

Corporate & Financial Weekly Digest

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Federal Banking Agencies Issue Guidance on Management of Counterparty Credit Risk

On July 5, the federal banking agencies jointly issued guidance on the effective management of counterparty credit risk (CCR). CCR is the risk that the counterparty to a transaction defaults or deteriorates in creditworthiness before the final settlement of the transaction. 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 management guidelines and supervisory expectations are delineated in various individual and interagency policy statements and guidance, which remain relevant and applicable. This guidance offers further explanation and clarification, particularly in light of developments in CCR management. However, this guidance is not all-inclusive, and banking organizations should reference sound practices for CCR management, such as those advanced by industry, policymaking and supervisory forums.

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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Katten Muchin Rosenman LLP
Charlotte Chicago Irving London Los Angeles New York Washington, DC