IACPM

INTERNATIONAL ASSOCIATION OF CREDIT PORTFOLIO MANAGERS

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October 30, 2013

Via email

Office of the Comptroller of the Currency
Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Federal Housing Finance Agency
U.S. Securities and Exchange Commission
Department of Housing and Urban Development

Subject: **Notice of Proposed Rulemaking, Credit Risk Retention**
OCC (Docket No. OCC-2013-0010)
FRB (Docket No. R-1411)
FDIC (RIN 3064-AD74)
FHFA (RIN 2590-AA43)
SEC (Release No. 34-64148; File No. S7-14-11)
HUD (RIN 2501-AD53)

Ladies and Gentlemen:

The International Association of Credit Portfolio Managers[i] (the "IACPM") appreciates the opportunity to comment on the joint agency re-proposal of rules to implement the credit risk retention requirements (the "proposal") of section 15G of the Securities Exchange Act of 1934, as added by section 941 of the Dodd-Frank Act.

We will focus our comments on a single issue in the proposal: the lead arranger risk retention option for open market collateralized loan obligations ("CLOs"), as described in Section III.B.7 (beginning on page 145 of the proposal).

The IACPM's institutional member firms comprise the world's largest financial institutions, and as such overlaps the membership of several other financial industry associations who may comment on the proposal. Our perspective is different, however, in that the IACPM represents the teams within those institutions who have responsibility for managing credit portfolios. IACPM members are the group responsible for managing the bank's loan portfolio, including actively controlling concentrations, adding diversification, managing the return of the portfolio relative to the risk, and managing counterparty risk related to derivatives exposure. To achieve these goals, credit portfolio managers utilize both "front end" tools (e.g., limit processes, capital allocation processes, deal screening analytics and risk measures, etc.) and "back end" tools (e.g., hedging, asset sales, securitization, etc.).

In carrying out these responsibilities successfully, credit portfolio managers contribute to maintaining the safety and soundness of their respective financial institutions. Effective credit portfolio management is critically important to our prudential supervisors and to policy makers more broadly because of its role in supporting financial institutions' ability to lend.

The lead arranger option for risk retention in an open market CLO would clearly constrain the ability of the credit portfolio management function in the lead arranger firm. In particular, we foresee two negative consequences of this approach.

- **Lead arranger risk retention prevents the exercise of prudent risk management practices.** The core of credit portfolio management lies in the ability to dynamically and actively manage credit risk over time. Managing credit assets through hedging, sales, or other risk transfer mechanisms allows banks to respond to changing market environments, and is an implementation of prudent risk management practices. Banking regulators in many jurisdictions have long recognized this approach as an effective risk management paradigm, and in fact have emphasized that prudent risk management practices should include active and ongoing assessment and management of risks. Supervisors' emphasis on flexibility is in fact reflected in the recent interagency Guidance on Leveraged Lending.

- **Lead arranger risk retention reduces the arranger's ability to extend credit.** CPM is a diverse function, and can have multiple mandates. One important mandate at many firms, especially at large banks that tend to be lead arrangers, is providing lending capacity through the management of individual borrower exposures. Borrowers will sometimes ask banks to provide more credit than prudent individual borrower limits would allow. Credit portfolio managers facilitate the extension of credit in these situations by transferring risk in a portion of the facilities (through hedging, sales, or other mechanisms), thus freeing up credit capacity and allowing the firm to continue to lend. In addition, borrowers often make incremental requests for credit over the life of transactions for a range of corporate needs. Credit portfolio management is able to assist in accommodating these requests by transferring a portion of the risk in other existing exposures via hedge or sale. One important type of lending that would likely be reduced in these circumstances is revolving credit facilities, which are an important source of working capital for corporate borrowers, and are a component of syndicated deals that are typically widely held by banks, and not CLOs.

It does not appear to us that the lead arranger option is necessary to realize the alignment of interests between CLO managers and investors that the risk retention rules are trying to achieve. There are many current features of open market CLOs (contingent and performance-based manager compensation, and many investor driven features such as overcapitalization ratio tests, etc.) that appear sufficient to align manager and investor interests.

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The IACPM appreciates your attention to our thoughts and concerns. The IACPM's Board of Directors and I would welcome the opportunity to discuss these issues with any of the agencies involved in this re-proposal of credit risk retention rules.

Sincerely,

Som-lok Leung
Executive Director
International Association of Credit Portfolio Managers

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[i] The IACPM is an industry association established in 2001 to further the practice of credit exposure management by providing an active forum for its member institutions to exchange ideas on topics of common interest. Membership in the IACPM is open to all financial institutions that manage portfolios of corporate loans, bonds or similar credit sensitive financial instruments. The IACPM represents its members before regulatory and administrative bodies in the US and internationally, holds conferences and regional meetings, conducts research on the credit portfolio management field, and works with other organizations on issues of mutual interest relating to the measurement and management of portfolio risk. Currently, there are 89 financial institutions worldwide that are members of the IACPM. These institutions are based in 17 countries and include many of the world's largest commercial wholesale banks, investment banks and insurance companies, as well as a number of asset managers. More information about the IACPM may be found on our website: www.iacpm.org.