Global Credit Data
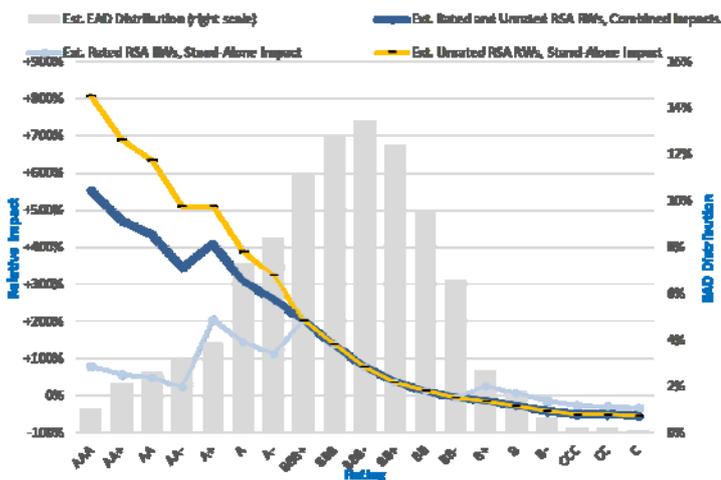*by banks for banks*

Newsletter
September 2016

IRB's future debated
- GCD analytics in demand

In March 2016 the Basel Committee's long awaited proposals for reform of the Internal Ratings Basis (IRB) approach were launched. Banks and industry groups made their responses by June, with most pointing to the large capital increase which these changes would require.

GCD worked with both IIF and AFME to provide analytics showing the effect of the changes. The graph above, produced by GCD executives and confirmed by members, shows how the new proposals would disproportionately multiply RWA (hence capital required) for better risk grade counterparties, especially for counterparties which do not have an external rating. One of the interesting outcomes was that for most banks the majority of their loan portfolio is not externally rated.

We will continue to support members and industry groups with analytics where required and hope that the industry's proposal for some softening of Basel's stance will be well received. This work is normally discussed in the Model Benchmarking Working Group, which all members are welcome to join (contact Daniela Thakkar or Nina Brumma).

Modelling the macro-economic influence on LGD and EaD levels
- IFRS9 and CECL

All banks (including our members) are currently busy with impairment calculation under IFRS 9 and CECL— either new model development or adjusting existing models.

Especially in low default / data portfolios, members banks can use GCD data to enrich their data history or to benchmark their models built on internal data. The impact of the macro-economic environment on the LGD and EaD is one of the main questions to analyze in the context of IFRS 9 / CECL.

At our last General Meeting, Credit Suisse presented their approach and their analytics performed on the GCD LGD/EaD dataset, which includes data of more than 50 member banks and has a vast global spread. Building a reference dataset which is representative for the bank's own portfolio is the first step, choosing the right risk drivers the second step.

If you are interested in other topics discussed at our last General Meeting, please read further on page 2 of this newsletter.

GCD is recruiting

*We need to increase support for our expanding member base, including data audit and data quality work. The General Meeting in June 2016 approved the hiring of a further Data Operations executive, whom we hope to be able to recruit **in Netherlands** during the 2nd half of 2016. Please check our external website for more information on the role.*

Inside this issue

Dates to note:

12 and 13 December 2016 —4th North American Conference in Toronto, Canada

GCD seeks new Chairperson

Since we started in 2004, GCD has been led by strong chairpersons, who have given direction to the association as well as chairing General Meetings and Board meetings. Our current Chairman, Richard Crecel of Société Générale, has already served two 2 year terms and has kindly agreed to stay on for another 6 months to the end of 2016.

GCD is looking for a member representative to step forward and offer themselves for the role of Chairperson from December 2016 for a 2 year term. The Chairperson of GCD is directly elected by the members and we need your nomination before the next General Meeting, to be held in December. Please contact Philip Winckle or Richard Crecel to discuss.

In the Spotlight: General Meeting June 2016 in Utrecht

Member presentation: Default collection tool

Mine Sim Yücel presenting at the
General Meeting in Utrecht, June 2016

We all know that the quality of any PD or LGD model very much relies on timely, reliable and standardized default detection and collection.

At the General Meeting, our host Rabobank took the chance to present their new tooling and process … and inspired other GCD members. The presentation of Mine Sim Yücel included an open discussion on the challenges perceived in a global organization with different accounting standards and different parts of the organization responsible for the default collection.

The presentation finished with a lively debate where other member banks shared their experiences, including the implication of the new EBA standards coming up in the area of default definition. Once again, our motto "by banks for banks" showed its true value.

Modellers' Club: Adjusting TTC PDs to PiT PDs

The development of IFRS 9 and CECL compliant credit risk models is currently the center of attention for many credit risk developers in our member banks. GCD devoted one of our modellers' club session was dedicated to the topic of adjusting TTC to PiT PDs, one key requirement of the new impairment standards.

The modellers' club concept is simple: In small groups, risk practitioners have the opportunity to interact and challenge each other. We can't do justice to the session in a few words but the overall message was: While TTC PDs are well embedded in the banks' modelling and data landscape, PiT PDs do not have the same level of attention yet. So it is not unusual that common methods do not yet exist to questions such as: Should we derive a PiT-PD from the TTC-PDs or should we develop new models? What are valid data sources to derive a "credit cycle indicator"? How to ensure a consistent calibration of both models in the long term?

The discussion at the General Meeting was just the beginning and was taken further a detailed IFRS 9 / CECL methodology survey rolled out in the working group IFRS 9. Contact Daniela Thakkar for more information.

General Meeting in Utrecht, June 2016 - exciting presentations on various topics kept the attention of the participants

Member presentation: Capital for defaulted loans

Another well-perceived spot-on presentation from our host Rabobank was on the treatment of defaulted loans in the capital calculation process. The presentation of Jeroen Kleijn covered the linkage between "LGD in default", "ELBE" as the best estimate of expected loss, individual provisions and the regulatory capital calculation.

Member banks took the opportunity to engage afterwards in the discussion on common modelling approaches and gaps. The variation of choices with regards to "modelling the uncertainty in the workout process" was also pointed out by EBA and BCBS in recent studies and is part of review work of the BCBS, the EBA and the ECB in the next year(s).

Please note: All presentations from the General Meeting are available to all members and can be downloaded from the member website.

A special thank you to Claire Kouwenhouven-Gentil

As the last act in her board member career from 2012, Claire, organized this General Meeting before stepping back from the board to let others step into her shoes.

Claire leaves a challenge to successors to bring the same spirit to the community, especially Trade and commodity finance. Claire has been a true ambassador of our motto "by banks for banks" - something which will be for sure embedded in her last project, the new member website. Claire, thank you for all the hard work and inspiration throughout the years.

Claire Kouwenhouven-Gentil,
Host of the General Meeting Utrecht, June 2016

Insights from Executives

Members are digging deep to bring their LGD/EAD historical data up to latest quality standards

Large Corporate - LGD "Total Pool" vs "Your Bank"
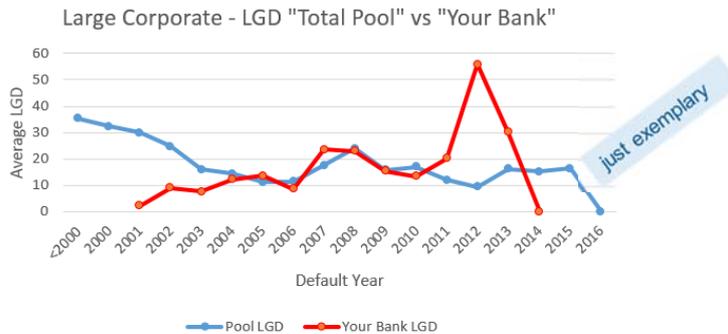
Following the decision at the General Meeting in December 2015 in Rotterdam, our members are currently in preparation of their required 'full resubmission' of the Ead/LGD data contribution. A full submission means that all historical data as well as the new defaults need to be submitted through the portal to GCD. We regard this as the most effective way to bring old data up to current standards. Resubmitted data will be validated according to the latest validation rules implemented in the portal after the standardization project performed by our Data Operations team.

In order to help our member banks with this enormous effort, each member has received a "preparation package" from GCD.

Following feedback by members from the earlier re-submissions, we have further enhanced the package and included "red-line graphs", e.g. a comparison of your own LGD vs. the LGD in the pool.

For now we use these reports for spotting outliers and increasing overall data quality, but in the future these types of graphs will become a significant part of GCD's benchmarking reports to members.

The "red-line reports" on our PD ODF database sent out end of July 2016 have been well received by the pool participants as they provide instant insights in a bank's profile. Get in contact with Christine, Riette or Hale if you want to find out more on this topic.

GCD benchmarking platform: Pilot phase successfully launched with member banks

Following multiple demands from its member banks, GCD is now providing a new credit risk benchmarking solution: GCD Benchmarking Platform.
With GCD Benchmarking Platform, banks are able to benchmark their PREDICTED credit risk parameters (PD, EAD/CCF and LGD) used for provision, stress-testing, economic and regulatory capital calculations.

In June 2016, a pilot phase started with setting up the template and conducting a first data submission. The scope:
1. A list of c. 1500 major named borrowers (Large Corps, Banks & FIs, and Sovereigns), and
2. Specific banking book clusters (e.g. Real Estate Finance in Florida).

GCD has just returned, the first anonymised data and analytics to participating banks. As for other GCD initiatives, this solution is by banks, for banks – therefore Banks will be able to tailor this solution to fulfil their benchmarking needs in the upcoming months. Contact Fred Beauvais for more information.

It all starts with segmentation

Interested in Trade or Commodity Finance?

GCD is partnering with the International Chamber of Commerce (ICC) for the annual ICC Trade Register data collection. The Trade Register collection covers a range of trade and export finance products and transactions across major banks.

The data collection will be used for the annual ICC Trade Register Report. The partnership will leverage GCD's data pooling and aggregation experience where GCD provides data collection infrastructure, audit and data sharing functions to the ICC. Other partners include delegate technical experts from the Trade Register member banks, and The Boston Consulting Group who will write the 2016 report. A copy of the 2015 report can be found here on the ICC website.

In April 2016, North American members at our New York conference gave the Board and executives plenty of feedback on what is important to them, and it ranges far beyond Basel 2 or 3.

Being able to segment PD, LGD and EAD data to match CCAR or CECL modelling needs is critical. First changes in the data model (based on working groups running in 2015) have been introduced with the latest submission, others are in the pipeline. But given that even the Basel asset classes are likely to change definition during the upcoming reform of the Internal Ratings Basis (IRB) approach, it is time to look at our current data templates from a wider perspective.

Based on more mem-

ber feedback in the General Meeting in Utrecht in June 2016, various alternatives are now being analyzed, including changes in the input template and changes in the output template. As usual, the key to getting this right will be constant member feedback during the process.

It is time to share your challenges with us, so that they can be met in a potentially new data model. Please contact Nina Brumma for more information.

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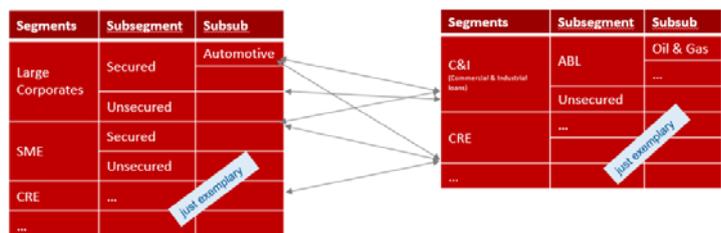
Working group ODF
- *from data collection to methodology*

In 2015 / 2016, GCD enhanced its PD and ODF data collection and is now calculating and collecting migration matrices and multi-year default rates as well. The methodology, process and implementation was overseen by the working group ODF and has led already to two successful submissions in 2016.

The data can be used for benchmarking and calibration of a member bank's internal masterscale but also as a direct source for modelling.

At the moment, the working group is looking into ways of how to extract adequate PD term structures from pooled migration data. The analysis deals with the fact that migration matrices are typically coming from "hybrid" rating systems , with having both a "through-the-cycle" as well as a "point-in-time" component inherent. Extracting the "systemic factor" is key to determine the underlying long-term migration matrix to be used for calculating PD term structures in life-time expected loss calculations (IFRS 9 / CECL).

Interested? Please contact Daniela Thakkar for further information.

Deep-dive into the LGD data for ship finance

Focus Groups can be created any time by Methcom to give our banks the opportunity to discuss topics of interest at an informal level. Lately, an external request to share data or analytics brought together the member banks contributing to the Ship Finance datapool. It has been discussed that certain analytics on the LGD data of this Specialized Lending asset class are a great opportunity to further promote the datapool. As usual, those analytics will be first shared and ultimately controlled by the datapool participants. Contact Nina Brumma for more information.

Active Working Groups & Focus Groups

2016 continues with new working groups in response to further member demands—adding to our list of active working groups (see table below). All working groups aim to create a platform for our member banks to share and discuss the latest developments and have concrete deliverables. The groups are chaired by members and supported by executives (see contact column).

Smaller groups or those in start-up are referred to as "Focus Group". If they have longer term needs then they can be converted to Working Groups.

Do you have a certain topic in mind which you would like to discuss with peers? Bring your idea to the attention of the Methcom through the executives. .

Name	Purpose / Deliverable	Contact
Data Quality (DQ)	Formulate methods in order to ensure better data quality in the LGD / Ead datapool. Deliverables: validation rules, scorings, examples, data dictionary updates, procedures/principles	Christine Kersten
Observed Default Frequency (ODF)	Overseeing the project to build a completely new ODF collection tool. Current data collection (with new tool) is in progress now. New analytics and more fields are being developed all the time	Daniela Thakkar
Model Benchmarking (including RACG)	Umbrella committee for controlling all of the various surveys, benchmarking collections and analytics. Latest activity was controlling analytics for the IIF impact analysis work on IRBA and Revised Standardised Approach Basel changes.	Philip Winckle, Daniela Thakkar, Nina Brumma
Trade and Commodities Finance (TCF)	Supports the "Commodity Finance Capital Treatment Initiative" led by HSBC and supported by ICC, AFME and GCD . Also covers the ICC Trade Register alignment work and oversees data quality and analytics developments for Trade and Commodities Finance—*Now concluded, thanks to all participants*	Martial de Bienassis
IFRS 9 impairment models (incl. CECL)	Knowledge exchange, discussion & documentation on modelling approaches for impairments based on life-time expected loss	Daniela Thakkar
Stress Testing	Discussion of overall Credit Risk Stress Testing methods, Deliverables: A detailed survey and potentially a paper about practices	Daniela Thakkar
CCAR Focus Group	Now in recess during CCAR delivery period. Last delivery was detailed survey response document	Steve Bennett
Data science and Innovation Focus Group	Focus Group to explore the interdisciplinary field of data innovation within Risk Management.	Riette Dijkstra
Validation Focus Group	Focus Group to discuss and share knowledge on best practices in validating credit risk models	Nina Brumma
Member website Focus Group	Reference group for development of the new member website	Daniela Thakkar

Global Credit Data Newsletter September 2016

Book now for the next GCD Conference in Toronto on December 12/13th, 2016

Global Credit Data's fourth North American conference will be in Canada for the first time!

The Conference will be hosted by The Bank of Nova Scotia and will take place in the Financial District in Toronto, Canada on the 12th and 13th of December 2016.

The two day conference will be a mix of plenary presentations and breakout sessions. GCD executives as well as member banks will present different approaches on how to deal with the challenges credit risk modelling is currently facing when it comes to modelling LGD, EaD and PD for all the different purposes (not just regulatory capital). The impact of the final CECL rules, lessons learnt from the latest CCAR process, modelling approaches under IFRS 9 and the proposed changes to the Basel regulations are just some of the agenda items. Participants will also get a chance to see Analytics presentations on the GCD data and engage in our "Modellers' Club sessions" with peers.

Event details and agenda will be available on our external website. Please contact any of the executives for registration.

Members as at 30 August 2016

About Global Credit Data:

Started: in 2004, now having collected more than 10 years of defaults and recoveries from over 50 banks, comprising over 120,000 loans. Formerly named PECDC.

Mission: to pool credit loss data, especially for low default portfolios.

Goal: to help banks understand and model their credit risks.

Credo: "By banks for banks".

Features:

♦ World's largest bank loan LGD database

♦ Growing bank loan default frequency database

♦ Data used for modelling, validation and benchmarking

♦ Not-for-profit company owned by the member banks

♦ Banks in the driver's seat

♦ Banks own the data

♦ Active participation by member banks

♦ Confidentiality

♦ Reciprocity of data sharing

♦ Model Benchmarking

♦ A venue for best practice sharing

♦ Toolbox of data and resources

♦ Focus on data quality

Europe:
ABN-AMRO
Banco SANTANDER
BARCLAYS
BNP-PARIBAS
CAIXA GERAL de DEPOSITOS
CREDIT AGRICOLE CIB
CREDIT SUISSE SECURITIES
DANSKE BANK
DNB BANK
HSBC Trinkaus & Burkhardt
ING
KFW BANKENGRUPPE
NATIXIS
NIBC BANK
RAIFFEISENBANK INTERNAT.
NORDEA
NORDIC INVESTMENT BANK
NYKREDIT
RABOBANK
ROYAL BANK OF SCOTLAND

SKANDINAVISKA ENSKILDA BANKEN
SOCIÉTÉ GÉNÉRALE
SVENSKA HANDELSBANKEN
SWEDBANK
UBS
UNICREDIT BANK AUSTRIA
UNICREDIT GROUP

South Africa:
ABSA
FIRST RAND BANK
INVESTEC BANK
STANDARD BANK OF SOUTH AFRICA

Asia Pacific:
ANZ
BANK OF EAST ASIA (HK)
COMMONWEALTH BANK OF AUSTRALIA

NATIONAL AUSTRALIA BANK
WESTPAC

North America:
BANK OF AMERICA
BANK OF NOVA SCOTIA
BANK OF MONTREAL
CAPITAL ONE
CIBC
CITIBANK
COMERICA BANK
DESJARDINS Group
J.P.MORGAN
M&T BANK
NATIONAL BANK OF CANADA
NORTHERN TRUST
PNC
ROYAL BANK OF CANADA
UNION BANK
WELLS FARGO

Data Collection Calendar

LGD: twice a year in April/May and October/November

PD/ODF: In the long run, one time per year. In 2016, however, three submission cycles have been set-up to give all member banks the chance to contribute to the new submission template, which includes migrations and multi-year PDs.

Name / Cluster Benchmarking: A dedicated pilot has been set-up in July / August 2016 to bring this datapool up to a new standard including a more frequent data collection and return. Further submission cycles planned in 2016.

Surveys: Ad hoc, decided by the various working groups. Check with the executives for more details.

FOR MORE INFORMATION?

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