

Counterparty Credit Risk Management: Links Between Supervisory Guidance, Dodd-Frank and Basel

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Last week the federal banking agencies released interagency supervisory guidance designed to create new, and higher, best practices for counterparty credit risk (CCR) management at banking organizations—including banks, bank holding companies, and U.S. branches and offices of foreign banks. As a result of the release, all banking organizations will need to review their existing policies and procedures against the new guidance. Although the guidance builds on existing standards, based on our work with a number of banking organizations in our global credit risk management practice, we believe that the guidance will require changes and upgrades for many organizations. Moreover, in our view, this guidance is the first of a number of regulatory pronouncements in the area of credit risk management that banking organizations should expect this summer and through the end of the year. For example, the final rules on credit exposure reports to significant companies under Section 165(d) of the Dodd-Frank Act are expected by August, proposed rules on the concentration limits for systemically important firms to counterparty credit exposure in Section 165(e) of the Dodd-Frank Act are expected sometime this summer, and finally, between now and the end of the year, the Federal Reserve and the other banking agencies are expected to clarify how and to what extent they propose to implement Basel III, including the CCR requirements under Basel III.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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