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Article of the month:

JP Morgan slashes UK exposures ahead of Brexit

November 2018. Abdool Fawzee Bhollah (risk editor), Louie Woodall (covered equity derivatives and structured products for the derivatives desk)

JP Morgan has cut loans, derivatives and securities exposures to the UK by 29%, to $38.2 billion from $53.9 billion, since end-June 2016, Risk Quantum analysis shows.
Net derivatives, repo and securities exposures fell 52%, to $9.4 billion from $19.4 billion, and lending and deposits by 17%, to $28.8 billion from $34.5 billion.
The next two largest US banks also pared back on derivatives and repo exposures, but in contrast to JP Morgan they increased their lending commitments.
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National supervisors put pressure on global risk models

October 2018. Philip Alexander (regulation desk editor for Risk.net, prior, he edited sovereign credit research for rating agency Standard & Poor's in London)

Differing demands from national supervisors are making it harder for banks to develop and manage their risk models centrally, according to model managers at four cross-border banking groups.
Expectations vary in terms of the size of local modelling teams, with some supervisors also insisting on local governance of the models. In response, banks are aspiring to pull off a tricky balancing act: a framework that is coherent enough to function as a global standard.
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After Nasdaq, cracks appear in foundation of clearing

October 2018. Luke Clancy (financial journalist at Risk.net)

Risk sharing is the foundation of central clearing. If it all goes wrong, and a defaulter can't pay for its own losses, then everyone else chips in via a prepaid fund.
So, it's probably no surprise that in the aftermath of last month's default at Nasdaq Clearing – which left members to mop up losses of €107 million ($122 million) – some firms are wondering whether they really do have to share risk with everyone else. Perhaps a segregated default fund, that excludes certain firms or products.
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European credit model outputs vary wildly

October 2018. Abdool Fawzee Bhollah (risk editor), Louie Woodall (covered equity derivatives and structured products for the derivatives desk)

The ratio of risk-weighted assets to corporate credit exposures, as calculated by banks' internal models, differs enormously from firm to firm, Risk Quantum analysis shows.
A survey of 16 European banks reveals that the risk density of corporate loan books – calculated as RWAs divided by exposures-at-default (EAD) – as determined by each firm's advanced internal ratings-based approach (A-IRB) models, ranged from 33% to 55% at end-2017.
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FRTB could 'kill' local markets – South African banks

October 2018. Tom Osborn (desk editor of Risk.net's, Prior, he reported on the futures and foreign exchange industries for Dow Jones' Financial News.)

South Africa should diverge from globally agreed rules on market risk capital to protect the liquidity of the country's bond and equity markets, risk managers at some of the country's largest banks have argued.
Banks have long complained an expected leap in market risk capital under the Fundamental Review of the Trading Book (FRTB) will make it uneconomic for dealers to make markets in products that are traded less widely – potentiality "killing" liquidity in key local markets.
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Pensions and insurers give new impetus to Asia's ETFs

October 2018. The survey was conducted by the Asia ETF Forum in Taipei, Hong Kong, Seoul, Bangkok and Singapore between April 17 and June 28, 2018.

Cost-conscious institutional investors are embracing exchange-traded funds (ETFs) to lower transaction fees and achieve higher returns. Hong Kong Exchanges and Clearing (HKEX) explores the theme of yield-chasing among insurers in Asia's expanding ETF market and why ETFs with a global or regional focus represent a low-cost channel to gain overseas exposure.
As the liberalisation of Asia's developing markets and its swelling retirement savings spur demand for overseas investment, offshore investment restrictions are increasingly painful for money managers who want to go global. In this regard, ETFs permit insurers to overcome some overseas investment restrictions.
Insurers now get customised products from fund managers to target certain exposures that boast tax incentives and higher yields. Investing in overseas markets through ETFs also reduces the need for hedging, which is mandatory for foreign investments in some markets.
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Special Report: 10 years since Lehman

September 2018. Carlo Svaluto Moreolo (Senior Staff Writer at IPE.com)

The global financial crisis of 2008 prompted a global regulatory effort on an unprecedented scale. Global regulators have strived to implement rules that minimise the risk that the financial system will collapse owing to its inherent weaknesses. This focus on macroprudential, rather than microprudential, policy has led regulators to look beyond the banking sector to find unidentified sources of systemic risk.
As a result, after implementing far-reaching regulation for the banking sector, they have turned the spotlight on the asset management industry. Regulators have serious concerns that asset managers could play a pivotal role in precipitating the next crisis, in contrast to the last one, where they had a small role.
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UK government refuses to back mandatory climate risk disclosures

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October 2018. Chris Seekings (The Acturary editor)

Pension fund trustees will not be forced to report the risks that climate change pose to their investments after the UK government refused to accept the recommendation from the Environmental Audit Committee (EAC).

However, ministers agreed to clarify that trustees have a fiduciary duty to consider long-term environmental risks, and is consulting on how to mend pension regulation accordingly.

It is also considering how best to ensure trustees take account of scheme members' views when developing investment policies, agreeing that funds should take these into account.

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The Actuary Magazine:

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Irish SoA Database:

https://web.actuaries.ie/press/erm-resource-database

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UPCOMING EVENTS

Clarity And Connections In The Complex World Of Risk Management

7th to 9th November 2018. Ny Marriott Marquis In Times Square, NY, USA.

Risk USA is a great venue to get up to speed on how other think about current challenges, and to discuss thses issues in smaller breakout sessions and one-on-one, all in a compact period of time. Risk USA provides a great opportunity to meet with and learn from some of the best minds in the industry, including CROs and senior manager from top buy side and sell side firms. Speakers will provide practical perspectives and valuable experiences to real-life issues faced by risk managers.

Find out more

AFIR-ERM Colloquium, Florence 2019

21st to 24th May 2019. Florence, Italy

The Istituto Italiano degli Attuari and Ordine degli Attuari (ISOA) and the AFIR-ERM Section are pleased to invite you to the AFIR-ERM Colloquium 2019: "Innovating Actuarial Research on Financial Risk and ERM", that will be held from 21 to 24 May 2019 in Florence, Italy, the cradle of Renaissance. Come enjoy from its artistic heritage as you walk along in an "open-air museum". Find out more about the event.

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