



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Press release

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ECB consults on counterparty credit risk governance and management

- ECB invites comments from banks and practitioners on counterparty credit risk sound practices report, consultation period ends 14 July 2023
- The review finds a number of good practices but also highlights several areas to improve
- Banks expected to regularly stress test their counterparty credit risk exposures and assess their counterparties' vulnerabilities under tail risk scenarios

The European Central Bank (ECB) is today launching a public consultation on its [report on “Sound practices in counterparty credit risk governance and management”](#). The report summarises the results of the targeted review performed in the second half of 2022 on how banks govern and manage counterparty credit risk (CCR). It highlights the good practices observed in the market and points to areas where improvement is needed.

CCR was identified as a supervisory priority for 2022-24, as banks had been increasingly offering capital market services to riskier, leveraged and less transparent counterparties, particularly non-bank financial institutions, incentivised by the search for yields in the then low-interest rate environment. Energy and commodity price volatility induced by the conflict in Ukraine prompted enhanced focus on banks' exposures towards energy utilities and commodity traders.

In 2023, ECB Banking Supervision conducted off-site follow-up activities at 23 banks active in derivatives and securities financing transactions with non-banking counterparties. In some cases, the ECB also carried out on-site inspections.

The review found that, despite some progress in how banks measure and manage CCR, there is still room for improvement in areas such as customer due diligence, the definition of risk appetite, default management processes and stress testing frameworks. Supervisors' expectations cover, among other dimensions, banks' capacity to obtain information from non-bank counterparties, regularly stress test

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their counterparty credit risk exposures and assess their counterparties' vulnerabilities under tail risk scenarios.

The good practices described in the report go beyond mere compliance with regulatory requirements and should be considered when banks design their approach to CCR. Approaches to CCR taken by banks should be proportionate to the scale and complexity of the business and products offered, as well as the nature of the counterparties.

The consultation on the report starts today and ends on 14 July 2023. We will mainly call upon banks and practitioners involved in CCR management.

The ECB will publish the comments received along with a summary feedback statement and the final version of the report.

For media queries, please contact [François Peyratout](#), tel.: +49 172 8632 119.

Notes

- Among the relevant documents considered for the report:
 - [“The financial stability aspects of commodities markets”](#), Financial Stability Board, 20 February 2023
 - [“Tackling counterparty credit risk”](#), blog post by Andrea Enria, Chair of the Supervisory Board of the ECB, 13 January 2023
 - [“Supervisory expectations for prime brokerage services”](#), Supervision Newsletter, ECB, 17 August 2022
 - [“ECB Guide on assessment methodology \(EGAM\)”](#), ECB, February 2020
 - [“Interagency supervisory guidance on counterparty credit risk management”](#), Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System and Office of Thrift Supervision, 29 June 2011
 - [“Containing systemic risk: the road to reform”](#), Counterparty Risk Management Policy Group III, 6 August 2008
 - [“Toward greater financial stability: a private sector perspective”](#), Counterparty Risk Management Policy Group II, 27 July 2005
 - [“Principles for the management of credit risk”](#), Basel Committee on Banking Supervision, October 2000
 - [“Sound practices for banks' interactions with highly leveraged institutions”](#), Basel Committee on Banking Supervision, January 1999

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