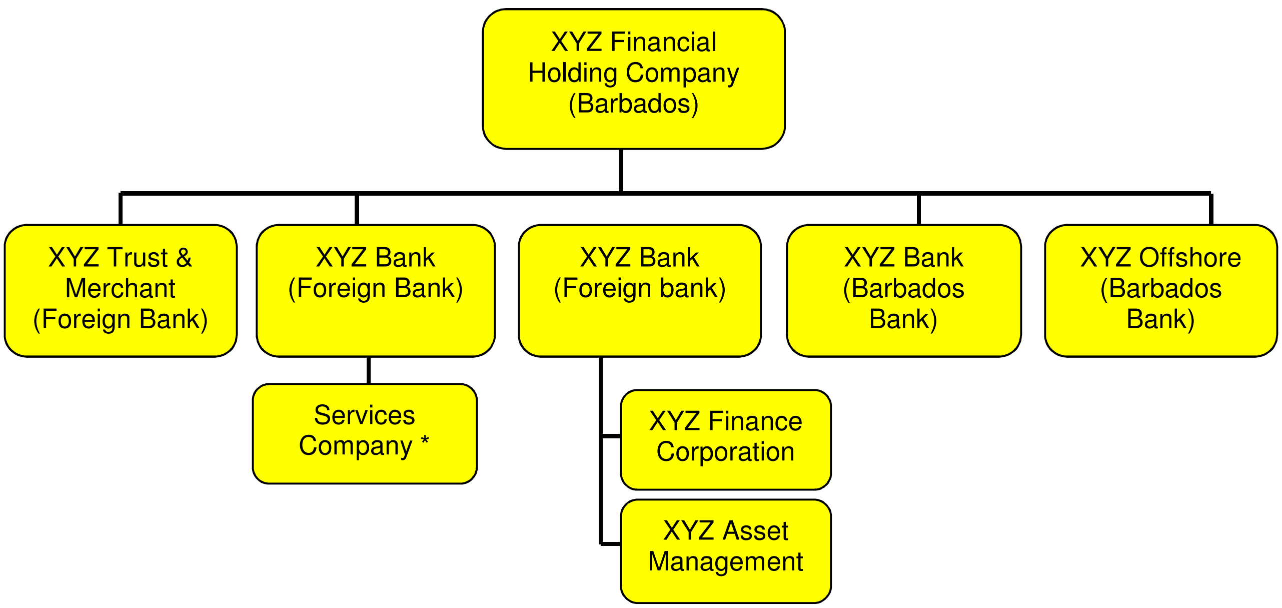
Chart 1



Consolidated supervision will be required at the parent level of LMN Bank (Barbados). In addition to consolidating the entire group, the Bank may require consolidation of a sub-group from a bank down, (for example MN Bank (Barbados)) if the sub-group is large, the business is complex, and the Bank opines that consolidated information on the sub-group would be useful in supervising that group.

(ii) Where the licensee is a financial holding company holding the shares of companies which conduct business as defined in the FIA or IFSA; (See Chart 2)

Chart 2



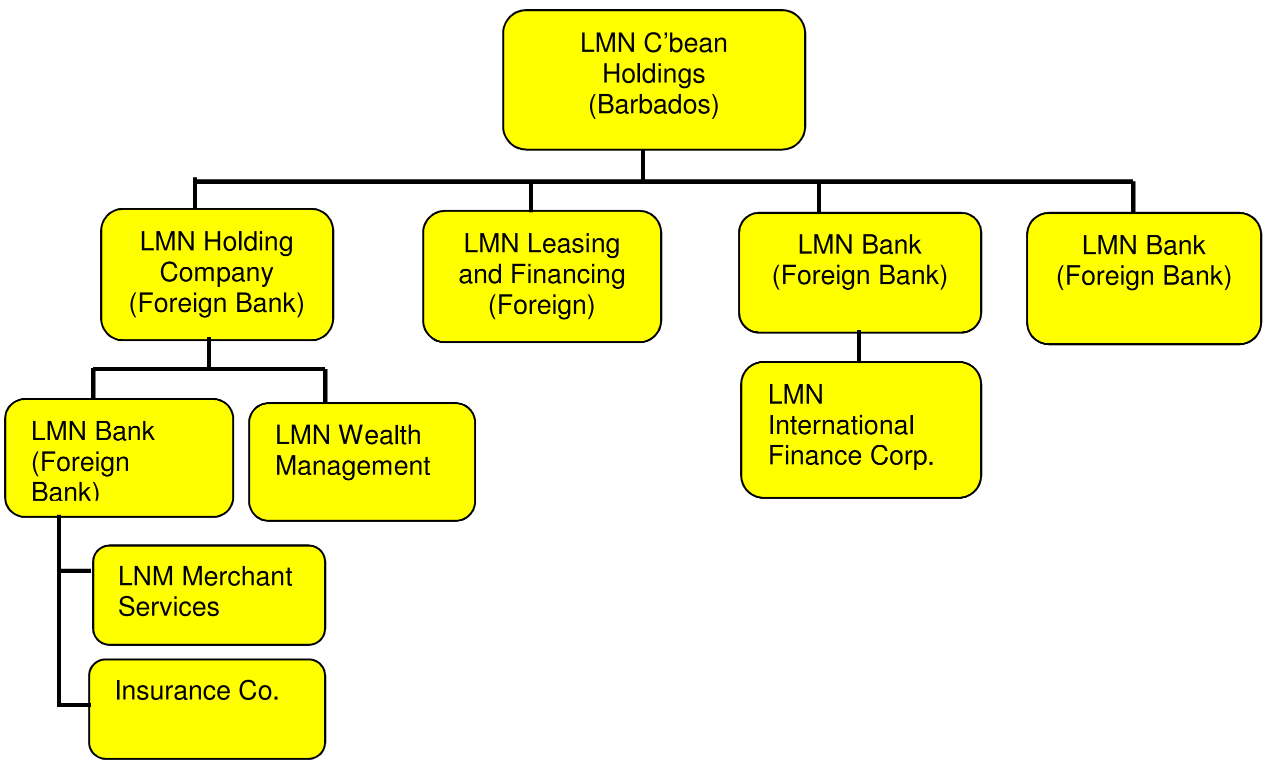
Consolidated supervision will be required at the level of XYZ Financial Holding Company (Barbados). Conditions applied to the licence of XYZ Financial Holding Company (Barbados) will restrict it to:

- establishing or acquiring financial entities and administering the holdings of the financial groups it controls.
- providing banking and ancillary services to subsidiaries and affiliates only.

Companies whose activities do not meet the definition of banking business or international financial services will not normally be included in consolidation, however, the Bank may, at its discretion, require them to be included. Such entities will be providing necessary support services for the group.

(iii) Where the licensee is a financial holding company holding (FHC) and the activities of the group include activity in different financial sectors. (See Chart 3)

Chart 3



Consolidated supervision will be required at the level of LMN C'bean Holdings (Barbados). Conditions applied to the licence of LMN C'bean Holdings (Barbados) will restrict it to:

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

The insurance business will be excluded from the consolidated returns submitted to the Bank. Though it may be permissible in other jurisdictions for a bank to directly own an insurance company where the two sectors are regulated by the same authority, the Bank does not allow its licensees to have a direct interest in insurance companies as it is not responsible for the regulation of insurance business whose risks differ from banking business.

3.1 Exclusions

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

- inclusion would be inappropriate or misleading
  - for example 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; or
  - 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.
- 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; and
- institutions within the overall group that otherwise would be consolidated have a combined balance sheet totalling less than 1% of the total balance sheet of the parent.

4. METHODS OF CONSOLIDATION

The following accounting techniques shall be employed for recording of investments on financial companies for the purpose of the preparation of consolidated returns.

(i) Where the licensee is the majority owner (50% shareholding or greater) or controls another financial institution the licensee is required to fully consolidate this entity in its consolidated returns by including on a line by line basis the relevant assets and liabilities of the said subsidiary. All intra group assets and liabilities are eliminated.

(ii) Where a licensee does not have majority share ownership or control, but has significant influence (at least 20% but less than 50% of ownership) it will use equity accounting to account for its participations. The initial investment will be reported at cost and later adjusted for the investor's share of the net assets of the associate company. Although equity accounting does not reflect the actual amounts of assets and liabilities held through participations it is the treatment which is widely recognised in accounting regulations and is therefore an appropriate method for reporting including participations on the consolidated prudential returns.

There are however some circumstances where the Bank would require full consolidation if:

- the majority of the shares are widely held and the licensee has the single largest share holding.
- it is determined that the licensee is providing parental support.

(iii) Where there is a joint arrangement it will either be a joint venture or a joint operation. For a joint venture, equity accounting will be used account for the participations; and for a joint operation the licensee will account for the assets, liabilities, revenue and expenses in relation to its interest in a joint operation.

5. QUANTITATIVE CONSOLIDATED SUPERVISION

This aspect of supervision looks at the quantifiable elements of the banking operations that allow the Bank to make an assessment of financial condition and performance of the group. Quarterly prudential reports combines the assets, liabilities and off balance sheet positions of the members of the group treating them as if they were a single business entity thereby allowing the supervisor to apply supervisory standards at the level of the whole group. Reporting forms cover the group's balance sheet, income statement, asset quality, liquidity, large exposures, provisioning and classification and capital adequacy. The guideline is aimed at providing licensees with guidance on areas where specific ratios/rules apply for consolidated reporting of:

- Capital adequacy;
- Credit exposure; and
- Related/Connected party exposure.

The Bank is in the process of revising its consolidated reporting forms which will be issued at a later date.

5.1 Capital Adequacy

The concept of capital adequacy is concerned with ensuring that a licensee has sufficient capital resources to absorb losses and to continue to operate in a sound and viable manner. The Financial Institutions (Capital Adequacy) Regulations, 1998, sets a minimum capital ratio of 4% for Tier I and 8% for combined Tier I and Tier II in accordance with the Basel Committee on Banking Supervision Capital Accord. The Bank applies these ratios to banks both on a solo and consolidated basis as a minimum standard. The Bank however has the right to require that, on a consolidated basis, an institution maintains capital levels in excess of these ratios depending on the nature, scope and complexity of operations. In determining the consolidated capital adequacy ratio, the Bank will consider the following:

(i) The location of capital within the group in order to ensure that reliance is not placed on surplus capital that is not freely transferable because it is locked into some companies or countries, due to regulatory constraints;

(ii) The degree of risk diversification in the group as a whole compared to that of the licensee; and

(iii) Any risks which arise on a group basis but are not considered within the factors influencing the ratio appropriate for the licensee in the group.

The consolidated capital for the group is determined by adding the individual capital positions of each group entity to give the total capital position, and then deducting the book value of investments/participations within the group to avoid double gearing of capital within the group.

As consolidated supervision is a complement to solo supervision, and does not replace it, a parent/FHC will be required to maintain minimum capital requirements on a solo basis also. Capital is not available to buffer risk in two organisations simultaneously; therefore the portion of the parent's externally generated capital that has been down-streamed/invested in subsidiaries is not eligible for inclusion in the capital adequacy computation.

The parent company is expected to ensure that:

- Each regulated entity in the group meets the regulatory capital requirement to which it is subject under solo supervision; and

- The group overall has capital which is available and sufficient to buffer against a range of losses.

The Bank expects that as a matter of best practice licensees would have an internal capital adequacy assessment process (ICAAP) for assessing their overall capital adequacy in relation to the risk profile and organizational strategy. The parent company should be in a position to aggregate, assess and control the material risks of the individual institutions belonging to the group. It is expected that the plan would encompass varying economic scenarios and stress testing that take account of all parts of the group and the different environments in which the group operates.

5.2 Credit Exposures

Individual licensees are subject to regulations which limit their credit exposure to an individual counterparty or group of related counterparties. The aim of limiting exposures is to prevent a licensee from incurring disproportionately large losses as a result of the failure of an individual client or a group of connected clients due to the occurrence of unforeseen events. Likewise, it is important to limit the size of large exposures incurred by a banking group.

Exposure limits are expressed as a percentage of the capital base and are determined in accordance with the requirements of the respective acts.

An exposure in excess of 10% of the regulatory capital base of the group constitutes a large exposure and must be reported on the Large Exposures form on a quarterly basis. On a consolidated basis, the aggregate of all large exposures may not exceed **600%** of the capital base. Additional guidance on large exposures and exemptions is provided in the Large Exposures Guideline.

Exposures on a consolidated group basis shall consist of the total of the parent bank's exposure and/or exposures of individual companies in the banking group to an individual customer or related persons.

5.3 Related Party Exposures

With respect to related parties the Bank's primary concern is to address conflicts of interest and prevent abuses arising in transactions with such parties. The Bank requires that exposures to related parties are on an arm's length basis, effectively monitored and that appropriate procedures are in place to control and mitigate risks. Any write-offs of exposures to related parties must be in accordance with standard policies and processes.

Exposure limits to related parties are expressed as a percentage of capital and are determined in accordance with the requirements of the respective acts.

5.4 Other prudential measures

Liquidity and market risk are other prudential measures that entities with cross border operations should consider from a consolidated perspective. A financial institution's approach to liquidity risk management is influenced by the scope of cross border operations, the types of foreign currency exposure, the level of complexity of activities undertaken in the various jurisdictions, regulatory requirements and legal restrictions. Approaches to liquidity risk management may range along the various gradients of the scale from centralised to decentralised. A group's business model is an important factor in its decision regarding the degree of centralisation.

Consolidated entities are expected to develop a market risk management framework that enables them to identify and aggregate market risk and allow for measurement systems to quantify and control this risk. Entities monitored on a consolidated basis should review their trading book to see if it meets the trading book threshold at a consolidated level.

Further guidance on liquidity and market risk can be obtained from the guidelines in these areas.

6. QUALITATIVE CONSOLIDATED SUPERVISION

This aspect of supervision looks at the non-quantifiable elements that pose a risk to the banking operations as it is imperative that the Bank has a thorough understanding of the banking group (or sub-groups). The Bank is concerned with the structures, activities, business strategy, corporate governance and risk management of both the domestic and cross border operations of the group. To satisfy this objective, the Bank will from time to time make several information requests including but not limited to:

- Internal audit and compliance reviews of material parts of the group or covering keys activities
- Reports and management letters of external auditors
- Regulatory reports on each banking subsidiary issued by the host supervisor
- Reports reviewed by senior management and Board of directors
- Governance manual(s)
- Policy documents
- Organizational charts for the group

- Capital plan
- The business' strategic plan
- Legal and managerial structures within the group
- Details of personnel changes at the director and senior management levels
- The business' risk appetite and risk management processes
- Changes to internal systems and procedures

7. REPORTING OF CONSOLIDATED INFORMATION

FHCs and licensees with subsidiaries that are required to submit consolidated returns must submit those returns specified by the Bank, on a quarterly basis for reporting periods ending March 31st, June 30th, September 30th, and December 31st of each year. The Bank may request additional information to further its understanding of any information submitted in the returns. Licensees should 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. Consolidated prudential returns should cover inter alia:

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

The consolidated returns are due by the 21st of the month following the quarters identified above or within such other time as determined and agreed with the Bank. Written requests, including satisfactory reasons for the request, for extensions to this timeframe may be approved at the discretion at the Bank.

Audited consolidated financial statements for the consolidated group and or sub-group, as identified by the Bank, must be submitted annually, within four months of the financial year end of the licensee.

8. RATING OF THE FINANCIAL GROUP

The Bank compiles the information obtained from its quantitative and qualitative supervision to develop a risk assessment of the financial group in conformance with the principles of the Supervisory Framework[3].

The starting point of the risk assessment process is the identification of significant activities of the group and the inherent risks associated with these activities regardless of whether the activities are driven by domestic or cross border operations. A significant activity can be a line of business, a unit, a process or a subsidiary.

Subsequent to the identification of the significant activities and their inherent risk, the supervisor evaluates the quality of risk management for each significant activity along four key areas: corporate governance, risk management, compliance and internal controls; to determine a net risk for each activity.

The overall net risk and the direction of that risk are determined giving the supervisor a risk profile for the financial group.

The risk matrix includes a composite rating and direction of composite risk which is affected by factors such as capital, earnings and liquidity.

9. EXPECTATIONS FOR THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The process of consolidation represents the operations of various entities as one economic unit therefore the Bank expects that the Board and senior management of the consolidating entity should have proper oversight of the individual operations. Essential Criteria three (3) of Core Principle 12 requires that the regulator ensures the oversight and management of foreign operations by the Board and senior management of the parent entity are adequate. The Bank therefore expects that:

i. The Board defines the strategy and risk appetite of the group and institutes a framework for monitoring compliance with the strategy and risk appetite across the group.

[3] Supervisory Framework 2012 and Beyond document provides details on the process utilized by the Bank to assess the safety and soundness of financial institution licensed under FIA and IFSA

ii. The nature and quality of the oversight of the foreign operations align to the risk profile of the entity. Since various entities in a group may engage in different types of banking activities (e.g. retail lending, corporate lending, a mixture of corporate and retail lending, securitization etc.) or be subject to differing supervisory regimes; the risk for each institution is not identical. It is therefore expected that the frequency and scope of management oversight takes account of these differences.

iii. The members of the Board and senior management are fit and proper. Any changes to the Board or senior management must be approved by the Bank.

iv. The expertise of members of the Board and senior management is adequate.

v. Senior management of the parent entity will facilitate the Bank meeting with local management of foreign operations.

10. THE BANK'S ROLE AS HOME SUPERVISOR

Regulation of cross border banking entities requires information sharing and cooperation between home and host supervisors. The Bank is a member of the Caribbean Group of Banking Supervisors (CGBS); a body whose aim is to enhance and coordinate the harmonization of bank supervisory practices in the English speaking Caribbean, with a view to bringing them in line with internationally accepted practices. In instances where the Bank assumes the role of home supervisor it will lead colleges and discussions on the cross border banking operations which are facilitated through the CGBS. The home supervisor provides a holistic perspective from its role as regulator of the consolidating entity, while host supervisors provide relevant information on the subsidiary or branch in its jurisdiction. Information is shared within the limits of the relevant laws of a jurisdiction and is subject to strict confidentiality. Prior to granting approval for the establishment of subsidiary or branch operation the home supervisor ensures that there are no legal impediments to the transfer of prudential information. It is recognised that there are legitimate reasons for protecting customer privacy but secrecy laws should not impede the ability of the supervisor to ensure the safety and soundness of the cross border banking operation.

The information flow between home and host supervisors is therefore asymmetrical. To facilitate information sharing/exchange between home and host regulators and effective supervision, the Bank establishes memoranda of understanding with host regulators.

The design of supervisory colleges is reflective of the nature, scale and complexity of the banking group. The home supervisor facilitates the parent bank's participation in the college. This is generally achieved by organising presentations by the parent bank and coordinating meetings with senior management or members of the Board of Directors. The home supervisor organises the college structures with the needs of the host supervisors in mind and uses the college as an opportunity for host supervisors to meet with decision makers and policy setters of the parent that they do not normally have access to.

APPENDICIES

Appendix 1

Basel Core Principle – 12: Consolidated Supervision

An essential element of banking supervision is that the supervisor supervises the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential standards to all aspects of the business conducted by the banking group worldwide.

Essential Criteria

1. The supervisor understands the overall structure of the banking group and is familiar with all the material activities (including non-banking activities) conducted by entities in the wider group, both domestic and cross-border. The supervisor understands and assesses how group-wide risks are managed and takes action when risks arising from the banking group and other entities in the wider group, in particular contagion and reputation risks, may jeopardise the safety and soundness of the bank and the banking system.

2. The supervisor imposes prudential standards and collects and analyses financial and other information on a consolidated basis for the banking group, covering areas such as capital adequacy, liquidity, large exposures, exposures to related parties, lending limits and group structure.

3. The supervisor reviews whether the oversight of a bank's foreign operations by management (of the parent bank or head office and, where relevant, the holding company) is adequate having regard to their risk profile and systemic importance and there is no hindrance in host countries for the parent bank to have access to all the material information from their foreign branches and subsidiaries. The supervisor also determines that banks' policies and processes require the local management of any cross-border operations to have the necessary expertise to manage those operations in a safe and sound manner, and in compliance with supervisory and regulatory requirements. The home supervisor takes into account the effectiveness of supervision conducted in the host countries in which its banks have material operations.

4. The home supervisor visits the foreign offices periodically, the location and frequency being determined by the risk profile and systemic importance of the foreign operation. The supervisor meets the host supervisors during these visits. The supervisor has a policy for assessing whether it needs to conduct on-site examinations of a bank's foreign operations, or require additional reporting, and has the power and resources to take those steps as and when appropriate.

5. The supervisor reviews the main activities of parent companies, and of companies affiliated with the parent companies, that have a material impact on the safety and soundness of the bank and the banking group, and takes appropriate supervisory action.

6. The supervisor limits the range of activities the consolidated group may conduct and the locations in which activities can be conducted (including the closing of foreign offices) if it determines that:

    a. the safety and soundness of the bank and banking group is compromised because the activities expose the bank or banking group to excessive risk and/or are not properly managed;
    b. the supervision by other supervisors is not adequate relative to the risks the activities present; and/or
    c. the exercise of effective supervision on a consolidated basis is hindered.

7. In addition to supervising on a consolidated basis, the responsible supervisor supervises individual banks in the group. The responsible supervisor supervises each bank on a stand-alone basis and understands its relationship with other members of the group.

Additional Criteria

1. For countries which allow corporate ownership of banks, the supervisor has the power to establish and enforce fit and proper standards for owners and senior management of parent companies.

Appendix 2

Basel Core Principle – 13: Home-host Relationships

Home and host supervisors of cross-border banking groups share information and cooperate for effective supervision of the group and group entities, and effective handling of crisis situations. Supervisors require the local operations of foreign banks to be conducted to the same standards as those required of domestic banks.

Essential Criteria

1. The home supervisor establishes bank-specific supervisory colleges for banking groups with material cross-border operations to enhance its effective oversight, taking into account the risk profile and systemic importance of the banking group and the corresponding needs of its supervisors. In its broadest sense, the host supervisor who has a relevant subsidiary or a significant branch in its jurisdiction and who, therefore, has a shared interest in the effective supervisory oversight of the banking group, is included in the college. The structure of the college reflects the nature of the banking group and the needs of its supervisors.

2. Home and host supervisors share appropriate information on a timely basis in line with their respective roles and responsibilities, both bilaterally and through colleges. This includes information both on the material risks and risk management practices of the banking group48 and on the supervisors' assessments of the safety and soundness of the relevant entity under their jurisdiction. Informal or formal arrangements (such as memoranda of understanding) are in place to enable the exchange of confidential information.

3. Home and host supervisors coordinate and plan supervisory activities or undertake collaborative work if common areas of interest are identified in order to improve the effectiveness and efficiency of supervision of cross-border banking groups.

4. The home supervisor develops an agreed communication strategy with the relevant host supervisors. The scope and nature of the strategy reflects the risk profile and systemic importance of the cross-border operations of the bank or banking group. Home and host supervisors also agree on the communication of views and outcomes of joint activities and college meetings to banks, where appropriate, to ensure consistency of messages on group-wide issues.

5. Where appropriate, due to the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities, develops a framework for cross-border crisis cooperation and coordination among the relevant home and host authorities. The relevant authorities share information on crisis preparations from an early stage in a way that does not materially compromise the prospect of a successful resolution and subject to the application of rules on confidentiality.

6. Where appropriate, due to the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities and relevant host authorities, develops a group resolution plan. The relevant authorities share any information necessary for the development and maintenance of a credible resolution plan. Supervisors also alert and consult relevant authorities and supervisors (both home and host) promptly when taking any recovery and resolution measures.

7. The host supervisor's national laws or regulations require that the cross-border operations of foreign banks are subject to prudential, inspection and regulatory reporting requirements similar to those for domestic banks.

8. The home supervisor is given on-site access to local offices and subsidiaries of a banking group in order to facilitate their assessment of the group's safety and soundness and compliance with customer due diligence requirements. The home supervisor informs host supervisors of intended visits to local offices and subsidiaries of banking groups.

9. The host supervisor supervises booking offices in a manner consistent with internationally agreed standards. The supervisor does not permit shell banks or the continued operation of shell banks.

10. A supervisor that takes consequential action on the basis of information received from another supervisor consults with that supervisor, to the extent possible, before taking such action.