



IACPM and RMI Credit Portfolio
Management Educational Workshop
Concentration Limit Frameworks and
Linkages to Risk Appetite
August 14, 2024

www.iacpm.org

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Deputy Executive Director
IACPM

Agenda

- About the International Association of Credit Portfolio Managers (IACPM)
- IACPM 2024 Survey: Concentrations and Limits Frameworks and Linkages to Risk Appetite
- Key Themes looking forward
- Appendix
- Questions?

The IACPM's Mission: Advancing the Practice of Credit Portfolio Management to Support the Global Economy

- Providing forums for member institutions to exchange ideas
- Conduct research on credit portfolio management as it evolves and changes
- Represent members before regulatory and administrative bodies around the world
- Develop and promote standard practices among practitioners worldwide

IACPM Members Around the Globe



145 IACPM Member Institutions

ABN AMRO Bank	Zealand Banking	BPL Global	DNB Bank ASA	IDB Group
ABSA Bank Ltd.	Avondale Private	British Int'l Inv	European Inv Bank	IFC
Africa Finance Corp.	Capital	Cadwalader	European Inv Fund	ING Group
African Development	Awbury Insurance	Capital One	Export Development	Intesa Sanpaolo
African Export Import	AXA Invest Mgrs	Chorus Capital	Canada	Japan Post Bank
AIMCO	AXA XL	Christofferson, Robb	Export Import Bank	JPMorgan Chase
Alecta	Axis Capital	Citigroup	of India	...more
A&O Shearman	Banco de Sabadell	Clifford Chance	FMO Entrepreneurial	
Allianz SE	Banco do Brasil	Commerzbank AG	Dev. Bank	
Aon	Banco Santander	Commonwealth Bank	Fifth Third	
ArrowMark Partners	Bank of America	of Australia	First Abu Dhabi Bank	
Arch Capital Group	Bank of Montreal	Credit Agricole CIB	First Horizon Bank	
Asian Development	Barclays	Danske Bank	FirstRand Ltd.	
Asian Infrastructure	BayernLB	DBS	Goldman Sachs	
Assetinsure Pty Ltd	Bayview Intl	Dentons	Guy Carpenter	
Assured Guaranty	BBVA	Deutsche Bank	HDI Global Specialty	
ATB Financial	BNP Paribas	Development Bank	Howden Group	
Australia & New	BP	of Japan	HSBC	

145 IACPM Member Institutions, (continued)

KeyCorp	Mizuho Bank	OCBC Bank	Sovereign Risk	UK Export Finance
KfW Ipex	Morgan Stanley	Orchard Global Asset	Insurance Ltd.	UniCredit Group
Latham & Watkins	MUFG Bank, Ltd.	PAG	Standard Bank	UOB Ltd.
Liberty Specialty	Munich Reinsurance	PGGM	Standard Chartered	Vantage
Linklaters LLP	National Australia	PKA	State Bank of India	Wells Fargo
Lloyds Banking	Bank	PIMCO	Sumitomo-Mitsui	Westpac
LOCKTON	National Bank	PNC Financial	Banking Corporation	Whitecroft Capital
M&G Investments	Financial	Prudential Financial	Sumitomo Mitsui	Willis Towers Watson
M&T Bank	NatWest Group Plc	Raiffeisenbank Intl	Trust Bank	
Macquarie Group	Natixis CIB	Regions Bank	Sun Life Financial	
Magnetar	Nedbank Ltd	Renaissance	Swiss Re	
Man Global	New Development	Reinsurance Limited	TD Bank	
Marsh Credit	Bank	Royal Bank of	Texel Group	
Specialties	Newmarket Capital	Canada	The D.E. Shaw	
Maybank	Nomura	Schroders Capital	Group	
Mayer Brown LLC	Nordea Bank	Silicon Valley Bank	Truist Financial	
MIGA	Northwestern Mutual	Simmons & Simmons	U.S. Bank	
Miller Insurance	Novobanco	Societe Générale	UBS AG	

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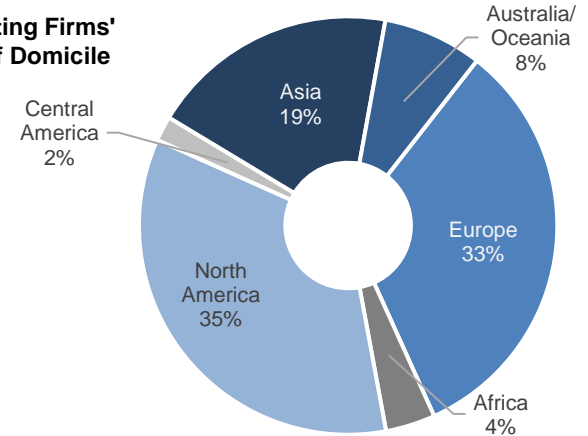
Kian Tiong Soh

Chief Risk Officer, **DBS**

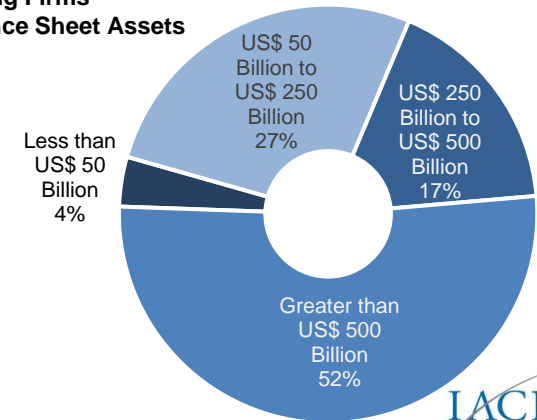
Survey Goals and Demographics

- IACPM conducts regular surveys on Concentration Limit Frameworks and Risk Appetite. Our most recent survey, conducted in early 2024, builds on surveys in 2017 and 2022, and highlights how frameworks at IACPM member firms' practices have since evolved and seeks to identify latest industry (best) practices post the COVID crisis and failures of certain banks in the U.S. in Spring 2023.
- The survey looks at:
 - the creation and structuring of limit frameworks
 - governance, oversight, and enforcement
 - linkages to Risk Appetite
- 61 IACPM member firms participated, including 49 banks, nine development banks/export credit agencies, two insurance companies and one re-insurer. More than half of the participating banks have a total balance sheet size above US\$ 500 Billion.
- Data today shows aggregate responses for the 49 bank participants, two insurance companies and one re-insurer.

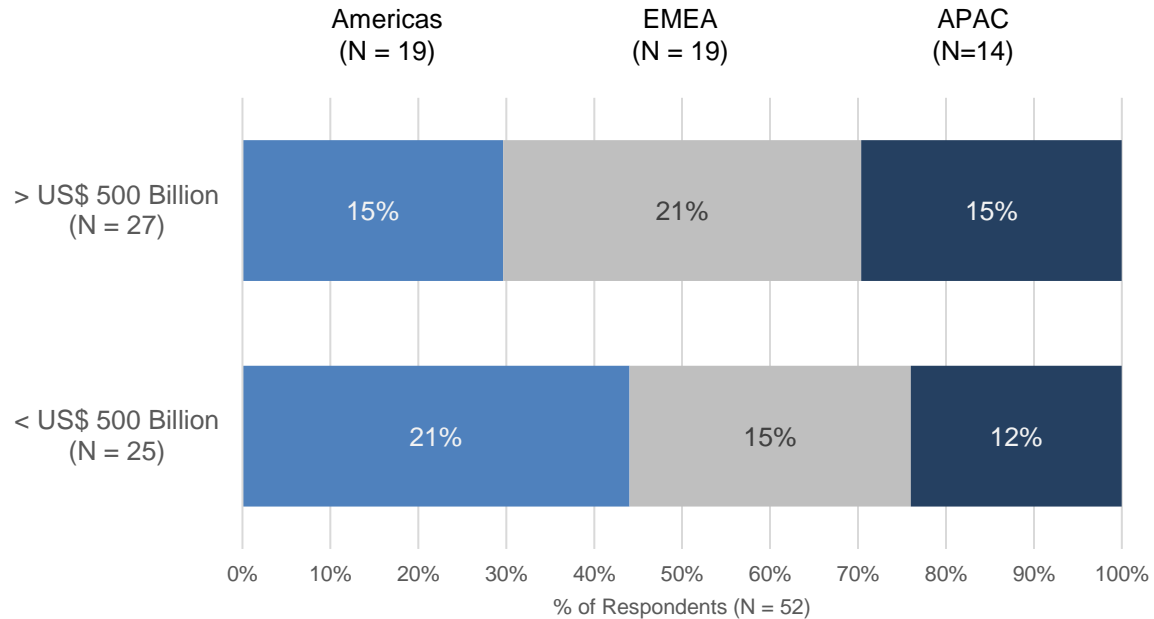
Participating Firms' Region of Domicile (N = 52)



Participating Firms' Total Balance Sheet Assets (N = 52)



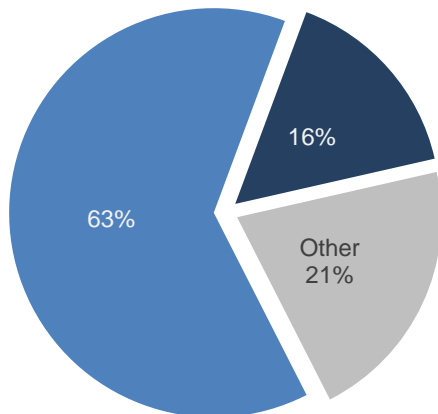
Survey Demographics



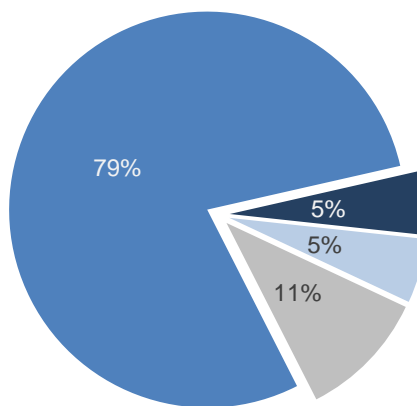
Setting the Framework: Limits are most often reviewed and approved by the Board as part of a formal Risk Appetite setting process and provided to lines of business and to risk for further implementation.

- Limits are reviewed and approved by the Board as part of a formal Risk Appetite setting process and provided to the lines of business and the risk teams for further implementation.
- An independent risk function establishes the limit framework but not connected to a board approved firm-wide Risk Appetite Framework.
- The line of business risk team develops its own limit framework but not connected to a board approved firm-wide Risk Appetite Framework.

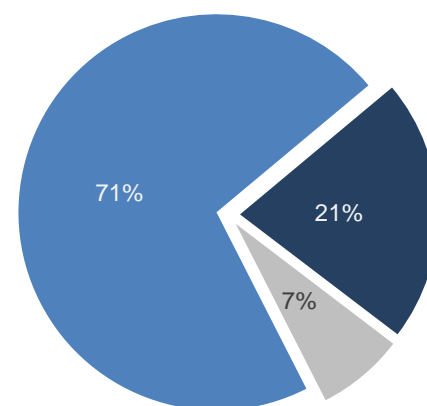
Americas (N = 19)



EMEA (N = 19)

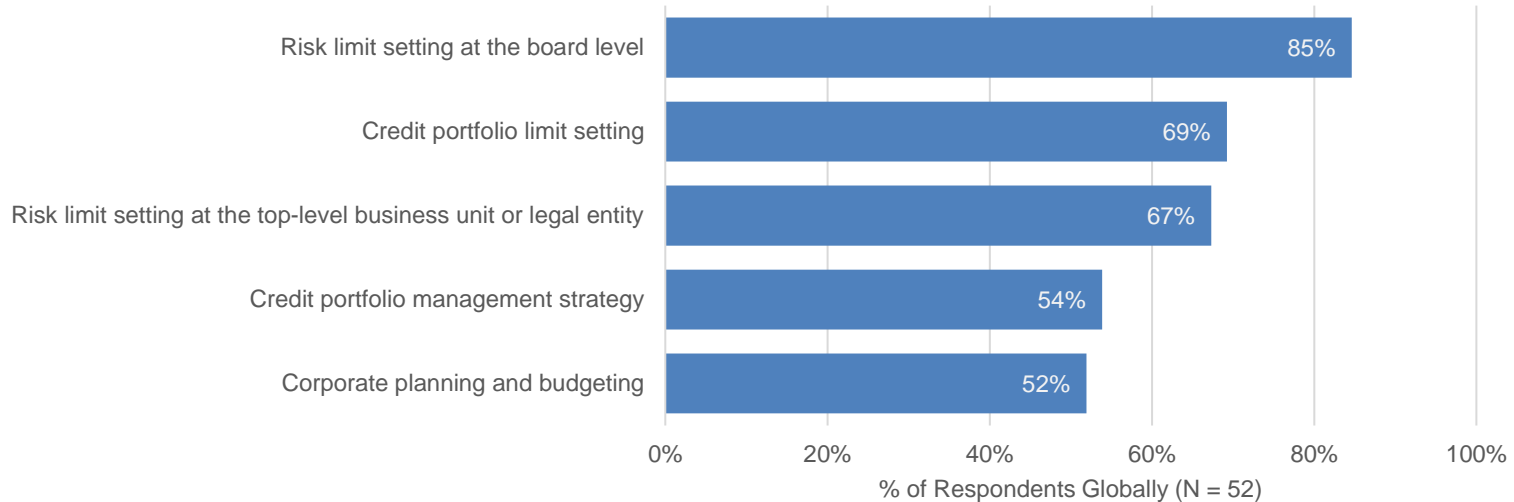


APAC (N = 14)



Source: IACPM Concentration & Limit Frameworks Survey 2024 | Question: Which function establishes the limit framework? (Q10)

Measurement: Stress testing results influence most RAF components, including risk limit setting at the board level, top-level business unit, legal entity level, and credit portfolio limit setting.



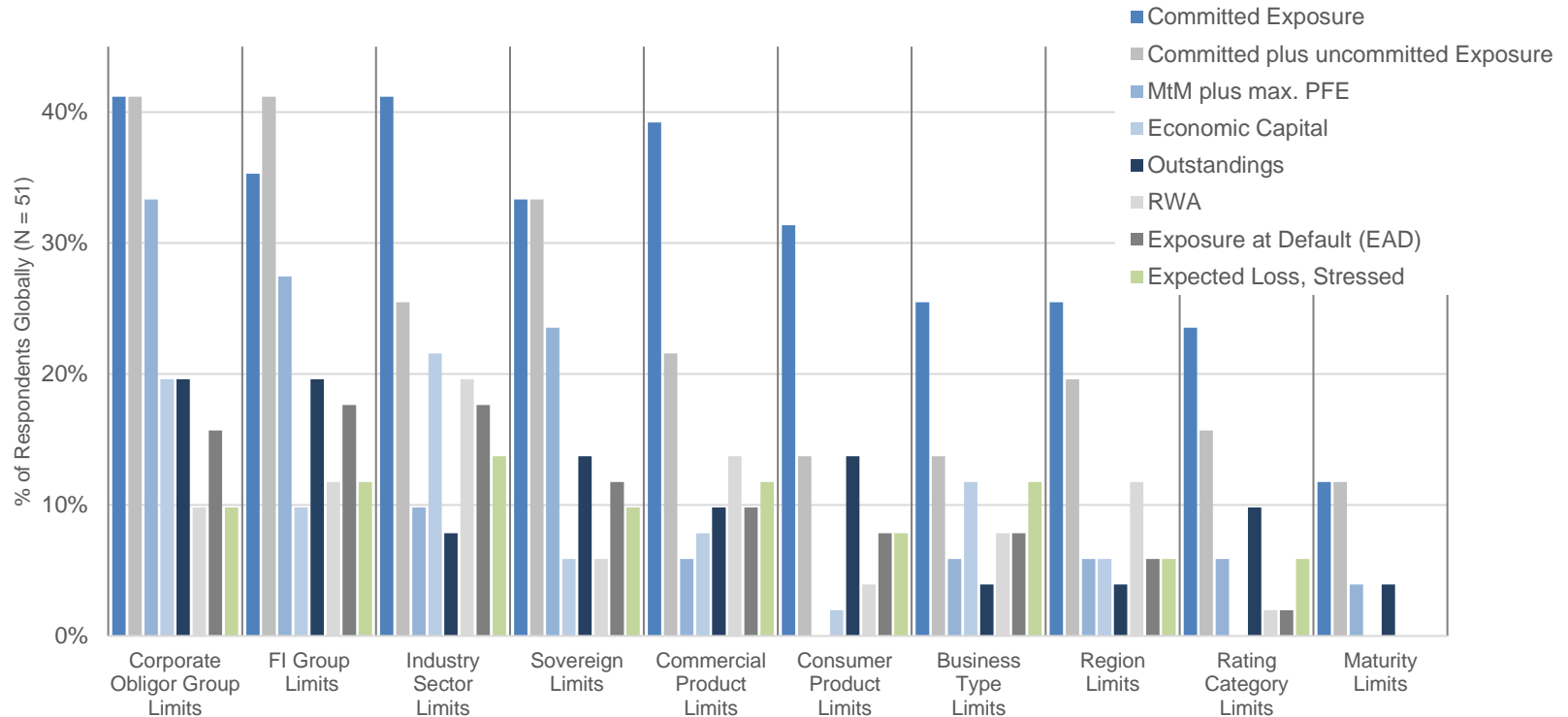
Clarifying comments

- All are used to differing extents - top of the house may be less direct than single name or for strategy etc.
- Stress testing results are at the early stage of implementation for credit risk. Primarily focused on CECL stress scenarios at this time.

Source: IACPM Concentration & Limit Frameworks Survey 2024

Question: Which of the following Risk Appetite Framework components are influenced by stress testing results? Check all that apply. (Q4)

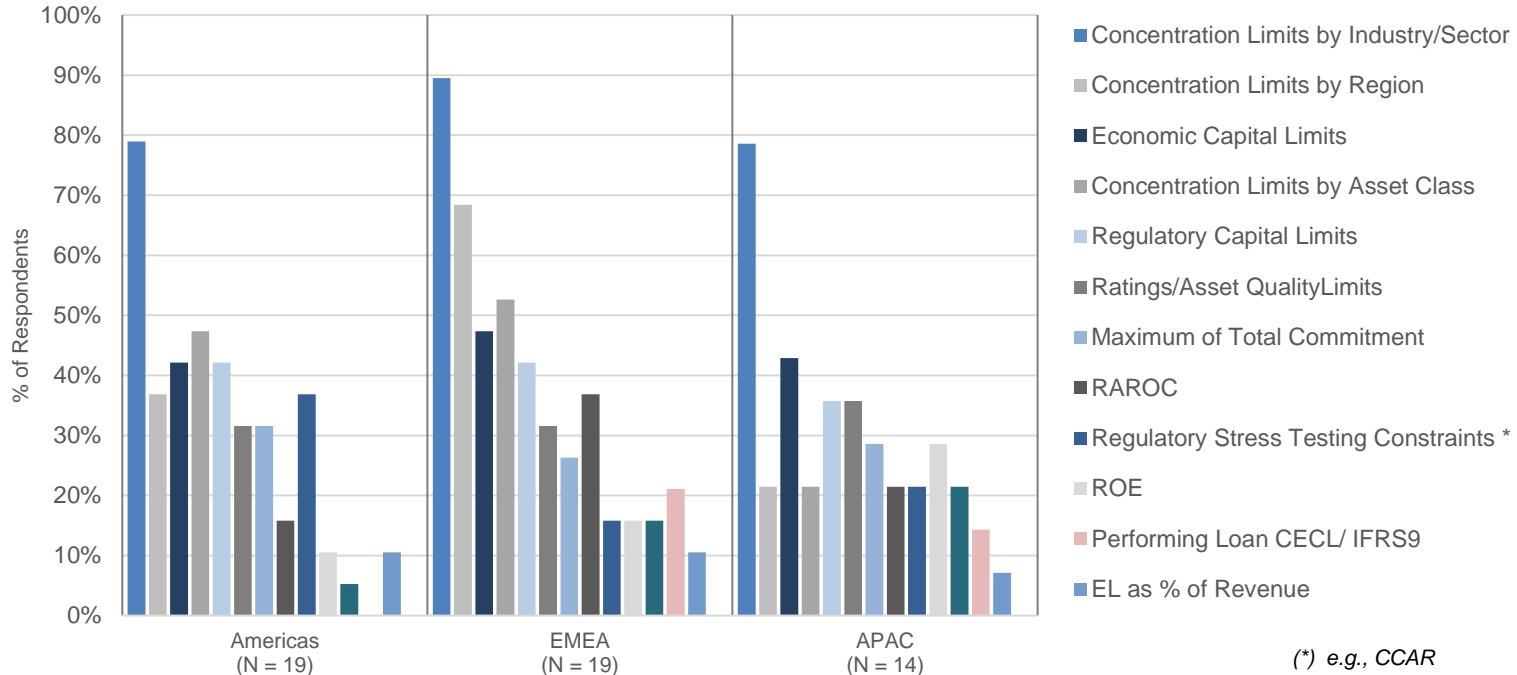
Limit structure: Committed exposure as well as committed plus uncommitted exposure are the most common metrics used to set and monitor limits, across all limit categories.



Source: IACPM Concentration & Limit Frameworks Survey 2024

Question: Please indicate exposure metrics used to **set and monitor limits** depending on category? Please check all that apply. (Q22)

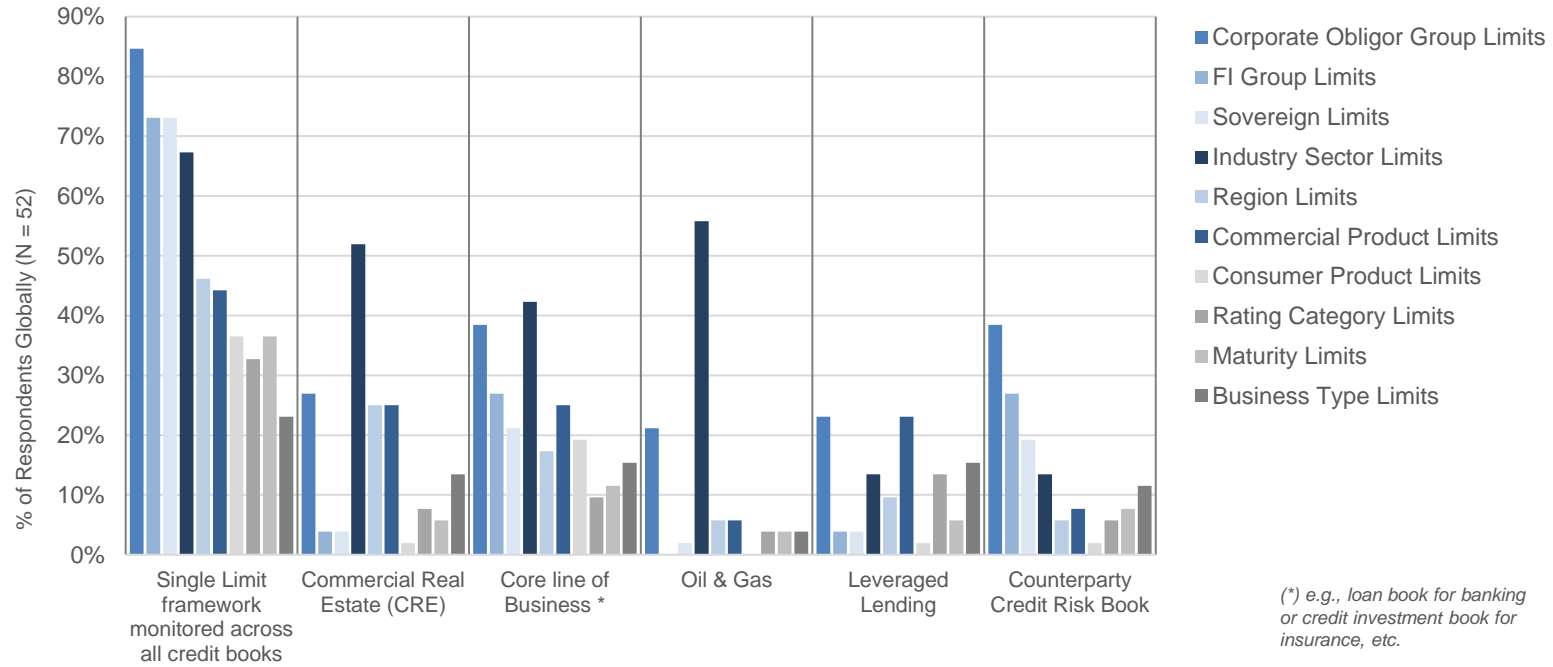
Limit Structure: Concentration limits by industry sector are the most important Credit Portfolio Management targets regardless of firm size or region.



Source: IACPM Concentration & Limit Frameworks Survey 2024

Question: Please indicate your firm's most important targets for the management of the Credit Portfolio? Check all that apply. (Q39)

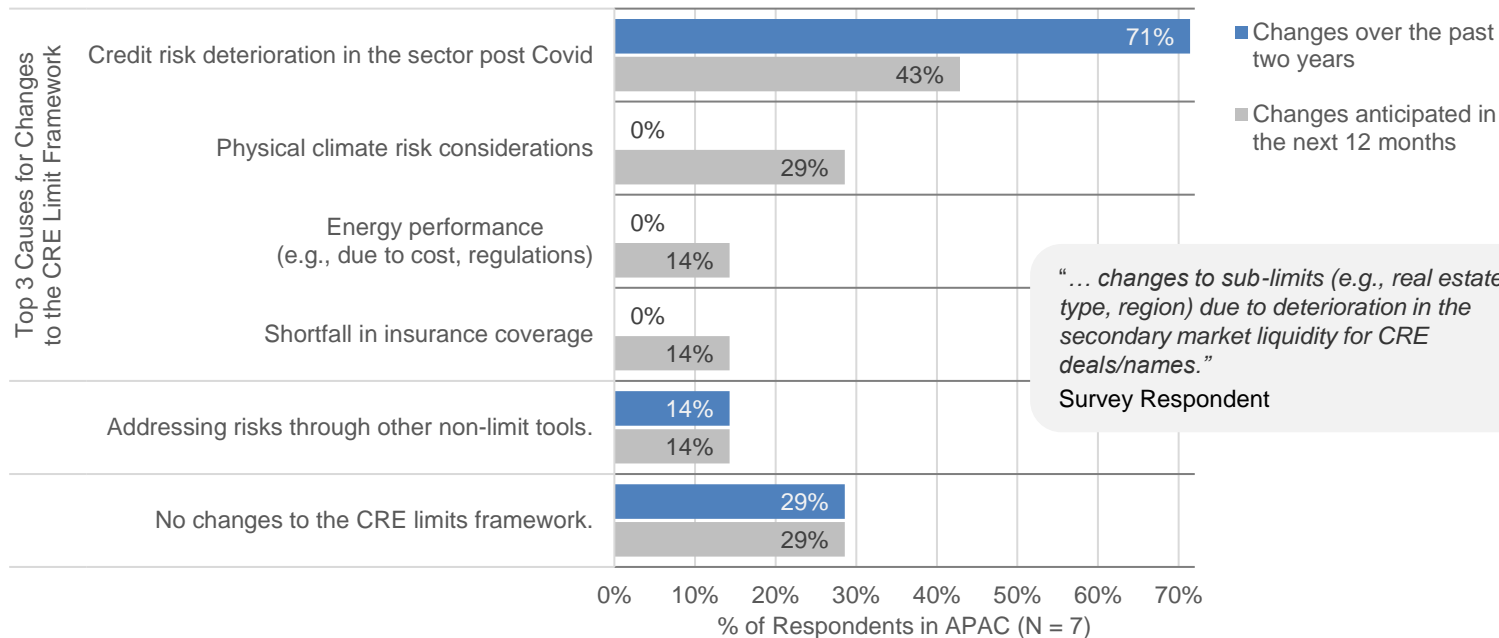
Limit Structure: Exposure limits are most commonly set as single limit frameworks across all credit books and are often supported by industry sector limits for the core line of business, CRE and O&G.



Source: IACPM Concentration & Limit Frameworks Survey 2024

Question: At what level(s) of the credit portfolio and for which categories are your exposure limits **set and monitored**? Please check all that apply. (Q17)

Refinements/Evolution: Consistent with global observations, for firms in APAC credit risk deterioration in the CRE sector post Covid is the main cause for changes to the CRE limit framework over the past two years.

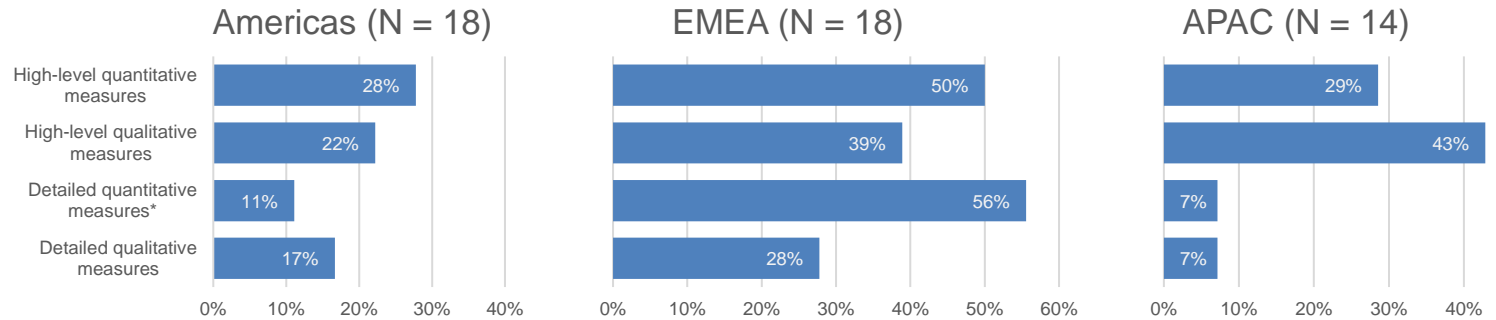


Source: IACPM Concentration & Limit Frameworks Survey 2024 | Question: If your institution has a limit framework for Commercial Real Estate (CRE), have there been any significant changes to the framework over the past two years, or are you anticipating changes in the next 12 months? If yes, please indicate top 3 causes for changes to the framework. (Q34)

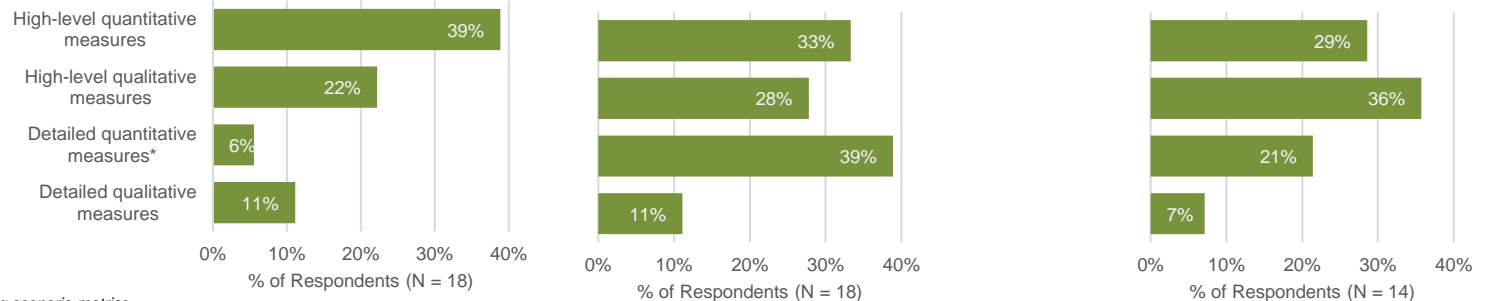
Climate and Credit Risk: Clear regional differences can be easily observed. Detailed quantitative measures are used for Credit Risk at many firms in EMEA, while only one out of ten firms in the other regions indicate using these measures.

Qualitative and Quantitative Measures for Climate & ESG RAS by Risk Type and Region

Credit Risk



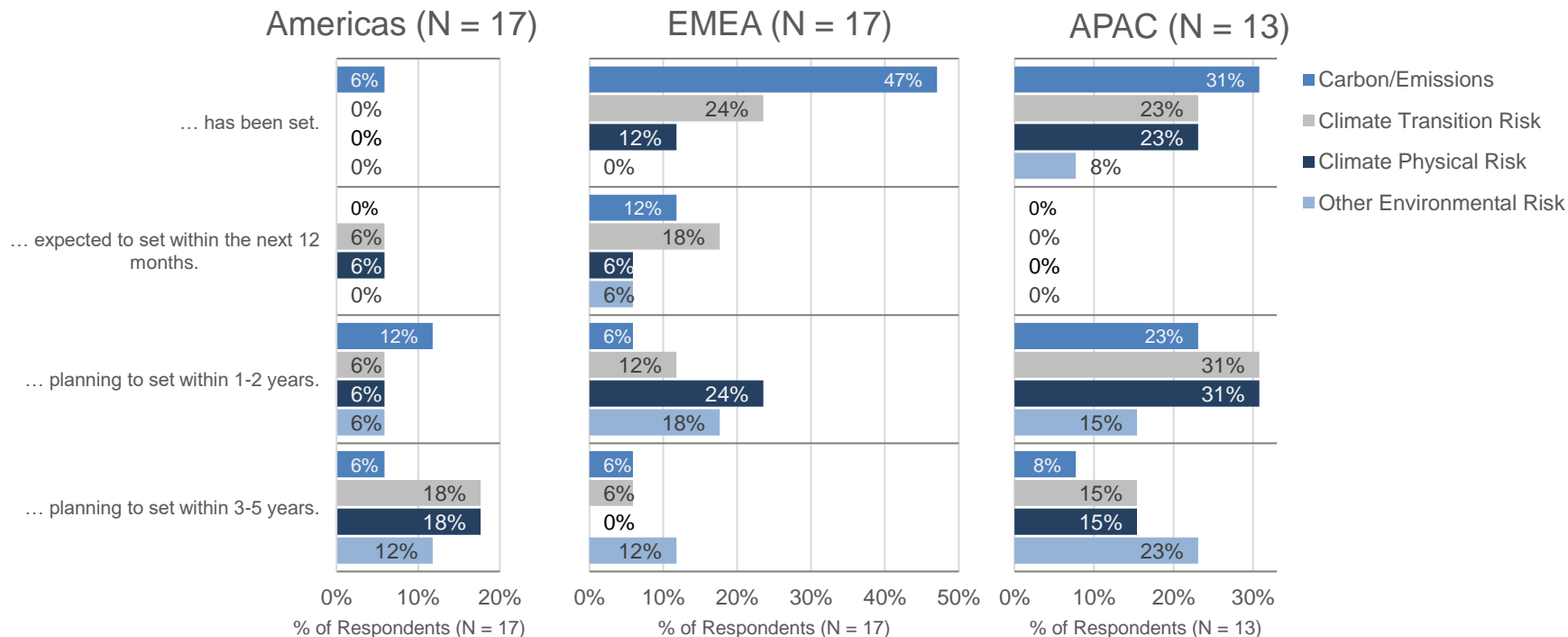
Climate Risk



* i.e., forward-looking scenario metrics

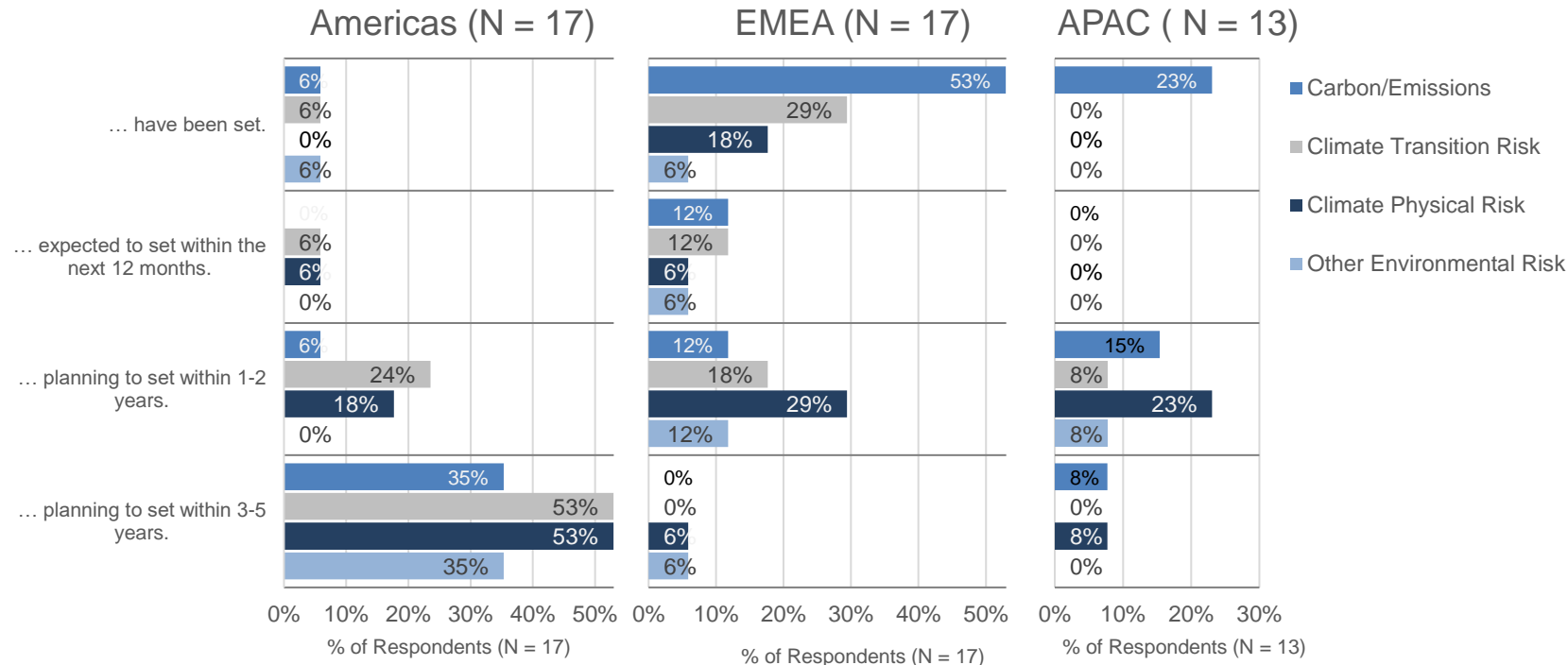
Source: IACPM Concentration & Limit Frameworks Survey 2024 | Question: Indicate the mix of qualitative and quantitative measures used for your firm's Climate & ESG Risk Appetite Statement for different risk types. Please check all that apply. (Q7)

Global Level Limits: Most firms in EMEA and APAC have established or are planning to establish **global carbon limits**. Firms in the Americas are still evaluating.



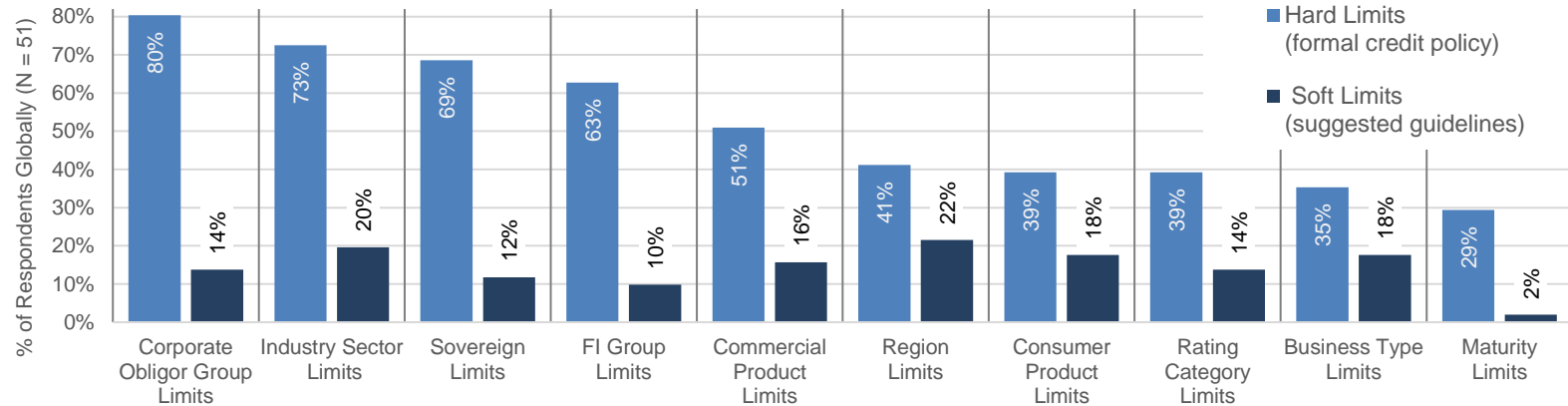
Source: IACPM Concentration & Limit Frameworks Survey 2024 | Question: Please indicate if your firm has established or is planning to establish limits at global level and/or portfolio level for Carbon/Emissions, Climate risks and ESG risks. (Q15)

Portfolio Level Limits: More than half of firms in EMEA and almost one quarter of APAC firms have already set limits for carbon emissions. Implementation is moving more slowly in the Americas.



Source: IACPM Concentration & Limit Frameworks Survey 2024 | Question: Please indicate if your firm has established or is planning to establish limits at global level and/or portfolio level for Carbon/Emissions, Climate risks and ESG risks. (Q15)

Governance and Breaches: A majority of limits are viewed as hard limits* reflecting a formal credit policy and which require a mitigation or reduction plan when breached.



Clarifying Comments

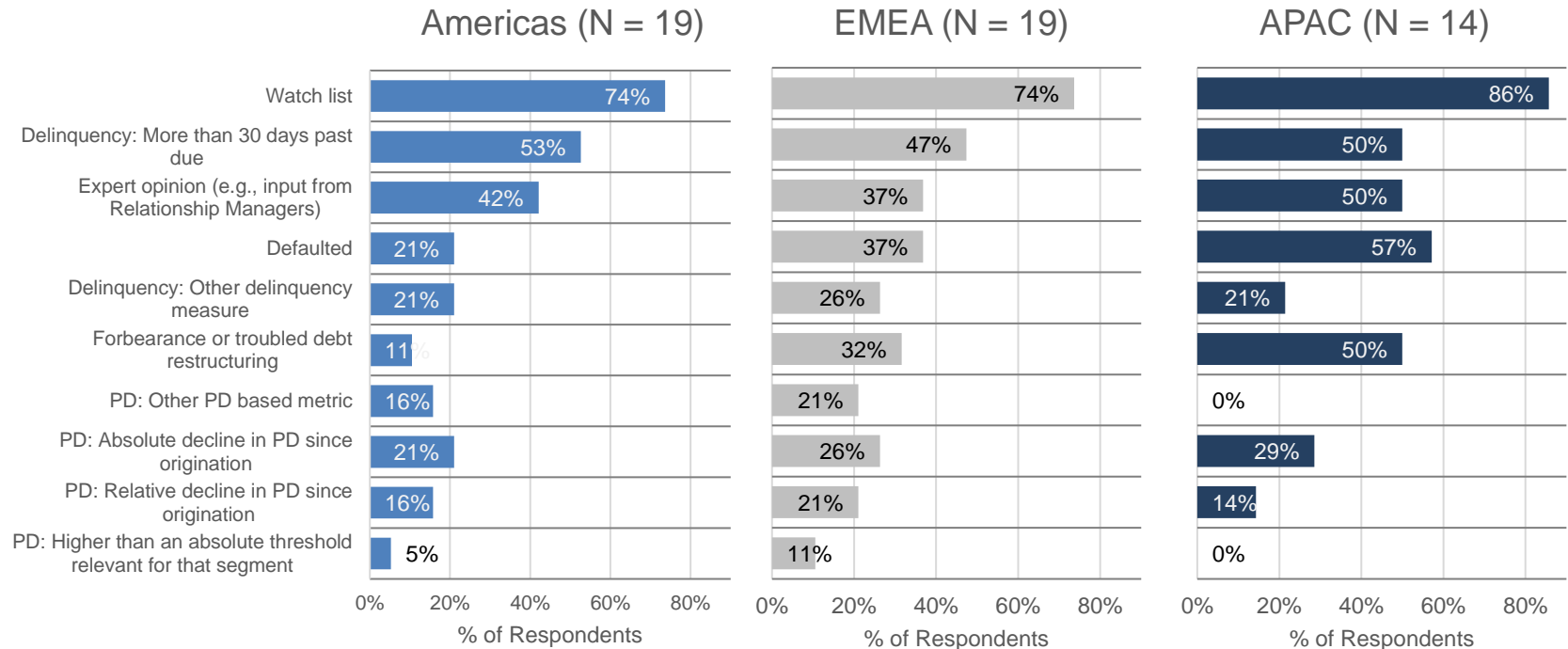
- Any deviation requires escalation for discussion and decision on mitigation actions. The bank also adheres to regulatory limit.
- Discussions become increasingly challenging and end up becoming hard limits in the end.
- Maximum limits are hard limits, but sub limits as explained above may require additional approvals.
- Our view of hard vs soft limits is changing. Historically, most have been soft and will remain so, but there are certain portfolios where that is no longer the case.

- Region limit can be converted to hard limit in need.
- Sovereign limits were set at both regional and individual sovereign level. Regional limits were hard type of limits while individual sovereigns within a region are soft/allocated limits.
- The bank also has a 'threshold' which is a 'soft' limit that is lower than the [hard] limit for several of the limits.

(* In the context of this survey, "hard limits" are defined as requiring a mitigation or reduction plan, whereas "soft limits" will require only a discussion with the CRO/Senior Management but not necessarily a mitigation action.

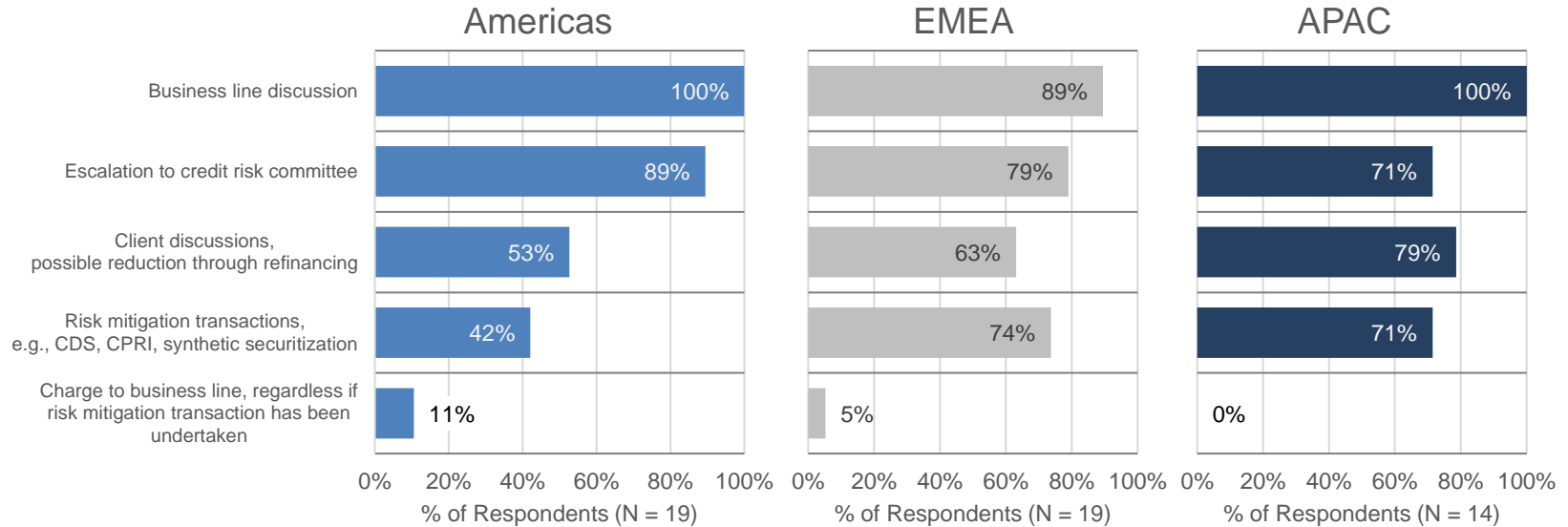
Source: IACPM Concentration & Limit Frameworks Survey 2024 | Question: How are limits viewed/treated in your firm? (Q41)

Governance and Breaches: Firms in APAC also utilize defaults and forbearance or troubled debt restructuring as early warning indicators to avoid limit breaches.



Source: IACPM Concentration & Limit Frameworks Survey 2024
 Question: Which early warning signs do you monitor to avoid a breach? Check all that apply. (Q44)

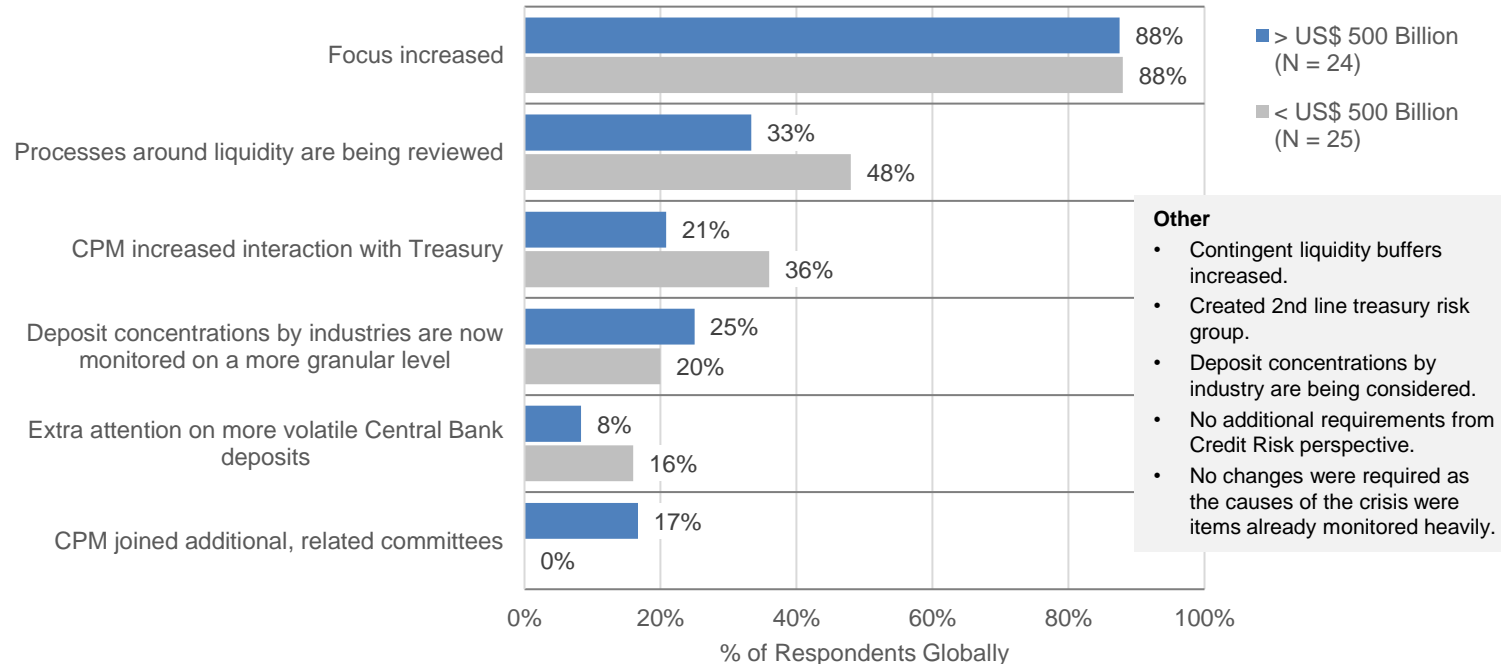
Governance and Breaches: Firms utilize on average up to three strategies to decrease risk in case of a limit breach or approaching breach, typically including business line discussions and an escalation to the credit risk committee.



Other: More selective stance vs approval of incremental transactions. | All depending on exposure. | Risk mitigation transactions but beyond the examples of CDS or CPRI mentioned above since these might not be viable options for private bank debt. | The use of risk mitigation transactions is in development. | Sale of bonds and other securities.

Source: IACPM Concentration & Limit Frameworks Survey 2024
 Question: What strategies do you/your firm employ to decrease risk if a limit is breached or is approaching breach? Check all that apply. (Q46)

Liquidity Impacts: The banking crisis in early 2023 increased firms' focus on **liquidity management** at almost 90% of participating institutions.



Source: IACPM Concentration & Limit Frameworks Survey 2024 | Question: How has the banking crisis in early 2023 impacted your firm's liquidity management, including loan/deposit ratio and funding considerations? Check all that apply. (Q47)

Themes looking forward

- Liquidity and linkages to credit, regulatory changes and impact, climate/ESG, and troubled industry sectors continue to be a focus
- Geopolitical concerns – globally – are a focus: the potential for volatility and unexpected outcomes and correlations
- The Search for better data and assessment of forward-looking risks: tying early warning indicators into Concentration Limits assessments through stress testing and analytics
 - Non-traditional sources of data
 - Analytics, AI, GenAI are being assessed and used

Appendix: Upcoming from the IACPM

IACPM Recent/Upcoming Meetings & Webinars

June-Aug	IACPM Spring Online Educational Seminar - VIRTUAL
July 30	IACPM Virtual Regional Bank Meeting
Aug 8	SRT Member Webinar
Aug 14-15	IACPM Credit Portfolio Workshop and Policy Forum, Singapore (w/NUS Risk Management Institute)
Sept 5	Limit Frameworks Webinar – with firms’ presentations
Sept 23	IACPM Canada Regional Meeting
Oct 15	IACPM Africa Regional Meeting
Oct 24	IACPM Asia Regional Meeting in Hong Kong
Nov 13	IACPM Preconference Roundtables in Miami
Nov 14-15	IACPM Fall Conference in Miami
Nov 21	IACPM Australia Regional Meeting

IACPM Research

2024 Concentrations Limit Frameworks

Results available to participating firms – White Paper available soon!

2024 IACPM/McKinsey Study: GenAI, AI, and Advanced Analytics

Contact us to get involved

2023 Principles and Practices in CPM

[White Paper Available](#)

Results available to IACPM member firms

2023 IACPM/Oliver Wyman Study: Realizing Climate Finance Opportunities

[White Paper Available](#)

2023 IACPM/ITFA Study: Credit & Political Risk Insurance

[High-Level Results Available](#)

2023 Synthetic Securitisation Market Volume

[High-Level Results Available](#)

2023 Unfunded SRT Survey

Results available to participating firms

Quarterly Credit Outlook

[Results Available](#)

IACPM Regulatory Advocacy & Working Groups

Climate & ESG Risk Working Group

The Climate & ESG Risk working group supports IACPM's periodic [research initiatives](#) and engages in ongoing IACPM [advocacy work](#) on the topic. In addition, Climate Risk Focus Group discussions are held periodically on issues identified by the group.

Credit & Political Risk Insurance Working Group

The Credit & Political Risk Insurance working group supports the IACPM in analyzing the [results of the biennial market survey](#). In addition to research, the group engages in ongoing IACPM advocacy work with regulators and held IACPM's annual Credit Insurance Summit in London.

Market Working Group

Meets as needed to discuss important market developments such as NoR CDS and Fundamental Review of the Trading Book (FRTB).

Monthly Regulatory Update Call

Covers global regulatory developments.

Securitisation Working Group

Focuses on SRT, STS & CRR global regulatory developments for synthetic securitisations and also global sustainable securitisation efforts.

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