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## **Comments on: Criteria for identifying simple, transparent and comparable securitisations.**

Our member's thank you for the opportunity to provide comments on the "*criteria for identifying simple, transparent and comparable securitisations*" consultative document.

Our comments are included in **Annexure 1**.

Yours faithfully



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**Gary Haylett**  
**General Manager – Prudential**

## Comments on: Criteria for identifying simple, transparent and comparable securitisations

### Question 1

- Do respondents agree that the criteria achieves the goals they aim to achieve?
- In particular, do respondents believe that the criteria could help investors to identify “simple”, “transparent” and “comparable” securitisations?

- The SA securitization market is already fairly standardized in terms of asset classes, documentation and reporting, however STC criteria would serve to enhance this.
- We do not believe that STC criteria if implemented in its current form will significantly develop the securitization market.
- Although investors may take comfort from the new criteria, a key impediment remains the relative value of securitisation instruments given the significant credit analysis required and also the lack of liquidity in the secondary market (this can be alleviated should the LCR framework allow for it).

### Question 2

- Do respondents agree with the STC criteria set out in the annex of this paper?
- In particular, are they clear enough to allow for the development by the financial sector of simple, transparent and comparable securitisations?
- Or do respondents think they are too detailed as globally applicable criteria?
- The annex provides guidance on each criterion. Which additional criteria would respondents consider necessary, if any, and what additional provisions would be useful or necessary to support the use of the criteria?
- What are respondents’ views on the “additional considerations” set out under some criteria in the annex? Should they become part of the criteria?
- Are there particular criteria that could hinder the development of sustainable securitisation markets due, for example, to the costliness of their implementation?

- We support most of the criteria proposed as well as the clarity thereof and set out the qualifications in the table below.
- With regards to whether these should be globally applicable: Refer to question 4 below
- Views on additional considerations are set out in table below where relevant
- Criteria that would hinder the development: Criteria 4, 9 and 12 – details in the table below



<p><b>1. Nature of assets</b></p>	<ul style="list-style-type: none"> <li>• In some cases originators originate a number of products and it would not be economic to securitise them separately – for example cell phone contracts and personal loans or interest free and interest earning credit cards.</li> <li>• The capital structure and rating take this into account and limits are set for volumes per product</li> <li>• Provided this is disclosed and the investors have sufficient information on the underlying assets and historic performance to assess the aggregate risk, the criteria should ideally allow for certain hybrid transactions</li> </ul>
<p><b>2. Asset Performance</b></p>	<ul style="list-style-type: none"> <li>• The credit enhancement in a transaction would typically mitigate for any insufficient performance history for new originators.</li> </ul>
<p><b>3. Payment Status</b></p>	<p>Although there is significant merit in this criteria for comparability reasons, there may be examples in South African transactions where otherwise standardized and well performing deals would not meet the STC rules:</p> <ul style="list-style-type: none"> <li>• In some transactions unseasoned assets are sold to the Issuer with no proven payment record as yet – the credit enhancement levels cater for this</li> <li>• For practical/operational reasons non-performing assets are in certain cases sold to a securitisation Issuer to ensure that legal proceedings are all executed in the name of the Issuer. Provided the non-performing assets are fully covered on a cash basis this should not necessarily disqualify a transaction from meeting the STC criteria</li> </ul>
<p><b>4. Consistency of underwriting</b></p>	<ul style="list-style-type: none"> <li>• This is challenging to document as credit policy and score cards are proprietary. Originators review and amend credit policy on an ongoing basis and existing receivables may be originated well below risk appetite. Transactions often allow for a degree of flexibility upfront, in which case the credit enhancement levels provide for this</li> <li>• It would not be realistic for originators to maintain totally static underwriting policies, however, we would support standards for provision of information relating to significant</li> </ul>



	changes in their underwriting criteria and how this correlates to performance – this could be clearly indicated by way of vintage data mapped to the changes in the criteria
<b>5. Asset Selection</b>	<ul style="list-style-type: none"> <li>• Random selection - support this criteria.</li> <li>• One challenge is that once all eligible assets in an originator portfolio are identified, the choice is often to sell the most seasoned portion – provided this is disclosed this should not disqualify the transaction. Perhaps, disclosure of the pool stratification relative to the eligible pool is a consideration</li> </ul>
<b>6. Data</b>	<ul style="list-style-type: none"> <li>• Support</li> </ul>
<b>7. Redemption Cash-flows</b>	<ul style="list-style-type: none"> <li>• Supportive provided it allows for refinance options prior to legal final maturity</li> </ul>
<b>8. Currency and interest rate mismatches</b>	<ul style="list-style-type: none"> <li>• Supportive provided that some transactions would not necessarily require a basis risk hedge where excess spread is significant (Personal loans/credit card receivables are typically written at significant premiums over the prime rate whereas notes are linked to Jibar)</li> </ul>
<b>9. Priority of Payments</b>	<p>Some challenges</p> <ul style="list-style-type: none"> <li>• Payment of junior notes prior to senior: some instances additional credit enhancement is provided through a junior note that is then released as the transaction unwinds and the additional enhancement is not required – would need an alternative measure to ensure minimum CE levels are maintained from day 1</li> <li>• Disclosure of credit management limitations/discretion in issuer documentation: could be very challenging to set out formulated limitations to the originators credit management policy upfront. The flexibility around the originators credit management discretion should not be limited where the originator provides all the first loss protection and where the credit management is applied across the total portfolio including securitized assets.</li> </ul>
<b>10. Voting rights</b>	<ul style="list-style-type: none"> <li>• Support</li> </ul>
<b>11. Documentation and legal review</b>	<ul style="list-style-type: none"> <li>• SA documentation is already very standardized given small pool of issuers and legal firms</li> <li>• It would however be well received by investors if</li> </ul>



	sequence and layout was more standardised
<b>12. Alignment of interest</b>	<ul style="list-style-type: none"> <li>The additional consideration would be very challenging and best be performed by auditors as opposed to trustees , however supportive of more transparency/disclosure of the Originators economic position before and after the transaction</li> </ul>
<b>13. Fiduciary and contractual responsibilities</b>	<ul style="list-style-type: none"> <li>Support</li> </ul>
<b>14. Transparency to investors</b>	<ul style="list-style-type: none"> <li>Note differences in definitions for arrears and defaulted assets. However agreed that layout and minimum disclosure be more standard</li> </ul>



### Question 3

- What are respondents' views on the state of short-term securitisation markets and the need for initiatives with involvement from public authorities?
- Do respondents consider useful the development of differentiating criteria for ABCP, in a manner similar to that of term securitisations?
- The BCBS and IOSCO would particularly welcome any data and descriptions illustrating the state of short-term securitisation markets by jurisdiction and the views of respondents on concrete comparable criteria that could be applied to short-term securitisations

- With regards to ABCP conduits with small (non-granular) portfolios, we would be supportive of the criteria relating to structure and fiduciary risk. These entities are actively managed and criteria relating to the assets are less relevant.
- Standardisation of disclosure relating to structural support and payment waterfalls would assist investors in comparing instruments
- Where conduits fund granular portfolios, it would be beneficial to subscribe to the STC criteria subject to qualifications in question 2 above

### Question 4

- What are respondents' views on the level of standardisation of securitisation transactions' documentation? Would some minimum level of standardisation of prospectuses, investor reports and key transaction terms be beneficial? Do respondents think there are other areas that could benefit from more standardisation?
- Would a standardised template including where to find the relevant information in the prospectus be helpful?
- The BCBS and IOSCO would particularly welcome a description, by jurisdiction, of the extent to which different elements of initial documentation are standardised

- The SA securitisation industry is already very standardised and predominantly focused on retail assets. Given the small number of issuers and legal firms (as well as investors), offering documents, legal agreements and investor reports are relatively comparable.
- The SA securitisation forum is already focused on releasing a market standard investor reports for RMBS.
- It would be a significant setback/disruption if SA documentation and reports have to subscribe to international standards not designed to SA market specifics.
- There is however room for improvement and standardisation in terms of layout for example, sequence of contents in a prospectus and standard template to set out risk factors allowing for unique and ad hoc risk factors.