Letter from the Executive Director

Dear Colleagues and Readers

SEACEN marks the completion of the Journal’s fourth year of publication with the publication of this eighth issue. We are pleased to continue to provide our readers with insights on topical policy issues related to financial stability and bank supervision by respected subject matter experts. We invite our readers who have relevant subject matter expertise to submit articles for possible future publication.

This issue’s lead-off article by Michael J. Zamorski, former SEACEN Advisor on Financial Stability and Bank Supervision, provides an overview of the characteristics of sound systems of bank supervision and regulation. In a second article SEACEN Senior Financial Sector Specialist Aziz Durrani provides a comprehensive discussion of the ongoing evolution of bank stress testing subsequent to the Great Financial Crisis, including global best practices that have emerged. Valuable insights are provided with respect to the stress testing experiences of three key regulators most affected by the Crisis: The Bank of England, The European Central Bank, and the U.S. Federal Reserve Board.

An article by Mr. Dev Strischek, a highly respected U.S. expert on bank credit risk for more than four decades, provides a discussion of fundamental factors that bank supervisors consider in assessing loan quality. He also discusses the importance of proper loan documentation to protect banks’ financial interests and minimize the possibility of losses should a borrower default on their loans.

A fourth article by Mr. Zamorski discusses bank lending practices that can lead to future loan portfolio difficulties. During favorable economic times, bank credit standards may be relaxed due to competitive factors and/or the belief that the possibility of a cyclical downturn is remote. Unfortunately, this approach has led to imprudent risk selection and many periods of banking industry instability and even crises.

I would like to express my sincere gratitude to our readers, authors, SEACEN member central banks and monetary authorities and the Journal’s Editorial Board for their invaluable contributions toward its success to date, and for their continued support.

Dr. Hans Genberg
Executive Director
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