

## **COUNTERPARTY RISK MANAGEMENT POLICY GROUP II**

New York, March 1- The Counterparty Risk Management Policy Group II held a Symposium today focusing on the implementation of recommendations from last summer's Report. Senior representatives from major financial intermediaries, buy side fiduciaries, hedge funds, money managers and regulatory bodies participated in this discussion. The following is a summary of the Symposium discussions.

1. There was substantial agreement that significant progress has been made in addressing the pressing problems of 1) trade assignments of OTC derivatives without consent, which has been resolved; 2) the large volume of unsigned trade confirmations in the CDS space; and 3) increasing the use of automated trade matching systems in the CDS space. While such progress is encouraging, it was understood that a great deal of effort lies ahead in fully addressing these issues.
2. There was broad agreement that the model of private-public sector cooperation and collective action used to address the operational shortcomings identified in the CRMPGII Report is functioning very well and is likely to have broader applications in the future.

3. Supervisory authorities are actively incorporating the CRMPGII Recommendations and Guiding Principles into the supervisory oversight of financial institutions.
  
4. Many very large integrated financial institutions have conducted systematic analysis of their risk management and related business practices relative to the CRMPGII Report. Institutions have identified areas in which practices should be – and are being – strengthened. Typically, the results of such analysis have been or will soon be reported to Boards of Directors or their Audit Committees and also shared with primary regulators.
  
5. There is a broad consensus that greater cross-border coordination of supervisory practices and greater reliance on informal exchanges of information between institutions and their regulators are needed in a setting in which both of these developments are consistent with a more principles-based framework of management and supervisory oversight.

6. Short and medium-term enhancements to financial infrastructure are widely seen as one of the greatest challenges facing the global financial system. This challenge will be amplified by further increases in the complexity, speed and linkages that characterize the global financial system. Such enhancements will require much higher levels of automated systems and more complex legal and documentation requirements. All of this will entail 1) substantial commitments of resources by individual firms and on an industry wide basis; 2) enlightened leadership from the top of such firms; 3) collective action on the part of the private and public sectors; 4) more intensive efforts to attract and retain highly skilled personnel into risk management, operational, and control positions at financial institutions, and at official supervisory and regulatory bodies; and 5) continued efforts by industry associations in addressing such infrastructure issues.

7. Because the complexity and speed in financial markets will continue to increase, the recommendations of CRMPGII as they pertain to risk management and complex financial instruments will take on increasing importance and will need to adapt and evolve as market

practices change. Of particular importance in this regard will be

- 1) strengthened valuation practices as applied to complex and/or illiquid instruments;
- 2) more sophisticated tools to evaluate the relationship between risk, broadly-defined, and capital, liquidity and margin;
- and 3) increased focus on the comprehensive forms of stress testing and scenario analysis that take account of multiple layers of financial and reputational risk factors.

8. It was reported that the community of hedge funds and buy side fiduciaries were taking very seriously the CRMPGII Report and that many such institutions recognized that it was in their self interest to continue to enhance their risk management and related business practices in line with the relevant recommendations of the Report.

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