

GUERNSEY FINANCIAL SERVICES COMMISSION

PRINCIPLES FOR THE MANAGEMENT OF CREDIT RISK

The Basel Committee on Banking Supervision has issued a paper entitled “Principles for the Management of Credit Risk”. It can be found here: www.bis.org/publ/bcbs75.pdf

The Commission endorses the principles contained in the paper and expects banks to have taken account of the principles.

Although this paper was issued in September 2000 it continues to be the definitive text on expected international standards for credit risk management. The extent to which banks have taken account of those principles will be reviewed when the Commission carries out on-site credit reviews but there will be specific briefing ahead of such visits setting out the particular objectives of the visit.

The Commission is aware that several banks in Guernsey do not have credit books. However, it has noted the Basel paper's statement that:

"For smaller or less sophisticated banks, supervisors need to determine that the credit risk management approach used is sufficient for their activities and that they have instilled risk-returns discipline in their credit management process."

The Commission will only expect banks to adopt principles that are relevant to, and proportionate for, the business they undertake.

Banks should ensure that, if they have a credit function, the appropriate staff have read the Basel paper. Banks should also, where appropriate, adopt the principles contained within it.

Attention should also be paid to the Appendix entitled "Common Sources of Major Credit Problems" which notes that severe credit losses in a banking system usually reflect simultaneous problems in several areas, such as concentrations, failure of due diligence and inadequate monitoring.

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