

Press release

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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 report provides 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.

It is based on a survey that the Joint Forum conducted with 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 report updates previous Joint Forum work on this topic, particularly *The management of liquidity risk in financial groups* (2006), and used the date of that report as the benchmark when analysing changes in the field of credit risk management.

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 promote the monitoring and evaluation of 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 and the economic environment 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."

An earlier version of this report was issued for consultation in February 2015. The Joint Forum thanks those who provided feedback and comments as these were instrumental in finalising the report and its recommendations. The changes made to the consultative document are explained in the Executive Summary in the final report.

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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.