Joint Forum releases report on credit risk management across sectors

Today the Joint Forum released its report *Developments in credit risk management across sectors: current practices and recommendations*.

The Joint Forum surveyed supervisors and firms in the banking, securities and insurance sectors globally in order to understand the current state of credit risk management given the significant market and regulatory changes since the 2008 financial crisis. Fifteen supervisors and 23 firms from Europe, North America and Asia responded to the survey.

The survey was not meant to be a post-mortem of the events leading up to the financial crisis, but rather a means to provide insight into the current supervisory framework around credit risk, the state of credit risk management at firms and implications for the supervisory and regulatory treatments of credit risk. The survey aimed to update previous Joint Forum work, most recently a 2006 paper, and used that date as the benchmark when asking about changes.

Based on its analysis of the responses and subsequent discussions with firms, the Joint Forum puts forth the following recommendations for consideration by supervisors.

**Recommendation 1**: Supervisors should be cautious against over-reliance on internal models for credit risk management and regulatory capital. Where appropriate, simple measures could be evaluated in conjunction with sophisticated modelling to provide a more complete picture.

**Recommendation 2**: With the current low interest rate environment possibly generating a “search for yield” through a variety of mechanisms, supervisors should be cognisant of the growth of such risk-taking behaviours and the resulting need for firms to have appropriate risk management processes.

**Recommendation 3**: Supervisors should be aware of the growing need for high-quality liquid collateral to meet margin requirements for OTC derivatives sectors, and if any issues arise in this regard they should respond appropriately. The Joint
Forum’s Parent Committees (BCBS, IAIS and IOSCO) should consider taking appropriate steps to monitor and evaluate the availability of such collateral in their future work while also considering the objective of reducing systemic risk and promoting central clearing through collateralisation of counterparty credit risk exposures that stems from non-centrally cleared OTC derivatives.

**Recommendation 4**: Supervisors should consider whether firms are accurately capturing central counterparty exposures as part of their credit risk management.

Mr Thomas Schmitz-Lippert, Chairman of the Joint Forum and Executive Director, International Policy at the German Federal Financial Supervisory Authority (BaFin), said, “The challenges for credit risk management have evolved considerably in the last years. This report provides important new insights into the latest developments in credit risk management against the backdrop of a reformed regulatory framework and the emergence of new risks.”

Comments on this consultative document should be uploaded here by **Wednesday 4 March 2015**. Comments will be published on the website of the Bank for International Settlements unless a respondent specifically requests confidential treatment.

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The Joint Forum was established in 1996 under the aegis of the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) to deal with issues common to the banking, securities and insurance sectors, including the regulation of financial conglomerates.