

NOTE FROM IACPM'S EXECUTIVE DIRECTOR

Dear Members,

During 2014 the regulatory environment remained challenging in the major financial markets globally, continuing the trend of recent years.

To help members understand and deal with these challenges, the IACPM has further expanded its advocacy efforts with key regulatory and supervisory agencies regarding current and proposed regulations that affect credit portfolio managers. Below is a brief summary of some of the actions taken by the IACPM and our members in 2014.

I thank the Regulatory Committee, the Board and the many IACPM members who provide ongoing leadership, time and support for our initiatives. The IACPM's Regulatory Committee meets monthly to set the agenda for our advocacy efforts. Please let me know if you like to become 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

Liquidity Coverage Ratio: Liquidity, Risk Measurement, Standards and Monitoring (U.S. Joint Regulator Notice of Proposed Rulemaking)

ISSUE In connection with the Basel Liquidity Coverage Ratio (LCR) standards, the U.S. regulators **proposed rules** to implement the LCR for U.S. banking organizations which deviate in material ways from the global standard. The differences mean that the proposed U.S. rules create the risk of market distortions and competitive issues among financial institutions, especially for those firms operating in multiple jurisdictions. The proposed rules would apply to a wide range of banking institutions, including: U.S. banks that are mandatorily subject to the advanced approach risk-based capital rules; their consolidated depository subsidiary organizations with assets greater than \$10 billion; and nonfinancial companies designated by the Financial Stability Oversight Council for supervision by the Fed.

IACPM ACTIONS IACPM submitted two comment letters jointly with The Clearing House and other industry associations. In the **first comment letter**, the joint associations focused on the areas of divergence between the U.S. proposal vs. Basel and included (among others) specific requests to: modify the net outflow calculation ("peak day requirement"); defer the daily calculation; align the deposit requirements more closely to the Basel LCR; adjust the net cash outflow definition for liquidity facilities and broaden the definition of the High Quality Liquid Asset (HQLA). In the second comment letter, the joint associations submitted results of empirical analyses conducted by a third party consultant to assess the potential impact of some of the unique elements of the U.S. proposal related to: the "peak day" calculation; the requirement that certain depository institutions be covered under the LCR; and the requirement for accelerated implementation. The IACPM and other industry groups also met with representatives of the U.S. regulators to discuss our comments.

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STATUS The final rule was issued in September 2014. The joint regulators addressed certain of the industry groups' requests with respect to the "peak day" calculation, aligning deposit requirements more closely to Basel, and partial adjustment to the net cash outflow definition for liquidity facilities. The agencies did not defer the early implementation dates for U.S. institutions subject to the rules.

Basel Fundamental Review of the Trading Book (BCBS 265)

ISSUE The Basel Committee's consultative document on the trading book includes a list of specific instruments presumed to require trading book or banking book treatment which may result in inconsistency in implementation by national authorities. The presumed treatment could limit portfolio managers' ability to use certain market tools in mitigating credit and concentration risks for their loan portfolios. In addition, while the document provides for re-designation of exposure between the trading book and banking book in certain circumstances, there is a requirement to reverse any capital benefit arising from the transfer.

IACPM ACTIONS IACPM submitted a comment letter highlighting that a "hard coded" list of instruments presumed to be banking or trading book gives rise to the potential for distortions and/or ambiguities, and may be detrimental to prudent risk management strategies. IACPM also specifically commented regarding underwriting risk and options, which the Basel list presumes would give rise to trading book exposure. IACPM highlighted that loan underwriting could result in either banking book or trading book exposure depending on circumstances and also that loan instruments – which usually are held in the bank book – often include embedded options. IACPM also commented in the letter that the requirement to set aside any capital benefit from a transfer between trading and banking book is punitive and that the required public disclosures of such transfers provide adequate controls.

STATUS **Outstanding.** Discussions are ongoing with the Basel Committee.

Second Revisions to the Basel Securitisation Framework (BCBS 269)

ISSUE The second revisions to the Basel Securitisation Framework addressed some, but not all, of the issues outlined in the IACPM's earlier comments on the Securitisation Framework and First Revisions to the Securitisation Framework. Specifically, especially for higher quality exposures and for medium-term and longer-maturity transactions, the second revisions contain capital requirements that are much higher than justified by historical loss incidence in most asset classes. The high capital requirements are likely to discourage banks from investing in securitisation exposure and, in combination with other pending regulatory measures, also likely to limit the redevelopment of the market.

IACPM ACTIONS IACPM submitted a comment letter to the Basel Committee emphasizing the importance of bank balance sheet securitisations as a prudent risk management tool for credit portfolio managers, as well as a mechanism to facilitate banks to continue lending and to reduce systemic risk in the banking system. The IACPM letter included, by reference, three letters from investors in support of balance sheet transactions which were used in conversations with the U.S. SEC in their examination of bank balance sheet securitisations. The IACPM, together with the Global Financial Markets Association and other associations, also joined two broader industry association comment letters to the Basel Committee regarding the Securitisation Framework. The first joint industry association letter recommended specific changes in modelling assumptions and parameters, as well as changes to the operating conditions for certain approaches and to the risk weight floor and capital cap provisions. The second joint association letter included an empirical analysis, applying the proposed capital framework to actual deal data from several institutions. The analysis supported the assertion that the framework may have calibration issues, and may benefit from further detailed analysis to fine tune the calibration.

STATUS **Outstanding.** Discussions are ongoing with the Basel Committee.

IACPM REGULATORY COMMITTEES, BENCHMARKING AND ROUNDTABLES

With the guidance of IACPM's Board and the Regulatory Committee, the IACPM has expanded communications with members and regulators, and also conducted a number of benchmarking surveys specifically on regulatory-related issues. We are in the planning stages for future efforts and welcome member thoughts and ideas.

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 are currently exploring current practices on the implementation of the Volcker Rule via conference calls and in person meetings. Further steps may include discussions, meetings with regulators and/or a white paper or other document outlining some of the considerations for CPM related to Volcker Rule compliance and implementation.

Benchmarking on Regulatory Issues

CPM and the Volcker Rule

The IACPM conducted a short survey to explore how firms have implemented the Volcker Rule and how it has affected hedging behavior inside and outside the U.S. Among the issues examined were status – out of scope or in scope, exemptions and required documentation, and CPM current market risk mitigation practices.

Implementing the U.S. Leveraged Lending Guidelines

The IACPM conducted a short survey to benchmark evolving practices implementing the current U.S. Leveraged Lending Guidelines and to highlight range of practices.

Regional Roundtable Series with Regulators

United States

Office of the Comptroller of the Currency

New York, September 2014

*with: Martin Pfinsgraff
Senior Deputy Comptroller,
Large Bank Supervision*

Federal Reserve Bank of New York

New York, September 2013

*with: Ron Cathcart
Head of Enterprise Risk Supervision*

United Kingdom

Prudential Regulation Authority

London, March 2014 & October 2014

*with: Nick Strange
Head of Credit Risk
Stephen Pepper
Senior Risk Specialist
& other PRA Colleagues*

LINKS TO ADDITIONAL INFORMATION

Liquidity Coverage Ratio: Liquidity, Risk Measurement, Standards and Monitoring (U.S. Joint Regulator Notice of Proposed Rulemaking)

Notice of Proposed Rulemaking	http://1.usa.gov/ZZTDAV
Joint Association Comment Letters	
Jan 31, 2014	http://bit.ly/1thoBjF
July 1, 2014	http://bit.ly/1rA5A6t

Basel Fundamental Review of the Trading Book (BCBS 265)

Fundamental Review of the Trading Book – Second Consultative Document	http://bit.ly/1cgUfQQ
IACPM Comment Letter	http://bit.ly/1tDdYHS

Second Revisions to the Basel Securitisation Framework (BCBS 269)

Revisions to the Securitisation Framework – consultative document	http://bit.ly/1cBT6b9
IACPM Comment Letter	http://bit.ly/1u7wWbM
Joint Associations Comment Letters	
March 24, 2014	http://bit.ly/1DwcrEC
August 12, 2014	http://bit.ly/1wFbjfM

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)

IACPM Regulatory and Accounting Update - Past Issues

November 2013	http://bit.ly/1yHYUZR
November 2012	http://bit.ly/1rSDF2S

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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