



CENTRE *of* EXCELLENCE *in* FINANCIAL SERVICES

Directed Risk Research Programme

DIRECTED RESEARCH PROBLEM STATEMENT

Research Theme	LGD discount rate	Problem Nr.	PS21003
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Project Title: Credit Risk: LGD discount rate

1. Project Goal

The goal of this project is to derive an industry standard LGD discount rate.

2. Higher level description of problem

In credit risk, the Loss given default (LGD) discount rate is used to discount all cash flows during the estimation of the LGD parameter in credit risk.

There is no clear guidance from the regulatory on how to approach the estimation of LGD discount rate.

Hence, this topic is very topical, and will be in the near future.

Some regulators prescribe a flat LGD discount rate, however the SARB's Prudential Authority (PS) does not prescribe anything.

3. Project objectives

A standardized proposal for the LGD discount rate, so industry numbers are better aligned and comparable.

4. Outputs required

A document/paper/article

5. Funding for project

To be completed by the DST.

6. Strategic value to directed risk research

This will give industry some guidance on the quantification of the LGD discount rate.