

1.1.4 OSC Staff Notice 11-749 - International Joint Forum Publishes Final Report on Credit Risk Transfer

OSC STAFF NOTICE 11-749

INTERNATIONAL JOINT FORUM PUBLISHES FINAL REPORT ON CREDIT RISK TRANSFER

Background

In October 2004, the International Joint Forum (IJF)¹ published a Consultation Report, *Credit Risk Transfer*. The IJF's work in this area responded to a request by the Financial Stability Forum (FSF)² that the IJF 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
- whether there is a need for further information on credit risks that are transferred to unregulated institutions.

The Consultation Report discussed these issues and proposed seventeen recommendations for market participants and their supervisors. These recommendations addressed risk management practices, disclosure and supervisory approaches to CRT activities.

Staff Notice 11-740 about this Consultation Report was published in the OSC Bulletin on October 29, 2004. The Consultation Report was also posted on the website of the International Organization of Securities Commissions (IOSCO) at www.iosco.org (Library – Public Document #174) and the Commission's website at www.osc.gov.on.ca (International Affairs – Current Consultations).

The consultation period closed on January 28, 2005.

IJF Finalizes Report and Recommendations

On 18 March 2005, the IJF published a final report on credit risk transfer. The principal innovation since the Consultation Report was published in October 2004 is the addition of an annex listing questions that supervisors of CRT participants might consider as part of their supervisory activities. This addition reflects industry's request for more information on the approach that supervisory authorities might be expected to take in their assessment of market participants' risk management of CRT activities. The final report also includes a summary of the principal issues raised during the consultation period.

The final report can be downloaded from IOSCO's website at www.iosco.org (Library – Public Document #194). It also can be downloaded from the OSC's website at www.osc.gov.on.ca (International Affairs – Recent Consultations) until the end of 2005.

Questions may be referred to:

Janet Holmes
Manager, International Affairs
Ontario Securities Commission

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 (IJF) 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 IJF 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 IJF, as well as IOSCO. More information about the IJF, 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).

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.

Tel: (416) 593 8282
Fax: (416) 593 8241
email: jholmes@osc.gov.on.ca

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