

1.1.2 OSC Staff Notice 11-740, International Joint Forum Publishes Consultation Report on Credit Risk Transfer

OSC STAFF NOTICE 11-740

**INTERNATIONAL JOINT FORUM PUBLISHES
CONSULTATION REPORT
ON CREDIT RISK TRANSFER**

On October 21, 2004, the International Joint Forum¹ published a consultation report, *Credit Risk Transfer*. The report responds to a request by the Financial Stability Forum (FSF)² that the International Joint Forum undertake a study in this area. In particular, the FSF asked the International Joint Forum to consider:

whether credit risk transfer (CRT) instruments and transactions accomplish a clean risk transfer from one institution to another;

the degree to which CRT market participants understand the risks involved;

whether CRT activities are leading to undue concentrations of credit risk inside or outside the regulated financial sector;

whether there is a need for enhanced reporting by regulated financial institutions to their supervisors;

whether there is a need for improved public disclosures by regulated financial institutions; and

¹ The Basel Committee on Banking Supervision, the International Association of Insurance Supervisors and the International Organization of Securities Commissions established the International Joint Forum in 1996. It focuses on issues of common interest to the three financial sectors. Because it brings together regulators from different financial sectors and countries, the International Joint Forum is particularly interested in: (1) identifying core regulatory principles that are common to all three sectors; (2) identifying differences in regulation across the sectors; (3) assessing the potential for these differences to lead to regulatory gaps, or regulatory arbitrage; and (4) examining the supervision of large, complex financial groups, such as financial services firms that operate in several sectors and countries. The Ontario Securities Commission is a member of the International Joint Forum.

² The FSF was established in 1999 to promote international financial stability through information exchange and international cooperation in financial supervision and surveillance. The FSF brings together on a regular basis national authorities responsible for financial stability in significant financial centres, as well as international financial institutions, sector-specific international groups of regulators and supervisors (such as IOSCO and the International Joint Forum) and committees of central bank experts.

whether there is a need for further information on credit risks that are transferred to unregulated institutions.

The report considers these issues, as well as the trends in credit risk transfer, market developments, and the extent and sources of risk transfer.

The report also includes seventeen recommendations for market participants and their supervisors. These recommendations address risk management practices, disclosure and supervisory approaches to CRT activities.

Copies of the consultation report and associated press release have been posted on the Ontario Securities Commission's website at www.osc.gov.on.ca (International Affairs – Current Consultations) and on the website of the International Organization of Securities Commissions at www.iosco.org. (Library – Public Document #174).

The Commission encourages the Canadian investment industry to comment on the consultation paper. The comment period will remain open until January 28, 2005. Please submit comments by email to baselcommittee@bis.org. Please include in the subject line of the email "Public Comment on Consultation Report: *Credit Risk Transfer*".

Please do not submit comments to the Commission.

More information about the International Joint Forum, IOSCO and the Commission's participation in these organizations can be found on the Commission's website at www.osc.gov.on.ca (International Affairs -- Who's Who).

Questions may be referred to:

Janet Holmes
Manager, International Affairs
Ontario Securities Commission
Tel: (416) 593 8282
Fax: (416) 593 8241
email: jholmes@osc.gov.on.ca