

## NOTE FROM IACPM'S EXECUTIVE DIRECTOR

Dear Members,

As 2019 draws to a close, the IACPM Annual Regulatory Newsletter provides members with a look back at the important regulatory activities that impacted member firms. With the 2022 Basel implementation date fast approaching, IACPM continues to engage in dialogue with various global regulators. Below, we provide you with an update on these activities and discuss the focused research survey work we completed throughout the year. We also highlight some of the meetings held globally that members had the opportunity to attend and provide a preview of which meetings and events might be of interest to your firm in 2020.

The IACPM remains active in a wide range of regulatory advocacy topics. As firms transition to the implementation of new global rules in the coming years, the ongoing interaction with global regulators is important. IACPM is in the unique position to interact with global regulators on a variety of topics since we represent the collective membership in these discussions. One example of the ongoing regulatory activity has been the work IACPM members have done over the past four years with the European Banking Authority (EBA) on synthetic securitisation. Back in 2015 and 2017, IACPM members provided the EBA with quantitative volume information on synthetic securitisation transactions. Earlier this year, the EBA approached the IACPM as they initiated work to advocate for the Simple, Transparent and Standardized (STS) label on synthetic transactions. The EBA requested our members update the quantitative volume data on the relevant transactions. Additionally, in order to make a compelling argument with European Member States, the EBA requested performance data from IACPM members on executed synthetic deals.

After analyzing the data, the EBA recently released the discussion paper *Draft Report on STS Framework for Synthetic Securitisation* which included references to our members' work in various sections throughout the document. IACPM is now coordinating with members on a response letter. The partnership between IACPM and the EBA on this particular topic is significant for members after years of hard work on this topic. Looking ahead to 2020, there is work to be done to educate the European Member States on the benefits of this product as a risk management tool for Credit Portfolio Managers.

Throughout the year, IACPM has been focused on helping support the importance of Non-Payment Credit Insurance as a risk mitigation tool and this work will continue into next year. Finally, after years of survey work and meetings with members, CECL will be implemented at the start of 2020. As the impact to Credit Portfolio Managers is assessed, IACPM will continue an active dialogue around both CECL and IFRS9, with both members and regulators in the coming years.

In 2020, we expect the final local jurisdiction rules around No Restructuring CDS (NoR CDS) as well as net short credit risk from Basel's Fundamental Review of the Trading Book (FRTB). Members remain focused on both topics as the rules impact capital treatment.

The IACPM 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 evolving discipline of Credit Portfolio Management, Synthetic Securitisation, Non-Payment Credit Insurance, No Restructuring CDS, Climate Risks and IFRS9 and CECL Expected Credit Loss Provisions.

Attached is a brief summary of some of the actions taken by the IACPM and our members in 2019. Please feel free to share the summary with others at your firm.

My thanks to the Regulatory Committee, the Board, the working groups comprised of 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 us know if you would like to be involved and we 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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## MORE INFORMATION ABOUT IACPM'S ADVOCACY

IACPM Monthly Regulatory Committee (*by conference call*)  
Contact **Jennifer Bearden** at [jennifer@iacpm.org](mailto:jennifer@iacpm.org) to be added to the distribution list.

## IACPM REGULATORY AND RESEARCH YEAR IN REVIEW

### SECURITISATION

Securitisation remains an important tool for IACPM members to mitigate credit risk. Continuing the important relationship from previous years, IACPM has been actively working with the European Banking Authority (EBA) throughout 2019 to support the product and its inclusion in the Simple, Transparent and Standardised (STS) Framework to achieve improved capital treatment. IACPM submitted updated quantitative market volume analysis which contains data that goes back to 2008. This analysis had previously been conducted in 2015 and 2017 and provided a snapshot of the size of the synthetic securitisation market. The data highlighted in the survey included: tranche and pool size as well as investor and geographical breakdown for synthetic deals. Additionally, members provided important performance data that compared figures from the securitized pool of loans to the broader loan portfolio.

This information is critical as it helps regulators understand that banks are thoughtful in choosing the assets to be securitized. The data highlights that, in fact, securitized pools of loans perform better than a broader loan portfolio. Recently, the EBA released a discussion paper *Draft Report on STS Framework for Synthetic Securitisation*. The data provided by IACPM members provided to the EBA is highlighted throughout the discussion paper. The discussion paper recommends establishing a separate STS (Simple, Transparent and Standardized) framework for synthetic balance sheet transactions. The paper does not provide a recommendation around capital treatment for these transactions. Therefore, IACPM will be issuing a response letter at the November deadline. In the future, the Association plans to engage with European Member States to provide background on the product and allow members to highlight how the product works and also how the product benefits banks as a risk mitigation tool.

The EBA also recently released a consultation paper *Draft Guidelines on the determination of the weighted average maturity of the contractual payments due under the tranche*. The consultation focuses on the calculation of the weighted average maturity in order to ensure methodologies are consistent. IACPM submitted a letter supporting the Comment Letter of the Association for Financial Markets in Europe (AFME) on these issues.

### CONCENTRATIONS & LIMITS

Concentrations and Limits remains a topic of continuing importance to IACPM members as frameworks evolve over time. In 2017, IACPM benchmarked concentration and limit frameworks at IACPM member firms. There was strong interest in this survey from members with over half of the membership participating. As a follow-up to the survey, the IACPM organized two webinars to provide practitioner perspectives on survey findings. This year hosted a practitioner forum in New York City to provide an opportunity for member firms to discuss this important topic in more detail. There is a similar practitioner forum planned in Australia for early 2020 and in London later that year if there is sufficient member interest.

### CREDIT INSURANCE

At the request of members, the IACPM has been actively engaged in the topic of nonpayment credit insurance throughout 2019. In February, the IACPM held a Credit Insurance Summit meeting in London which brought together the active constituents involved in the product – banks, insurance companies, insurance brokers and law firms. The key initiatives discussed at the meeting included: credit insurance performance data, operational processes, documentation standardization and regulatory treatment of credit insurance. Following the meeting, the IACPM formed a Credit Insurance Working Group to discuss how to move forward on these key initiatives. A qualitative survey for bank members was drafted which focused on current practices and treatment for non-payment insurance policies used by lenders as a credit risk mitigation tool to release capital or increase lending capacity. IACPM teamed up with International Trade and Forfeiting Association (ITFA) for this important survey and over 45 banks responded. There have been discussions with our members and ITFA to create a similar survey for insurance companies. Combined, these two surveys would provide a realistic picture of the non-payment credit insurance market with the further goal of discussing these surveys with global regulators to help provide education on the product.

The standardization of documentation for non-payment credit insurance is a complex initiative that involves many different interested parties working together. We are coordinating with the Loan Market Association (LMA) to hold preliminary discussions with the interested parties and this work will continue into 2020. The EBA released a consultative paper *Draft Guidelines on Credit Risk Mitigation for institutions applying the IRB approach with own estimates of LGD*. The IACPM met with representatives of the EBA to discuss this consultation. Discussions held with the EBA covered the critical issues within the consultative document and the remaining outstanding issues are addressed in the IACPM qualitative survey for bank members.

Given the focus on Credit Insurance this year, we are happy to report that the IACPM Board of Directors has approved the addition of Credit Insurance Brokers as a new membership tier. It is critical that the interested parties be involved in discussions on the topics mentioned above in order to promote transparency and expanded ability to use the product.

As a next step, IACPM is planning the Second Annual Credit Insurance Summit to be held in London in February 2020.

### PRINCIPLES & PRACTICES

IACPM conducted the biennial survey Principles and Practices in Credit Portfolio Management in early 2019. The survey focuses on the evolution of credit portfolio management business models, the mission and mandate of the function as well as outlook for the future of the practice. The survey results are useful for credit portfolio managers to benchmark best practices. IACPM discussed the results with global regulators to increase awareness of the importance of credit portfolio management as a function within firms and how important they are in the effective management of risk. A white paper was published *IACPM 2019 Principles and Practices: CPM at the Tail End of the Credit Cycle*.

## CLIMATE RISK

The IACPM, in collaboration with Oliver Wyman, conducted a global benchmarking study that focused on strategic and business implications of climate change. Facing the increasing effects of climate change, financial institutions are working to develop a more thorough understanding of the risks involved and how best to assess and measure these risks so that they can be incorporated into strategic planning, risk appetite statements, portfolio management and credit decision processes.

Topics explored included: the progress of TCFD implementation and challenges encountered, the integration of climate considerations into credit risk management, including the scope of the integration and approaches taken, as well as governance and ownership within institutions. A white paper Climate Change – Managing a New Financial Risk was published this year and results were presented at IACPM's Spring Conference in Berlin. IACPM also used the opportunity to discuss the results from the survey with global regulators. There continues to be strong interest around climate change among member firms and regulators. Therefore, we anticipate this topic will continue to be a focus for IACPM in the coming years.

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## LOOKING AHEAD TO 2020

### RISK APPETITE SURVEY

In 2014, IACPM partnered with PwC to conduct a member survey on internal risk appetite frameworks. There were 78 firms that participated in the study and IACPM held many meetings to discuss the results with global regulators. Members requested that IACPM consider updating the risk appetite survey in 2020. Therefore, after conversation with the IACPM board, this survey will be updated and launched in the first half of 2020. The expectation is that the results will be, once again, of interest to both member firms and global regulators.

### SECTOR FOCUSED MEETING: REAL ESTATE

Real estate continues to be an important sector focus topic for credit portfolio managers from a risk perspective. In fact, real estate has remained consistently one of the top three sector focus areas for IACPM members on the IACPM Quarterly Outlook Survey. Therefore, as we near the next credit cycle, IACPM members expressed interest in a full-day meeting on real estate. The meeting will be held January 23rd in New York at IACPM's offices. The topics include credit portfolio management impacts, real estate data and regulator perspectives and outlook for the real estate sector.

### SECOND ANNUAL CREDIT INSURANCE SUMMIT

IACPM held a successful inaugural Credit Insurance Summit in February and members have expressed interest in having another meeting in 2020. The meeting has been scheduled for February 4th in London. IACPM will have results from the bank nonpayment credit insurance survey to discuss at this meeting. Additionally, an update on documentation standardization will be on the agenda as well as regulatory updates.

## CREDIT OUTLOOK & CPM CURRENT ISSUES

IACPM conducts a quarterly survey on credit outlook for member firms. The survey highlights the top industry sectors for risk mitigation efforts as well as three-month credit spread outlook forecasts across different geographies. The twelve-month default index is broken out by region as well as sectors to provide credit portfolio managers with important market information. This survey provides guidance on market direction based on member input which makes this survey very popular. The CPM Current Issue Survey is conducted biannually to provide a snapshot of IACPM member views on credit portfolio management priorities and concerns. Responses are collected among all of IACPM's member contacts to allow different areas within member firms to provide input. Survey results are used to frame discussions at the IACPM Spring and Fall Conferences.

### AUSTRALIA CONCENTRATIONS & LIMITS

Concentrations and Limits continues to be a topic that is important for global IACPM members. After a successful fall meeting in New York, the next practitioner forum will be held in Sydney, Australia on February 28th.

### INDIA REGIONAL MEETING

The annual IACPM India Regional Meeting will be held on February 20th in Mumbai. This meeting brings together global banks to discuss the topics relevant to the Indian banking market.

### ASIA REGIONAL MEETING

The Spring Asia Regional Meeting will be in March in Singapore. This meeting brings together members from various countries to discuss various topics of importance to bank credit portfolio managers.

### SPRING EUROPEAN & FALL NORTH AMERICAN CONFERENCES

IACPM's Spring Conference will be held in Madrid on May 11th - 13th. The Fall Conference will be held in Washington, DC on November 18th - 20th.

*There will be many additional meetings throughout the year held in various locations such as Japan, Continental Europe as well as the annual Spring Middle Market Regional Meeting in the U.S. Every month, at the beginning of the month, IACPM publishes an IACPM events calendar for members.*

## 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 2019, the IACPM met with regulatory agencies and central banks including members of the Basel Committee, EBA (Europe), ECB (Europe), MAS (Singapore), the Federal Reserve and Office of the Comptroller of the Currency (United States), Reserve Bank of India (India), Bank Negara Malaysia (Malaysia), JFSA and Bank of Japan (Japan), Ministry of Finance (France), HKMA (Hong Kong) and the PRA (United Kingdom).

In addition to these meetings, IACPM also participated in workshops with regulators. For example, IACPM and member firms held meetings globally with regulators discuss the results of the Climate Risk survey. Additionally, the IACPM held the annual meeting with the Prudential Regulatory Authority (PRA) and member firms in London. This meeting between IACPM and the PRA provides an informal dialogue on various topics. Additionally, the PRA has asked IACPM to conduct a credit insurance best practices discussion at their offices in 2020. IACPM hopes to replicate this discussion with other global regulators. Finally, IACPM staff continues to be asked to speak at other industry conferences such as the Structured Credit Investors and the Information Management Network meetings that focused on the securitization market as well as the ExCred Conference on Credit Insurance.

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## 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 are currently actively involved in the Draft Report on STS Framework for Synthetic Securitisation response letter. Earlier this year, members submitted quantitative volume analysis and performance data to the European Banking Authority. The working group also meets periodically and conducts short surveys on topical issues. Members interested in this topic continue to participate in a number of discussion forums at IACPM Conferences and with regulators.

### CREDIT INSURANCE WORKING GROUP

The credit insurance working group was formed in 2019 given the member interest in pursuing several initiatives around the product. This working group was instrumental in creating the Non-Payment Insurance survey for banks as well as planning the credit insurance summit meetings held in London. The working group will continue to meet frequently to coordinate discussions with regulators around the IACPM survey as well as best practice discussions. We continue to monitor the documentation standardization discussions that will carry into 2020. Finally, the working group along with ITFA and possibly other industry associations will discuss an insurance company survey that will complement the bank survey.

### ACCOUNTING WORKING GROUP

The Accounting Working Group met to discuss IFRS9/CECL macro hedging. Banks are continually trying to assess the impact of the accounting changes and how to effectively manage risk in this new regime. We expect this topic will remain at the forefront as the global economy approaches the next credit cycle.

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## LINKS TO ADDITIONAL INFORMATION REFERENCED

### SECURITISATION LETTERS

[Consultative Document](#)

[Consultative Document](#)

[IACPM Support Letter](#)

### CREDIT INSURANCE LETTER

[Consultative Document](#)

### IACPM WHITE PAPERS

[Principles and Practices White Paper](#)

[Climate Risk White Paper](#)

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