

NOTE FROM IACPM'S EXECUTIVE DIRECTOR

Dear Members,

In 2017, the IACPM continued to focus its efforts on several very important regulatory and accounting issues. We will update members below on these activities and also discuss some of the focused research survey work we completed throughout the year. We also highlight the various meetings held globally that members had the opportunity to attend, and to provide a preview of what events might be of interest to your firm in 2018.

Globally the regulatory environment continues to evolve as heightened political ambiguity has brought a new dimension of uncertainty to the regulatory landscape. Credit portfolio managers remain actively engaged in industry discussions regarding the impact of proposed future regulatory changes. As expected, the pace of consultative documents has slowed and the focus is shifting towards implementation of the new rules and regulations in 2018 and beyond. An array of potential changes is forthcoming in the years ahead related to Dodd-Frank and Volcker as well as the European securitisation market, improvements in the European non-performing loan market and the Basel Committee's Fundamental Review of the Trading Book (FRTB).

The IACPM remains active in a range of regulatory advocacy efforts. We held numerous meetings with regulatory and supervisory agencies around the world to discuss topics important to credit portfolio managers. We continue to engage in discussions with global regulators on issues such as the importance of Credit Portfolio Management, Standardized Credit Approaches, IFRS9 and CECL Expected Credit Loss Provisions, Fundamental Review of the Trading Book, Synthetic Securitisation and No Restructuring CDS. Our members also completed several surveys on these important topics that were of interest to many global regulatory and supervisory agencies.

Attached is a brief summary of some of the actions taken by the IACPM and our members in 2017. Please feel free to share the summary with others at your firm.

My thanks to the Regulatory Committee, the Board, the working groups and the many IACPM members who provide leadership, time and support for our initiatives. The Regulatory Committee meets monthly to set the agenda and direction for the IACPM's advocacy efforts. Please let me know if you would like to be involved and I will ensure that you receive information about future calls and meetings.

As always, we value your support for the IACPM. Feel free to contact me to discuss our advocacy efforts in more detail or to provide comments on current issues and future initiatives.

Regards,



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IACPM REGULATORY UPDATE

BASEL UPDATE

Revisions to the *Standardized Approach for Credit Risk (BCBS d347)* grabbed headlines throughout the year as the market awaits a final agreement. As a reminder, IACPM submitted a joint response letter in 2016 as well as a unique paper focused on CDS without restructuring (NoR CDS) which is a topic that is embedded in the Basel Standardized Approach document. The market was expecting an agreement by late Fall 2017 although uncertainty remains around the timing of an agreement.

FUNDAMENTAL REVIEW OF THE TRADING BOOK

Members raised concerns about the *Minimum Capital Requirements for Market Risk (BCBS d352)*. Specifically, the document has language that suggests net short credit risk positions should reside in the Trading Book. Since our members actively manage loan positions and often use CDS to manage the risk, this issue is very timely and important. Currently, the risk resides in the Banking Book and regulatory capital relief is given for managing the risk. As defined in the final document, a net short credit risk position arises when the credit spread of the underlying name increases, thereby, increasing the present value of the position while the loan position remains static in accrual accounting. If this language is approved by local jurisdictions, banks could be de-incentivized to hedge their banking book exposures. It is unclear if this is truly the intent of the document or if it is an unintended consequence. IACPM is actively engaged in discussions with the Basel Committee and other industry associations for clarification of this issue and will keep members updated on the discussions.

SECURITISATION UPDATE

Securitisation remains an important topic for members. As a reminder, in 2016, IACPM submitted response letters to Australian Prudential Regulatory Authority and Basel highlighting the benefits of using synthetic securitisation as one tool credit portfolio managers can apply to effectively manage credit risk. In 2017, we joined an informal securitisation working group which was comprised of many banks, other associations and interested parties to focus efforts on the European Commission STS and CRR framework for true sale securitisation. The European Commission reached an agreement mid year with implementation scheduled for January 2019. Synthetic securitisations are expected to be addressed in the 2018 legislative session.

Additionally, the European Banking Authority recently released a consultative document on *Significant Risk Transfer in Securitisation*. The securitisation working group met recently and has interest in responding to this paper by the December deadline.

IACPM RESEARCH

NEW ACCOUNTING STANDARDS FOR CREDIT LOSS ALLOWANCES (IFRS 9/ CECL)

The IACPM, in collaboration with McKinsey & Co., conducted a benchmarking study on the strategic and business implications of the new accounting standards, a topic that had not been explored in detail by any other industry study thus far.

Questions focused on the impact and implications of the new accounting standards on portfolio and commercial strategies, as well as firms' modification of credit risk management practices. Implementation status and governance, key design choices made by participating firms and the regulatory response were also explored. There was strong member interest in these issues and the benchmarking includes participation of over 50 member firms. A white paper of key findings will be posted to the IACPM website (www.iacpm.org) in November.

FINANCIAL RESOURCE MANAGEMENT

The IACPM conducted a survey on *Financial Resource Management* in collaboration with Oliver Wyman to explore the challenges credit portfolio managers continue to face while balancing complex and competing constraints on capital, liquidity, and funding. With the abundance of new regulations and existing regulations becoming more restrictive, there is no easy or clear path to follow for credit portfolio managers as well as the industry as a whole. Firms must coordinate processes, and adapt their existing frameworks, data infrastructure, and process governance. The input from almost 50 IACPM member firms around the world provided interesting insight into a complex topic. IACPM met with a number of global regulatory agencies to highlight the results of the survey and conducted meaningful and engaging conversations on how banks are adapting to the changing regulatory landscape. A white paper of survey highlights is available on the IACPM website:

<http://iacpm.org/dotAsset/75505.pdf>

CONCENTRATIONS & LIMITS

The IACPM conducted a survey exploring concentrations and limits frameworks at IACPM member firms, a topic we last looked at in 2011. The survey included two parts. The first section, on qualitative issues, explored approaches employed for the creation, structuring, and enforcement of limits frameworks as well as connections to the risk appetite structure. The second section queried specific quantitative aspects of limits. To allow benchmarking for single name/obligor group limits, participants provided actual nominal limits as a percentage of common equity tier 1 (CET1) and profit before income tax in the quantitative section. Aggregate results for qualitative questions will be available on the IACPM website six months after the close of the survey.

IACPM COUNTERPARTY CVA SURVEY

Each year, the IACPM holds an annual CVA roundtable meeting in London. At the 2017 roundtable discussion, members highlighted the usefulness of benchmarking IACPM members on the evolving organizational structures around CVA desks and to identify possible best practices. While there have been specific studies on capital and market valuation, this topic has not been explored in detail thus far.

The IACPM will be conducting this benchmarking in collaboration with Fintegral and with the support of a working group of IACPM member volunteers who will shape the questionnaire. Questions will revolve around organizational structures and governance, current and emerging issues, documentation standards, CVA mandate within a firm, and the future of counterparty risk. The survey is expected to launch in winter 2017; results will be presented at the next CVA roundtable meeting in the spring of 2018 in London.

IACPM REGULATORY COMMITTEES AND REGULATORY DISCUSSIONS

With the guidance of the IACPM's Board and the Regulatory Committee, the IACPM has continued to expand topic-focused regulatory discussions with members and regulators. Throughout 2017, IACPM met with regulatory agencies and central banks including EBA (Europe), MAS (Singapore), The Fed and OCC (United States), Reserve Bank of India (India), Bank Negara Malaysia (Malaysia), JFSA (Japan), ECB (Germany), Bundesbank (Germany), Bank of Japan (Japan), and the PRA (United Kingdom).

In addition to these meetings, IACPM also participated in workshops with regulators. For example, we were asked to present to over 50 representatives at the Prudential Regulation Authority this year on the benefits of credit portfolio management and explain how different banks structure the function. Additionally, the European Banking Authority held a Credit Risk Mitigation workshop this summer and our members were asked to speak on topics including FRTB, NoR CDS and other important focus areas within credit portfolio management. IACPM also spoke at the Institute of International Finance Canada Risk and Regulatory Forum on a range of regulation issues affecting risk and credit portfolio management.

The IACPM will maintain an active dialogue with global regulators on topics such as Securitisation, No Restructuring CDS and IFRS9/CECL expected credit loss as well as other important subjects in the coming year. In addition, the IACPM will continue to host a number of informal, regional roundtable discussions with members and regulators on topical issues in 2018 as implementation progresses on many regulatory requirements, and as new topics arise.

COMMITTEES AND WORKING GROUPS

REGULATORY COMMITTEE

The Regulatory Committee meets monthly to discuss current regulatory developments globally and to make recommendations on the issues that the IACPM should address in its advocacy efforts with regulators. All members are invited to participate.

SECURITISATION WORKING GROUP

Member firms were actively involved in the important work undertaken by the European Commission on true sale securitisations. The Commission will be focusing on synthetic securitisations in the coming year. The Securitisation Working Group will be responding to the *European Banking Authority Consultative Document on Significant Risk Transfer*. The group also participated in a number of discussion forums at IACPM Conferences and with regulators.

FUNDAMENTAL REVIEW OF THE TRADING BOOK WORKING GROUP

The FRTB Working Group was created this year in response to members concerns around the Net Short Credit Risk section within the Fundamental Review of the Trading Book final text. The Working Group was helpful in framing the issues ahead of discussions with the Basel Committee. The group will remain active into 2018 on the net short credit risk topic.

ACCOUNTING WORKING GROUP

The Accounting Working Group was actively involved in helping shape the IACPM/McKinsey Benchmarking: New Accounting Standards for Credit Loss Allowances (IFRS 9/ CECL). This important topic was discussed at IACPM's meetings and conferences as implementation of IFRS9 nears and work continues on CECL. We expect this working group to continue to be active in 2018.

LINKS TO ADDITIONAL INFORMATION REFERENCED

Securitisation Letters

Consultative Document	http://web.iacpm.org/dotAsset/73265.pdf
IACPM Comment Letter	http://web.iacpm.org/dotAsset/70225.pdf
Consultative Document	http://www.bis.org/bcbs/publ/d343.pdf
Joint Associations Comment Letter	http://web.iacpm.org/dotAsset/69926.pdf

Reducing variation in credit risk-weighted assets (BCBS d362)

Consultative Document	http://www.bis.org/bcbs/publ/d362.pdf
Joint Associations Comment Letter	http://iacpm.org/dotAsset/72145.pdf

Revisions to the Standardized Approach for Credit Risk (BCBS d347)

Consultative Document	http://www.bis.org/bcbs/publ/d347.pdf
IACPM Comment Letter	http://iacpm.org/dotAsset/70285.pdf
Joint Associations Letter	http://iacpm.org/dotAsset/70291.pdf

FOR MORE INFORMATION ABOUT IACPM'S ADVOCACY

IACPM Monthly Regulatory Committee (*by conference call*)

Contact Jennifer Bearden at IACPM to be added to the distribution list (jennifer@iacpm.org)

CONTACT US

Please contact us with comments and suggestions, and if you or colleagues at your firm would like to participate in IACPM's advocacy efforts.

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