



Executive Summary

Results of the 2002/2003 In-Depth Audit of Credit-Risk Management at 133 Banks

Credit risks and their management are of great importance to many financial institutions. For this reason they are subject to constant supervision by the Federal Banking Commission, which regularly collects information on the occasion of annual Banking Law Auditors' reports on the magnitude of the risks concerned and whether they are being appropriately managed. In its SFBC Communication No. 22, the Federal Banking Commission instructed Banking Law auditors to conduct in-depth audits of credit-risk management at banks with significant credit risk. The findings of these audits served centrally in the Federal Banking Commission's consideration of the necessity of further regulations for credit-risk management, and in particular in its ongoing monitoring of the institutions.

The Basel Committee recommends using the [Principles for the Management of Credit Risk](#) it issued in September 2000 for the purposes of evaluating credit-risk management. The Federal Banking Commission used these Principles to develop a detailed [audit grid](#) of 16 principles and sub-principles, which it published as an appendix to its SFBC Communication No. 22. Banking Law auditors were required to conduct their audits in line with this grid, and to report on their findings as part of their Banking Law Auditors' reports for 2002 .

Credit-risk management was examined at 133 institutions significantly involved in the credit business. The results of the audit were for the most part positive, with only few institutions exhibiting substantive weaknesses in a range of credit-risk management areas, and certain institutions showing isolated weak spots. These were concentrated particularly in the following areas: credit-risk policy, directives for the granting of credit in general and the valuation of real estate collateral in particular, information technology, the quality of credit documentation, the design and use of internal rating systems, and credit-risk measurement. The board of directors and the senior management of the institutions concerned are responsible for remedying deficits properly and without delay, and the Federal Banking Commission and the appropriate Banking Law auditors will oversee the process, graded according to type and degree of weakness. Auditors have been requested to monitor the implementation of their recommendations and comment upon the status of implementation in their Banking Law Auditors' reports for 2003 and 2004.

The positive results of the In-Depth Audit have confirmed the Federal Banking Commission's finding that banks have on their own initiative significantly improved their credit-risk management processes following the economic crisis of the early 1990s. In addition, in a sector which is today subject to rapid evolution and tough competition, the banks have been compelled to continuously upgrade their processes. Nevertheless, the In-Depth Audit provided the institutions supervised and the auditors in charge with an excellent opportunity for carrying out a complete review of the area. The findings led the Federal Banking Commission to conclude that no immediate additional regulatory steps are necessary.



Eidgenössische Bankenkommission
Commission fédérale des banques
Commissione federale delle banche
Swiss Federal Banking Commission

The Federal Banking Commission continues to believe that the need for regulation of credit-risk management must be considered in a more global context, as well as in view of existing regulation. It should be noted in this regard that the recent past has seen significant progress in regulatory matters. The SFBC accounting guidelines issued on 18 December 2002 set out appropriate measures for the treatment of impaired loans and the creation of provisions. On 8 January 2003 the Swiss Chamber of Certified Accountants and Tax Consultants ratified its new guidelines for auditing with respect to default risk on real-estate loans. Furthermore, the Swiss Bankers Association issued in December 2003 a comprehensively revised version of its 1993 guidelines on reviewing, valuing and granting loans secured by real estate. Finally, with the new Basel Capital Accord (Basel II) coming into effect, the Federal Banking Commission will soon have to examine whether there is a need to specify existing regulation of credit-risk management further, which will take a certain amount of time. In any case, the principles set out in SFBC Communication No. 22 and its appendix have reminded the banking sector of the Federal Banking Commission's high expectations for diligent credit-risk management at the institutions supervised, in application of the relevant international standards formulated by the Basel Committee.