



## About the IACPM

**Som-lok Leung**  
**International Association of**  
**Credit Portfolio Managers**

IACPM China Forum,  
June 14, 2011

[www.iacpm.org](http://www.iacpm.org)

# About the IACPM

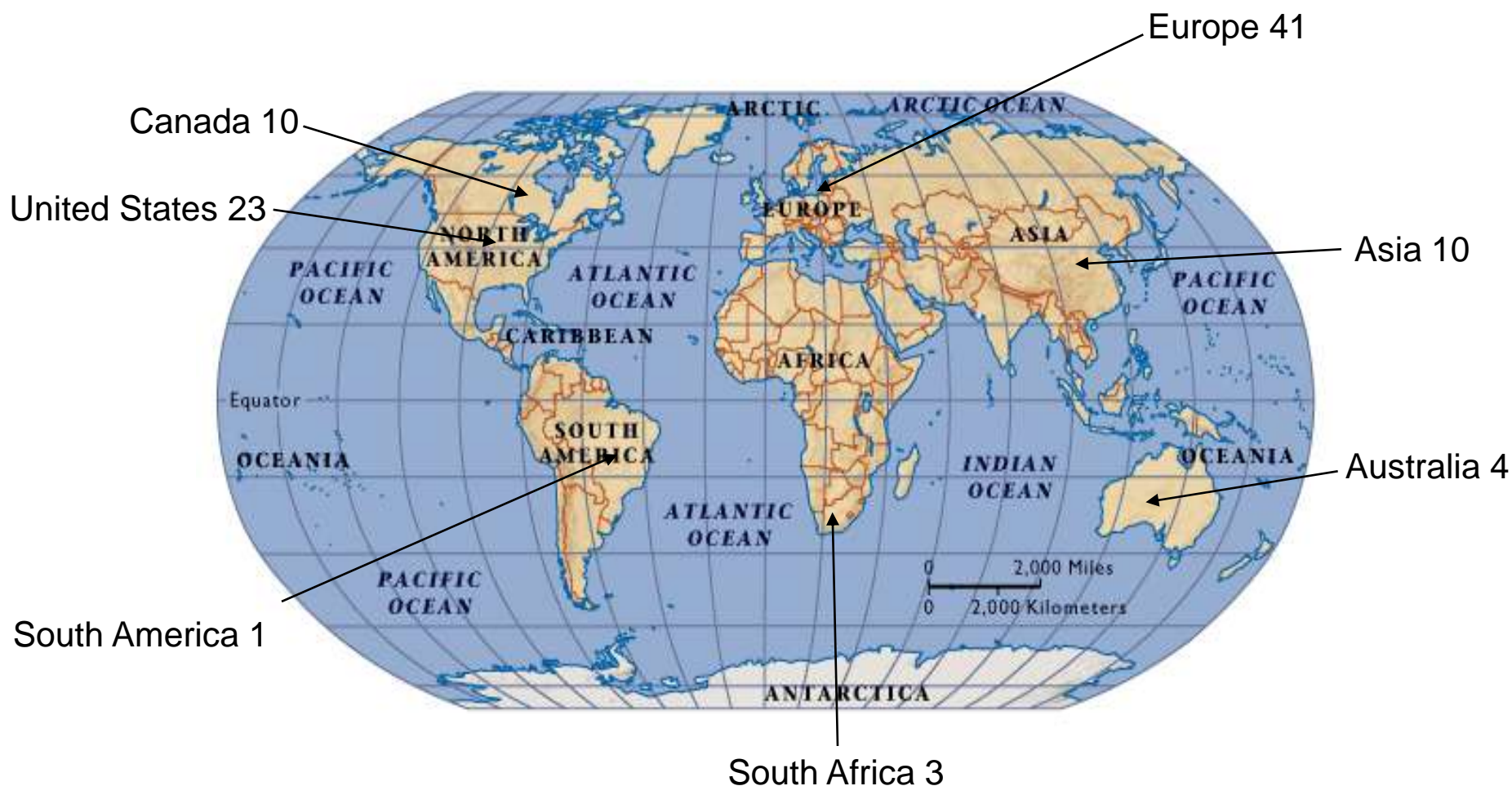


# Our Mission

The IACPM is a not-for-profit industry association whose mandate is to:

- Further the management of credit exposures by providing a forum for member institutions to exchange ideas
- Foster research on credit portfolio management
- Represent members before legislative and administrative bodies
- Develop and promote standard practices

# IACPM Members Around the Globe



April 2011

# 92 IACPM Member Institutions

ABN AMRO Bank NV	Deutsche Bank	Nord/LB
ABSA Capital	EcoFin	NRW.BANK
Allianz	Eurohypo A.G.	OCBC Bank
Ariel Re	European Investment Fund	Orchard Global Asset Management
ATB Financial	Export Development Canada	PNC Financial Services Group
Atradius	Fifth Third	Prudential
Australia & New Zealand Banking Group	FirstRand Bank	Rabobank
Banco Itau	Goldman Sachs	Regions Bank
Banco Santander	Huntington National Bank	Royal Bank of Canada
Banesto	HSBC	Royal Bank of Scotland
Bank of America	IKB Deutsche Industriebank	Scotiabank
Bank of Montreal	ING Group	Société Générale
Bank of the West	Intesa Sanpaolo	Standard Chartered Bank
Bank of Tokyo-Mitsubishi UFJ	JPMorgan Chase	Sumitomo-Mitsui Banking Corporation
Barclays Capital	KBC Bank	Sun Life Assurance Company of Canada
BBVA	KeyCorp	SunTrust
BlueCrest Capital	KfW	Swiss Re
BlueMountain Capital	KfW IPEX Bank	TD Bank Financial Group
BNP Paribas	Lloyds TSB	TIAA-CREF
BNP Paribas Fortis	Manulife Financial	UBS AG
BP	MetLife	UniCredit Group S.p.A.
Capital One	Mitsubishi UFJ Trust & Banking	UniCredit Markets & Investment Banking
Channel Capital Advisors	Mizuho Corporate Bank	Union Bank of California
CIBC World Markets	Monte dei Paschi di Siena	UOB, Ltd., Singapore
Citigroup	Morgan Stanley	Wells Fargo Bank
Citizens Financial Group	Munich Reinsurance	WestLB
Commercial Industrial Financial Corp.	National Australia Bank	Westpac
Commerzbank	National Bank of Canada	WGZ Bank
Commonwealth Bank of Australia	Natixis	Zions Bank
Credit Agricole CIB	Nedbank Limited	
Credit Suisse	Nomura Holdings	

April 2011

# IACPM Board of Directors

## **IACPM Officers/Executive Committee**

Sean Kavanagh, Deutsche Bank, (Chair)  
Derek Saunders, HSBC (Vice Chair)

Jeffery J. Weaver, KeyCorp (Treasurer)

## **Directors**

James Baldino, Union Bank  
Olivier Belorgey, Credit Agricole CIB  
Sarah Cheriton, Lloyds TSB PLC  
Davide Crippa, Standard Chartered Bank  
Lori Evangel, Metlife  
Yuji Harada, Bank of Tokyo-Mitsubishi UFJ  
Richard Henshall, Westpac

Mark Hughes, Royal Bank of Canada  
Tom Johannessen, Barclays Capital  
Som-lok Leung, IACPM  
Dan Norman, ING Investment Management  
Vipin Ramani, Bank of America  
Kevin Starrett, Citigroup

# What We Do

- IACPM Sponsored Meetings
- Research projects
- Development of market practice
- Advocacy
- Member surveys
- Weekly news briefing via email
- Committees and working groups

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# IACPM Meetings

- General Meetings (conferences) twice yearly
- Roundtable discussions, Practitioner Forums
- Regional Meetings
  - N. America: New York, Toronto, US Middle Market
  - Europe: London, Germany, Paris
  - Asia/Pacific: Tokyo, Australia, Pan-Asia web conference
- Joint conferences with partners
  - Risk Magazine (South Africa)
  - RiskMinds/ICBI (Geneva, Hong Kong)
  - Nat'l Univ. of Singapore
  - Tianyi Academy of Risk Management



# Recent Research Projects

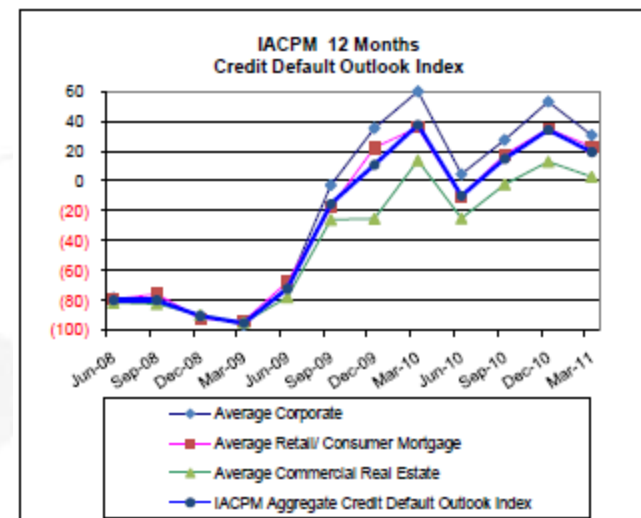
- Liquidity management and CPM
- Economic capital and stress testing benchmarking
- Global survey of CPM practices
- Credit valuation practices benchmarking

# Market Practice and Advocacy

- Development of Market Practice
  - Sound Practices in CPM
  - Management of Material Non-public Information (MNPI)
- Advocacy
  - IASB accounting rules for hedging credit portfolios
  - Basel III rules on capital and liquidity
  - US derivative regulation
  - EU rules on risk retention
  - General discussions with regulators on the state of CPM

# Member surveys

- Annual Principles & Practices in CPM
- Quarterly surveys of credit outlook
- Recent topical surveys:
  - Limits, risk appetite
  - Counterparty risk
  - Basel II parameter estimation



5. What is the level of aggregation against which the single name limits apply? (Select all that apply.)

Do not have single name limits		0	0%
Facility	<div></div>	10	23%
Obligor	<div></div>	29	69%
Relationship	<div></div>	23	54%
Other, Please Specify	<div></div>	3	7%

6. Does your framework include limits on industries/sectors?

Yes	<div></div>	31	74%
No	<div></div>	11	26%
Total		42	100%

# IACPM Weekly SmartBrief (sample excerpt)

APRIL 12, 2011

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## Weekly SmartBrief

*Essential News for Credit Portfolio Management Professionals*

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Credit Markets

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### ▪ **Analysis: Europe's debt crisis could be at a turning point**

Although many issues related to Europe's sovereign-debt crisis remain, news has stopped worsening and in some instances is improving. Whether the situation is improving quickly enough to handle a likely sovereign-debt restructuring remains a key question, according to this Wall Street Journal analysis. However, if European authorities are unable to get debt problems under control, progress made on banking issues could be all for nothing. [The Wall Street Journal \(tiered subscription model\)](#) (4/7) **Share:** [in](#) [f](#) [t](#) [E-MAIL](#)

▪ **European officials will discuss rescue package with Portugal:** EU leaders are poised to start negotiations with Portuguese officials about emergency aid, but Portugal's political vacuum presents another challenge to the deal. Officials from the International Monetary Fund, European Central Bank and European Commission will discuss technical details of Portugal's rescue. "Experts from the three institutions will meet civil servants from the Portuguese authorities on Tuesday. It will just be a technical meeting," said European Commission spokesman Cezary Lewanowicz. [Reuters](#) (4/10), [The Wall Street Journal \(tiered subscription model\)](#) (4/11), [Telegraph \(London\)](#) (4/11) **Share:** [in](#) [f](#) [t](#) [E-MAIL](#)

### ▪ **Derivatives creditors say Lehman's payment plan won't succeed**

Goldman Sachs, Silver Point Capital and other derivatives creditors of Lehman Brothers Holdings said the collapsed financial institution's \$61 billion payment plan likely won't be approved. The

# Public Resources

- IACPM web site: [www.iacpm.org](http://www.iacpm.org)
- IACPM Weekly SmartBrief: [www.smartbrief.com/iacpm](http://www.smartbrief.com/iacpm)
- IACPM Sound Practices in Credit Portfolio Management (on our web site)

# Sound Practices in Credit Portfolio Management

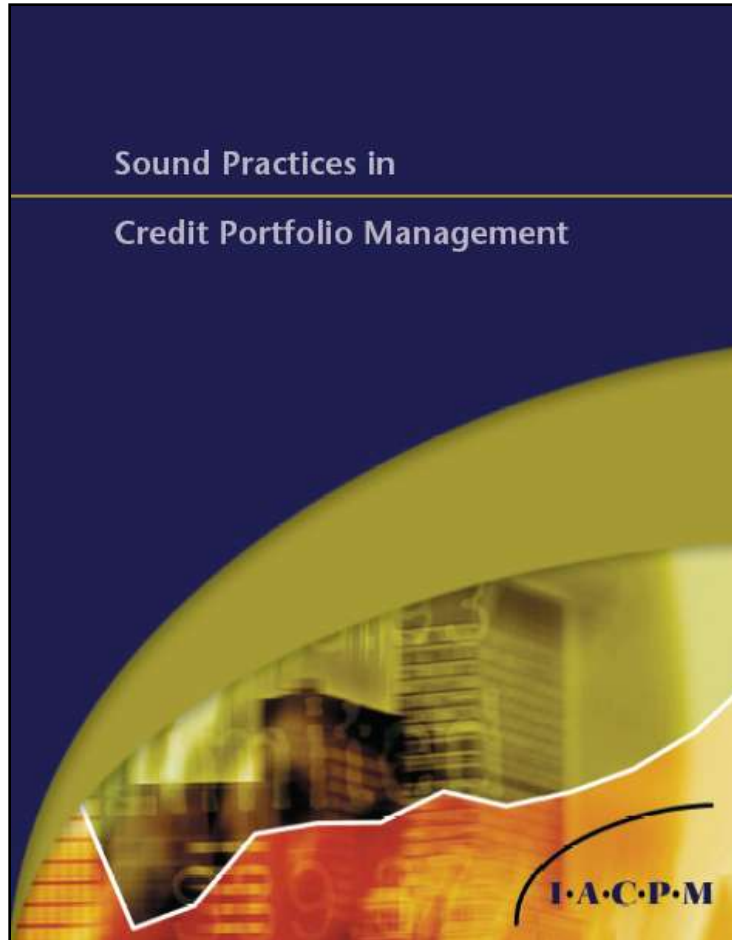
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# Project Working Group

- Broad regional distribution
- Diversity of institution types
- Advanced practitioners and recent adopters
- 13 different institutions

*ABN AMRO Bank, N.V.*  
*Bank of America NA*  
*Barclays Capital, Inc.*  
*CIBC World Markets*  
*Citigroup Inc.*  
*Deutsche Bank AG*  
*JPMorgan Chase & Co.*  
*L. Hennessey Associates, LLC*  
*Rutter Associates LLC*  
*Societe Generale*  
*Swiss Re*  
*The Bank of Tokyo-Mitsubishi Trust Co.*  
*Wachovia Corporation*

# Sound Practices Document



- 30 sound practice statements
- Organized under 11 different themes



# Sound Practice Themes

- 1. DEFINE THE PORTFOLIO TO BE MANAGED**
- 2. IDENTIFY THE ROLE AND MANDATE OF THE CPM FUNCTION**
- 3. STANDARDIZE RISK MEASURES AND MODELS**
- 4. DEAL WITH DATA ISSUES**
- 5. UNDERSTAND ECONOMIC VALUE VS ACCOUNTING VALUE**
- 6. SET LIMITS AND MANAGE CONCENTRATIONS**

# Themes Continued

- 7. STRESS TEST THE PORTFOLIO**
- 8. ALIGN ACCOUNTING PRACTICES**
- 9. REBALANCE THE PORTFOLIO TO ACHIEVE STRATEGIC OBJECTIVES**
- 10. ESTABLISH OBJECTIVES AND MEASURE PERFORMANCE**
- 11. BE TRANSPARENT IN DISCLOSURES**

# Sound Practice Statements

## *Sound Practices*

### ESTABLISH OBJECTIVES AND MEASURE PERFORMANCE

- 27 The portfolio management function should have clearly defined performance measurement targets.
- 28 Senior management should agree on performance measurement targets to ensure consistency with overall institutional objectives.
- 29 Performance measurement targets should be consistent with the mandate of the portfolio management function.

# Each Statement Discussed

*Set Limits and Manage Concentrations*

## SOUND PRACTICE 20.

20

Proper governance around the limits system should be in place, and limits should be set and exceptions approved by a group other than the group whose mandate it is to manage the portfolio.

Governance around the limits system, regardless of its structure, is essential to its effectiveness in helping an organization manage concentrations. In most organizations, a separation of powers should exist between those who are setting the limits and those who are accountable for managing the portfolio within the limits.

Limits should be viewed as thresholds rather than hard limits. Once the notional or risk-based measure for a borrower, sector, or region exceeds the limit, there should be no automatic hedging or disposal of exposure for that client, sector, or region. It is important that firms do not blindly follow the model outputs. Instead, the breach of an EC-based guideline should prompt the appropriate discussion between Risk, Portfolio Management, the Origination team, and, if necessary, the board as to, for example, the nature of the underlying exposure, the accuracy of the data inputs behind the EC number, and the outlook for the obligor, region, or sector.

The governance structure should outline and facilitate the manner in which such discussions take place. These discussions about limits excesses can help an institution determine if it is comfortable with the existing level of exposure or if an action plan is required that will identify the steps and the timeframe to reduce the exposure.

Brief text around each sound practice statement to provide context and discussion for each sound practice statement

# Seminar Agenda

- Introduction: Why Active Credit Portfolio Management? (CPM)
  - Models for CPM Organization
  - “Front-End” Controls for CPM
  - “Back-End “ Controls for CPM
  - Panel Discussion: Implementing CPM
  - Lunch
- Afternoon Introduction
  - CPM Measurement and Modeling
  - How BoTMU Developed CPM in Japan
  - Panel Discussion: Comparing Chinese and International Experience