

NOTE FROM IACPM'S EXECUTIVE DIRECTOR

Dear Members,

Continuing the trend of recent years, the global regulatory environment in 2015 remained challenging. To date, there has been a broad range of new consultative documents issued affecting credit portfolio managers, and we expect more before 2015 comes to a close.

We continued to expand our regulatory advocacy efforts by holding meetings with regulatory and supervisory agencies around the world to discuss topics important to credit portfolio managers. In particular, the results of the IACPM's global industry benchmarking survey on Risk Appetite Frameworks in collaboration with PwC, were of interest to many global agencies. We are also engaged in discussions with global regulators on topics including Standardized Credit Approaches, IFRS9 Expected Credit Loss Provisions, Synthetic Securitisation and No Restructuring CDS.

Attached below is a brief summary of some of the actions taken by the IACPM and our members in 2015. 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 ongoing 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 greatly 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 COMMENT LETTERS TO GLOBAL REGULATORS

Criteria for identifying simple, transparent and comparable securitisations (d304)

ISSUE The Basel Committee in conjunction with IOSCO published this consultative document which identified fourteen criteria for simple, transparent and comparable securitisation transactions. The criteria provide a framework which is meant to help all transaction parties evaluate the risks of securitisation transactions by simplifying and providing a more thorough assessment of the risks within these structures. The fourteen criteria focus on asset risk, structural risk and fiduciary and servicer risk.

IACPM ACTIONS IACPM submitted a **comment letter** to the Basel Committee and IOSCO. The response letter highlights that securitisations (both cash and synthetic) are effective risk transfer tools. In particular, synthetic transactions allow risk transfer to non-bank investors which can free up risk capacity allowing banks to extend credit, reduce borrower re-financing risk and help mitigate pro-cyclicality. The IACPM response noted that retained tranches in synthetic securitisations have desirable qualities similar to cash securitisation structures which should provide comfort and clarity around these transactions. While our comment letter focused solely on synthetic structures, the IACPM also supported the broader views on key elements of cash and synthetic structures presented in a joint letter by the Global Financial Markets Association, International Capital Market Association, Institute of International Finance and the International Swaps and Derivatives Association. The joint paper presented the view that a holistic transaction-based securitisation approach is preferred. There must be a good balance between originators and investors, and commonalities between jurisdictions should be found in order to encourage cross border investments.

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Regulatory Committees and Regulatory Discussions

In response to continuing dialogue with members and regulators, the IACPM subsequently submitted a **follow-up letter** related to the Basel consultative document on “Criteria for identifying simple, transparent and comparable transactions” (d304). The letter emphasized the prudent risk management purpose of synthetic securitisations, linking them directly to the Basel II framework for tranching covers under the securitisation framework. The supplemental letter reiterated the views previously expressed by the IACPM and many other industry associations that synthetic securitisations, or tranching covers, should be eligible in the STC framework.

STATUS Outstanding. Discussions are continuing with the Basel Committee. In parallel to the Basel Committee’s efforts, the European Commission (EC) has been working on criteria for Simple, Transparent and Standardized (STS) Securitizations. This is almost identical in concept to the Basel Committee’s work, but slightly different nomenclature, and a slightly different implementation timetable to the Committee. The EC has asked the European Banking Authority (EBA) to look into applying these criteria to the types of synthetic securitisation used by credit portfolio managers. The IACPM working group recently completed an EBA questionnaire on synthetic securitisations and attended a roundtable discussion with the EBA and other industry associations. IACPM will continue to work on these issues with regulators and other industry associations.

Guidance on Accounting for Expected Credit Loss (d311)

ISSUE The Basel Committee proposed guidelines for implementation of expected credit loss accounting rules. The document provides updated principles for sound credit risk practices related to expected credit loss. The eleven principles focused on lending and debt securities. The Committee acknowledged there are different standards given jurisdictional differences, but noted that the guidelines focus on addressing commonalities and consistent approaches whenever possible. However, the proposal presented a number of issues for credit portfolio managers due to the differences versus the IFRS9 standards (in some areas) and a change of wording as compared to certain aspects of previously released Basel standards.

IACPM ACTIONS IACPM submitted a **response letter** commenting on select principles within the document. Among the topics addressed were definitions/practices related to: forward looking information; differences in the guidance in the consultative document versus accounting standards and prior Basel regulations which cover some of the same areas: 12 month expected credit loss; significant increases in credit risk; use of practical expedient/proportionality; the interaction between new provision approaches and capital treatment; disclosure; definition of default; and US GAAP for which FASB has not yet finalized its standard.

STATUS Outstanding. Discussions are continuing with the Basel Committee.

Revisions to the Standardized Approach for Credit Risk (BCBS d307)

ISSUE The Basel Committee’s consultative document is an update to the existing standardized approach doctrine with the intent of making the rules more comparable and transparent. The new approach would reduce the reliance on external credit ratings, provide more linkage between the standardized approach and the internal risk ratings based approach and, from Basel’s perspective, provide more conformity around bank capital requirements. The risk weightings for banks, corporates, secured lending, and real estate are just a few of the areas that would be materially impacted under this proposal. In addition, the credit risk mitigation section was of particular interest to credit portfolio managers in North America. The consultative document states that a credit default swap (CDS) that does not specify Restructuring as a Credit Event would no longer be recognized as a credit risk mitigant for regulatory capital purposes. The net result would be that these CDS would receive no capital relief, down from the current 40% haircut in Basel regulations.

IACPM ACTIONS IACPM submitted two letters related to the Standardized Approach proposal: a comment letter jointly with the Institute of International Finance and Global Financial Markets Association on global risk measurement issues; and a separate letter related to the issue affecting the treatment of credit default swaps without restructuring for capital relief.

Joint Industry Response Letter: The **joint industry response letter** expressed concern with the sweeping changes proposed within the new standardized approach, emphasizing that, as drafted, the approach could potentially have unintended consequences such as the reduction of risk management, reduced credit extensions to borrowers, and/or the assumption of risks in other sectors that may be more risky but receive favorable treatment. The joint response letter suggested focusing implementation on a few select areas where the Basel Committee can make meaningful improvements and leave the areas where the approach currently works unchanged.

STATUS Outstanding. Discussions are continuing with the Basel Committee.

IACPM ACTIONS **IACPM Letter on Credit Risk Mitigation (Section 3.4 of the Revisions to the Standardized Approach for Credit Risk):** IACPM submitted a separate **comment letter** which provided the rationale for 100% regulatory capital relief on United States CDS contracts, which typically trade without Restructuring as a Credit Event. The letter noted that trigger events require a 100% vote under the terms of the hedged instrument and that there is a well established framework for bankruptcy/reorganization in the jurisdiction. This is different than other jurisdictions, as in Europe, for example, a restructuring credit event is more probable in insolvency proceedings and therefore Modified Modified Restructuring (MMR) is the European CDS contract standard.

STATUS **Outstanding.** There have been additional discussions with regulatory agencies on this topic, and work is ongoing with IACPM's working group and the regulators.

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. During 2015, IACPM met with regulatory agencies including OSFI (Canada), EBA (Europe), CBRC (China), MAS (Singapore), OCC (United States), JFSA (Japan), Bank of Japan and the PRA (United Kingdom). The results of the IACPM's global **Risk Appetite Benchmarking** in collaboration with PwC was of great interest to regulators, as were IACPM's views on other issues such as Securitisation, No Restructuring CDS and IFRS9 expected credit loss.

IACPM also held a growing number of informal, regional roundtable discussions with members and regulators on a range of topical issues, including in London and Hong Kong. Future meetings are in the planning stages.

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.

Volcker Working Group

Members met prior to the Volcker Rule implementation and then again once the Rule took effect on July 20th. The in-person discussions allowed members to share best practices and also raise concerns regarding establishment and implementation of CPM policies under the Rule. Now that the Rule has taken effect, there will be continued follow up with the group to share best practices.

Securitisation Working Group

The Securitisation Working Group was active this year with focus on the Basel Committee Consultative Document "Criteria for identifying simple, transparent and comparable transactions" (d304). The group worked on two comments letters related to the Consultative Document and also participated in a number of discussion forums at IACPM Conferences and with regulators. The group is now actively engaged in responding to the European Banking Authority's questionnaire and additional follow-up with this regulatory agency.

Credit Risk Mitigation Working Group

The Credit Risk Mitigation Working Group was created to respond to the standardized approach section that deals with NoR CDS in the United States. The group met frequently to shape content for IACPM's comment letter on the subject and members also participated in follow up discussions with regulators on this important topic.

Accounting Working Group

The Accounting Working Group organized IACPM's response to the "Guidance on Accounting for Expected Credit Loss" (d311). The group's members remain active on these issues – both from the standpoint of discussions at IACPM's meetings and conferences on the implementation of IFRS9 globally and in anticipation of FASB's release of standards.

LINKS TO ADDITIONAL INFORMATION

Criteria for identifying simple, transparent and comparable securitisations (d304)

Consultative Document	http://www.bis.org/bcbs/publ/d304.pdf
IACPM Comment Letter	http://iacpm.org/dotAsset/64627.pdf
Joint Associations Comment Letter	http://www.bis.org/bcbs/publ/comments/d304/giii.pdf
IACPM Clarification Letter on Tranching Cover Transactions	http://iacpm.org/dotAsset/66585.pdf

Guidance on Accounting for Expected Credit Loss (d311)

Consultative Document	http://www.bis.org/bcbs/publ/d311.pdf
IACPM Comment Letter	http://iacpm.org/dotAsset/65805.pdf

Revisions to the Standardized Approach for Credit Risk (BCBS d307)

Consultative Document	http://www.bis.org/bcbs/publ/d307.pdf
IACPM Comment Letter	http://iacpm.org/dotAsset/65087.pdf
Joint Associations Letter	http://iacpm.org/dotAsset/65085.pdf

For More Information about IACPM's Advocacy:

IACPM Monthly Regulatory Committee (*by conference call*)

Contact: Alison Christensen at IACPM to be added to the distribution list (alison@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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