Press Releases

July 5, 2011

OTS 11-016 - Agencies Issue Guidance on Counterparty Credit Risk Management

Joint Release

Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency
Office of Thrift Supervision

For Immediate Release
July 5, 2011

Washington, D.C. — The federal bank regulatory agencies today issued guidance to help ensure banking organizations practice effective counterparty credit risk (CCR) management. The guidance, issued by the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision, builds on existing supervisory guidance and outlines effective industry practices for CCR management.

CCR is the risk that the counterparty to a transaction defaults or deteriorates in creditworthiness before the final settlement of the transaction.

The guidance is intended primarily for use by banking organizations with large derivatives portfolios, as well as for supervisors as they assess and examine such institutions' CCR management. The guidance emphasizes that banking organizations should use appropriate reporting metrics and exposure limits systems, have well-developed and comprehensive stress testing, and maintain systems that facilitate measurement and aggregation of CCR across the organization. The guidance also includes sound practices for risk control functions including, but not limited to, validating models and systems, ensuring independent risk management and internal audit processes, and managing legal and operational risks.

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Attachment

Media Contacts:
Federal Reserve  Barbara Hagenbaugh  (202) 452-2955
FDIC  David Barr  (202) 898-6992
OCC  Bryan Hubbard  (202) 874-5307
OTS  William Ruberry  (202) 906-6677

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