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February 13, 2015

Board of the International Organization
of Securities Commissions (IOSCO)
C/ Oquendo 12
28006 Madrid Spain

Secretariat of the Basel Committee
on Banking Supervision (BCBS)
Bank for International Settlements
CH-4002 Basel, Switzerland

Dear Basel Committee members:

Re: CBA[1] Comments on the IOSCO-BCBS consultative document:
"Criteria for identifying simple, transparent and comparable securitisations"

We appreciate the opportunity to review the IOSCO-BCBS's consultative document, *"Criteria for identifying simple, transparent and comparable securitisations."* We support the efforts made by the Task Force on Securitisation Markets (TFSM) of the Basel Committee on Banking Supervision and the International Organization of Securities Commissions to establish principles and broad criteria for simple, transparent and comparable securitization transactions ("STC criteria") in order to maintain and strengthen well-functioning and prudentially sound global securitization markets. We look forward to working with standard setters in determining how these criteria will be applied meaningfully by market participants.

Subsequent to the financial crisis, Canada has experienced a sharp drop-off in securitization activity. The term Asset-Backed Securities (ABS) market has declined by close to 30% since 2007, while combined term ABS and Asset-Backed Commercial Paper (ABCP) outstandings in Canada have dropped to less than half of the 2006 levels (source: DBRS). We agree that the factors listed in the consultative document have contributed to this decline, although additional factors in Canada have been the acquisition or consolidation of regular issuers in the market and the lack of a continuous flow of new deals to establish a broader investor base.

We have provided our comments on some key issues below and, in the attached appendix, offer more detailed responses to the four questions posed in the consultative document. We have also provided feedback on the fourteen proposed STC criteria.

[1] The Canadian Bankers Association works on behalf of 60 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 280,000 employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions and works with banks and law enforcement to help protect customers against financial crime and promote fraud awareness. www.cba.ca.

Consistent Implementation across Jurisdictions

We agree with the broad, principled approach taken by IOSCO and BCBS to establish the STC criteria with the option for local regulators to tailor more detailed elements for their respective jurisdictions; however, we believe that any such tailoring should not undermine general consistency across jurisdictions. If the STC criteria are implemented through regulation, consistency across jurisdictions will further the principle of comparability and the goal of revitalizing securitization markets by lessening the time and resources market participants (i.e. investors and issuers) need to devote to evaluating securitizations and dealing with differences between jurisdictions.

Standardized Disclosures and Assessing Risk

We believe a positive aspect of the STC criteria that will contribute to the revitalization of global securitization markets is the continued improvement in the level of disclosure, notably the standardization of disclosure. This will improve investors' ability to adequately compare securitization transactions both within and across jurisdictions. However, policy makers will need to be cognizant of balancing the level of disclosure necessary for investors to effectively assess risk versus creating reporting requirements that are so detailed or burdensome that issuers are discouraged from participating in the market.

Additionally, in balancing the different interests between investors and issuers, policy-makers must not target the elimination of risk from securitizations, as risk-sharing is a fundamental principle of securitization transactions. As such, the intent of the STC criteria should not be to create riskless transactions. As an example, where the consultative document suggests criteria should "*prevent investors being subject to unexpected disruptions in cash flow collection and servicing*", this may not be realistic and should be deleted in the final text of the criteria. Instead we believe that the goal should be to provide investors with the tools necessary to adequately measure and evaluate the risk.

Administration of the Program

We note that the consultative document does not discuss or make any recommendations as to how STC compliance is to be determined, including which parties or market participants would have the ability and/or obligation to determine which transactions satisfy the STC criteria. There appears to be three options: the issuer, the investor, or a third-party organization providing an independent assessment. In evaluating these three options, consideration must be given to balancing the costs or potential liabilities associated with each option, including potential increased issuer liability and costs, the consequences to an investor of making an erroneous assessment, and who will bear the costs of a third-party organization, versus what additional benefits are to be afforded to the issuer or investor from the STC label.

Asset-Backed Commercial Paper (ABCP) Market

The short-term securitization market (i.e. ABCP) is a key source of funding for the Canadian economy, providing a significant amount of working capital in support of trade and business, in particular consumer finance. By their nature, the assets underlying short-term securitizations are very similar, and in many cases identical, to those underlying term securitizations. Short-term securitizations and term securitizations in Canada have comparable structures: both focus on traditional asset classes, and both have other characteristics that are enumerated in the STC criteria. In addition, we note that securitizations funded by multi-seller ABCP conduits that focused on traditional asset classes performed well through the financial crisis, and were in all ways comparable to term securitizations of like asset classes.

The Canadian ABCP market, consistent with the description of global ABCP markets generally in the consultative document, remains challenged subsequent to the financial crisis. The Canadian ABCP market is currently about one quarter of the size it was pre-crisis. We support developing an STC-like concept for ABCP with a goal to not only increase investor demand, but also to provide capital relief for sponsors and investors. It will not be enough, however, to simply apply the ABS STC criteria because there are significant differences between ABS and ABCP issuance that will need to be recognized. For example, the provision of asset information and performance data prior to pricing is feasible for an ABS

transaction, but would be problematic for ABCP due in part to the frequency the ABCP conduits issue commercial paper (e.g. daily or weekly). In addition, we would look for ABCP compliance with ABCP-specific STC criteria to be determined based on the attributes of an ABCP conduit as a whole, and not on whether each individual transaction within the conduit has satisfied STC criteria. Finally, as with the STC criteria applicable to ABS, we would expect the development of any STC criteria for ABCP would be done in harmony with applicable securities legislation.

Implications for Market Revitalization

Given that the STC criteria are "*non-binding*" and "*not intended to be implemented in regulation*", at least not initially, we question whether the criteria alone will be sufficient to have the desired outcome of revitalizing and solidifying stable securitization markets. While the STC criteria are directed at increasing investor demand and confidence, in Canada the impact on the revitalization and stability of the Canadian securitization markets will be negligible unless the criteria go beyond being a useful tool for investors. We believe that the STC criteria must provide tangible benefits to all market participants and contribute to making securitization, both issuance and investment, more cost-effective.

Important areas for consideration to revitalize the market include:

- **Capital Relief:** Securitizations that are STC compliant will permit better measurement of risk due to standardized disclosure regarding defaults and loss data and reduced model risk, and we believe a capital benefit should be provided. This would also reduce the cost of issuing securitizations, further incenting issuers to use securitizations instead of unsecured funding sources.

- **Reduced Floors:** The newly introduced floor of 15% in the Revised Securitization Framework is still believed to be overly conservative for high-quality securitizations. With STC criteria that comprehensively enable the assessment of all material risks, the industry will be able to better identify high-quality securitizations and demonstrate to the regulators that a lower capital floor for these structures is justifiable.

- **Favourable Liquidity Treatment:** Classification as Level 2 liquid reserve assets for securitization transactions that meet the STC criteria would help to increase the demand for these securities and incent greater bank investor participation.

We thank you for taking our comments into consideration and look forward to future discussions on these issues.

Sincerely,

cc: Catherine Girouard, Director, Bank Capital, OSFI Regulatory Sector, OSFI
Ian Gibb, Capital Specialist, Bank Capital, OSFI Regulatory Sector, OSFI
Mary Thomas, Senior Analyst, Capital Division, OSFI

Enclosure

CBA comments on IOSCO-Basel Committee consultative document: *Criteria for identifying simple, transparent and comparable securitisations*

CBA Members' Comments and Requests for Clarification	
BACKGROUND AND OBJECTIVES *(page 2)*	
▪ We are supportive of the initiative undertaken by the Task Force on Securitization Markets (TFSM), and appreciate the effort to increase participation of non-bank investors in the securitization markets. We understand that the implementation of the criteria into regulations is out of the scope of this BCBS-IOSCO project; however, given the important role banks play in the securitization markets as issuers, intermediaries, and investors, we would stress that this initiative may have limited impact if not coupled with some regulatory action in the areas of more favourable capital treatment and preferential liquidity treatment with the addition of securitization as Level 2 assets in the LCR.	
STATE OF GLOBAL SECURITISATION MARKET *(pages 2 - 3)*	
▪ Generally, we agree with the description of the state of the global securitization market in the consultative document, and feel that the Canadian market experience is consistent. However, the term-ABS market decline in Canada has not been as severe, and post credit crisis the consolidation or acquisition of issuers has had a large impact on supply. The premise that investors do not buy ABS because of a lack of transparency is not accurate in Canada. As a result, if the STC criteria are only limited to trying to create increased investor demand, they may have only a negligible impact in Canada. In order to truly revitalize and grow the market, and given the very substantial roles that regulated institutions play in the securitization market, we feel there needs to be tangible benefits to the STC criteria, such as better capital and liquidity treatment, available to all market participants.	
IMPEDIMENTS TO SUSTAINABLE SECURITISATION MARKETS *(pages 3 – 5)*	
▪ We believe that the cost of new capital rules and complementary regulatory regimes make securitization transactions less attractive relative to other investment opportunities. Equally important, we believe the STC framework should explicitly consider the expected benefits (e.g. higher capital levels, more explicit liquidity) when developing its criteria.	

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▪ From a liquidity perspective, omission of term-ABS from LCR is a deterrent to participation in the market by bank and non-bank investors. It also increases the cost of market making, which impacts secondary market liquidity and in turn impacts new issuance spreads. ▪ One of the main investor considerations in the investment decision is the perceived liquidity of the instrument. The omission from LCR impacts both the actual and perceived liquidity of the ABS markets.	
Stigma	
▪ We agree that there is still a residual stigma attached to securitization markets globally, and believe that it is the result of the poor performance of a limited asset class (U.S. subprime residential mortgage-backed security (RMBS)) and a few opaque structures (e.g. collateralized debt obligations (CDOs) of CDOs). ▪ We also believe, and as supported by the European Banking Authority (EBA) statement in the EBA Discussion Paper on simple standard and transparent securitizations (page 21), that the stigma is not just with investors but also regulators: *"Investors and regulators' perception of securitisations as an investment class altogether has been negative since the crisis struck, due to the stigma placed on the entire investment class following the high level of defaults and high losses that characterized specific asset classes of the securitization market, in particular US sub-prime RMBS, US CDO products and, to a minor extent, CMBS products."* ▪ We hope that a positive outcome of this consultation is the recognition by regulators that not all securitization transactions performed the same and that a significant portion of the market performed very well during the crisis delivering significant benefits to the ultimate borrower (e.g. the individual securing an auto loan) and the real economy, which we believe should result in more favourable capital and liquidity treatment for the well-structured, well-performing segment. ▪ Term-ABS transactions and bank-sponsored ABCP in Canada performed well during the financial crisis, but suffered from the stigma of the non-bank ABCP market in addition to international securitization challenges.	
Difficulty in assessing risk	
▪ We note that, currently, only plain-vanilla asset classes are being securitized in the Canadian term-ABS market, such as auto loan and credit card transactions comprising the majority of term-ABS activity, followed by some activity in equipment loans, auto leases, auto floor plan,	

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daily car rental and RMBS. Commercial mortgage-backed securities (CMBS) are seeing more activity, though the number of investors participating in these deals is still relatively small, especially compared to pre-crisis levels. ▪ As a result of the straightforward nature of the assets, the information provided to investors is broadly consistent and familiar to them – information on historical delinquencies, credit losses and prepayment rates, together with pool-specific information, is presented in a generally consistent manner. We recognize, however, that there may still be room for improvements in information provided and consistency that would allow investors to better measure or model risk.	
SIMPLE, TRANSPARENT AND COMPARABLE (STC) SECURITISATIONS *(pages 6 – 8)*	
Concept of STC securitisations *(pages 6 – 7)*	
▪ While we are generally supportive of the STC criteria concept as a possible means of expanding investor participation in securitization transactions, we feel there needs to be greater benefit from the criteria for all investors for the concept to truly contribute to stabilizing and expanding the securitization market. In light of the recent release of the proposed final Revisions to the Securitization Framework by the BCBS, we would like to see satisfaction of the STC criteria extended to modify the impact of the Revised Securitization Framework on market participants. In this regard, we reiterate that the newly introduced floor of 15% in the Revised Securitization Framework (which more than doubles of the current comparable capital floor) is still believed to be overly conservative for very high-quality securitizations. Our hope is that, with STC criteria that comprehensively cover all material risks, the industry will be able to better identify high quality securitizations and demonstrate to the regulators that lower capital requirements are justifiable. ▪ In addition, we would like to reiterate the importance of cross-jurisdictional alignment in respect of the implementation of the Revised Securitization Framework given the potential use of the STC criteria, particularly default and loss data requirements that underpin the Internal Ratings Based Approach (IRBA). The securitization capital assessment will be a critical factor in revitalizing the market. ▪ We believe that additional thought / discussion will be required on two significant issues: ▪ **Who / how to determine if a transaction satisfies STC criteria:** There appears to be three alternatives: (1) issuers analyze and determine if their transactions satisfy the criteria similar to determining if they have satisfied prospectus requirements; (2) investors make their own determination similar to other internal decisions investors make about how to classify, book or treat investments, and,	

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finally, (3) a third-party organization or registry for qualifying transactions is set up to determine which transactions meet the criteria similar to Prime Collateralized Securities (PCS) in Europe. While there are pros and cons to each option, we note that certain markets may not be large enough to incur the cost of the third option, and we question whether it would just be a rating agency under a different name and may expose the market to the risk of repeating the same over-reliance that occurred leading into the credit crisis. ▪ **Additional and/or more detailed criteria / impact on regulation:** Although we support the STC criteria concept and the principles-based approach taken by BCBS/IOSCO in establishing the criteria, we would like the opportunity to provide comments on any proposed "*additional and/or more detailed criteria, such as those related to credit risks of the underlying securitized assets...*" and *"…its potential impact on regulation…*", as referenced on page 8 of the consultative document, when they are determined. ▪ In addition, care needs to be taken to make sure the STC criteria are not so restrictive that well-performing assets are excluded.	
Design of the STC criteria *(page 8)*	
▪ We acknowledge that comparability is a key objective, and believe this should be possible as long as disclosure is sufficient to allow investors to make adjustments in order to compare similar transactions. We recognize a challenge will be comparability across transactions in the same asset class, but from different issuers, as there are always some differences in the structures. ▪ We note that existing securitization program documents can be difficult to modify or amend, and that consistency of the transaction documents from one transaction to the next is also an important consideration.	
FURTHER AREAS FOR REVIEW *(pages 8 - 9)*	
Short-term securitisation markets *(pages 8 – 9)*	
▪ We are supportive of not limiting the STC criteria initiative to term-ABS, but to also consider / extend similar principles to ABCP given the size and importance of the ABCP market in Canada. We feel this is reasonable considering there is no differentiated treatment under the Revised Securitization Framework for calculating capital. We refer you to our responses to question 3 below for a more detailed discussion.	

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Standardisation of securitisations' documentation *(page 9)*	
▪ We agree that consistent, standardized documentation does assist investors with their evaluation of transactions. We refer you to our responses to question 4 below for a more detailed discussion.	
QUESTIONS *(pages 9 – 10)*	
1. Do respondents agree that the criteria achieve the goals they aim to achieve? In particular, do respondents believe that the criteria could help investors to identify "simple", "transparent" and "comparable" securitisations?	
▪ We are supportive of the general description of asset types identified in the consultative document (i.e. "*credit claims or receivables*"), rather than trying to identify specific asset types that are acceptable (e.g. auto loans and credit card receivables). We believe targeting specific asset types may be too limiting and may inadvertently eliminate assets types that would fit within the STC criteria, or may stifle the development of other asset types that would fit within the STC criteria. We believe the focus should be on identifying what types of transactions / assets do not qualify under the STC criteria such as the "*exotic derivatives*" mentioned in the consultative document. ▪ We are also generally supportive of the need for the underlying assets to be homogeneous with respect to asset type, jurisdiction, legal system, and currency, although we feel that the term "homogeneous" should not be interpreted too restrictively, and will need refinement for a better understanding of what is intended. For instance, we believe assets originated within Canada should be considered to be under a homogeneous legal system despite certain provincial differences, and the underlying assets in CMBS should be considered homogeneous despite the variability of commercial real estate properties. Generally, though, homogeneity of these elements will enhance investors' ability to assess risk as these factors promote simplicity and comparability. ▪ A few criteria in the Asset Risk section as proposed will require additional definition and standardization in order to facilitate identification or differentiation of simple from complex transactions. It should also be clarified that transactions that fit the STC criteria may not necessarily imply risk is low, especially given there is no credit risk specific criteria. ▪ We believe the criteria are generally consistent with current practices for bank securitizations in Canada and what we deem as simple, transparent and comparable securitizations. In some circumstances, as outlined below in the feedback to each criterion, the text becomes overly prescriptive for a principles-based approach that is applicable for multiple jurisdictions, and can be streamlined while still being	

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thorough enough to achieve its objectives. We believe that the criteria, taking into consideration the comments made below, could help investors to identify STC securitizations. ▪ As a general matter, we believe that the criteria could help investors identify STC securitizations. Unfortunately, our ability to measure the benefit and gain comfort in the categorization is limited by the fact that the intended use and effect is purposely vague in the consultative document.	
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?	
▪ Generally, the STC criteria are supportable and in many cases represent terms that are already present in most Canadian securitizations – delinquent or defaulted receivables are not eligible, random selection of receivables, bankruptcy remoteness, etc. ▪ As some of our comments suggest, various aspects of the criteria appear to be overly prescriptive (criteria 5, 9, 10, 11 and 13) and can be streamlined for consideration of securitizations in different jurisdictions and assets classes. We have also provided feedback on the various "additional considerations" below in the feedback to each criterion. Finally, the comments to the criterion below provide insight into where we believe the criteria become too prescriptive and risk hindering the development of a sustainable securitization market in Canada and globally, which includes cost concerns with criterion 6, 11 and 13.	
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.	

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▪ The Canadian ABCP market, consistent with the description of global ABCP markets generally in the consultative document, remains challenged subsequent to the financial crisis. The Canadian ABCP market is currently about one quarter of the size it was pre-crisis. In mid-2007 the Canadian ABCP market had $115 billion outstanding. For the past five years, outstanding ABCP in Canada has ranged between $25 billion and $29 billion and is currently approximately $28 billion, again approximately 25% of its peak. While this is significantly smaller than pre-crisis levels, the current constraint does not appear to be a lack of investors. ▪ The market did lose some ABCP investors post crisis. The number of investors could be a constraint to market growth if the asset supply increased significantly; however, if benchmark interest rates increased, it would make the product more attractive to investors. ▪ The Canadian short-term securitization market is more constrained by regulatory burden in the form of LCR and the increased capital requirements for investing banks, banks acting as financial intermediaries (e.g. backstop liquidity providers), and the regulated investors that purchase the ABCP issued by conduits, than it is by lack of investor demand due to lack of transparency. In this enhanced regulatory environment, banks are holding more capital and enhancing their contingent liquidity management in respect of the assets underlying ABCP transactions, and Basel III also imposes greater regulatory requirements on banks that administer multi-seller conduits. We believe that if the simplified/traditional assets underlying ABCP transactions, or the ABCP conduits themselves, would fit within an STC concept and result in reduced capital and LCR requirements, it would serve to enhance the market. ▪ The STC criteria do not translate directly from long-term to short-term structures to a multi-seller conduit and will need to be tailored to ABCP. As well, the volume of data contemplated by the STC criteria would be onerous to produce for the issuer and to analyze by the investor. In addition, for ABS transactions, investors do receive summary stratification data of the securitized assets and performance data on the type of assets through the preliminary offering documents prior to pricing of transactions; whereas providing performance data prior to investors buying ABCP is more problematic due to the nature of the ABCP market, including that the issuance of ABCP in Canada is generally, if not entirely, under a prospectus exemption. To compensate for these differences, the STC criteria for ABCP should apply to the conduit and not to each individual transaction in the conduit, and should focus on the liquidity facility supporting the conduit and the credit quality of the liquidity provider.	
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*	

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elements of initial documentation are standardised.	
▪ We agree that consistent, standardized documentation does assist investors with their evaluation of transactions, but as we note below, we believe that documentation in Canada is relatively consistent both for term-ABS transactions and ABCP transactions. For term deals, the Prospectus or Offering Memorandum (OM) are materially similar in terms of describing the transaction, parties, waterfall, underlying asset portfolio, and risks. This is a result of a number of factors, most notably the relative size and homogeneity of the Canadian market versus Europe and the United States. The Canadian securitization market is smaller and has a smaller number of participants in all aspects of the market; as a result, there is a greater degree of consistency and standardization of documentation. The level of standardization and consistency has increased post-crisis as participants responded to the same feedback and requirements of investors and policy-makers. As noted in the consultative document, this criterion is addressed by complimentary legislation, policies and initiatives, most notably prospectus requirements for term-ABS transactions and proposed new securities legislation for prospectus exempt issuance of ABCP. We believe any STC criterion on this aspect, if in fact needed at all, should be developed in light of, and to harmonize, with these other governing policies. ▪ We feel that term-ABS disclosure documentation in Canada is largely standardized at this time. ABS prospectuses and offering memoranda (for private placement) are quite consistent in terms of information and structure in order to meet disclosure requirements of Canadian securities legislation. ▪ In addition, the terms of transactions, including representations, warranties, indemnities, etc. are also quite consistent across transactions in Canada. As well, term-ABS deals in Canada are typically accompanied by an investor presentation / term sheet summarizing the transaction details that are produced in a consistent format, again, in accordance with applicable securities legislation. ▪ To the extent that new rules are added, these rules should be added to the existing rules under securities acts or harmonized with the Canadian Securities Administrators (CSA) existing or proposed prospectus regime. ▪ Some standardisation, like investor reports, may be unreasonable due to the system limitations of originators. A standardized template sounds reasonable in practice; however, we would want to ensure this does not suggest that only the outlined sections in the template need to be reviewed by the investor rather than the full prospectus. Finally, we would also want to ensure that the standardised reporting is not too restrictive as to prevent full discourse of all material facts.	

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ANNEX: CRITERIA FOR IDENTIFYING SIMPLE, TRANSPARENT AND COMPARABLE (STC) SECURITISATIONS *(pages 11 – 18)*	
A. Asset risk *(pages 11 – 14)*	
1. Nature of the assets	
▪ As noted above, we are generally supportive of the STC criteria requiring securitized assets to be homogeneous with respect to asset type, jurisdiction, legal system and currency; however, the term "homogeneous" should not be interpreted too restrictively. ▪ As an example, in Canada there are 13 different provinces and territories with all but Quebec operating under a Common Law legal system. Quebec operates under a Civil Law legal system. We would like to ensure that this criterion as currently defined would not potentially exclude all Canadian securitizations from being considered STC compliant due to the provincial/territorial arrangement; in particular, the potential exclusion of securitization transactions that include Quebec assets originated under or subject to a different "legal system". The transactions have been structured with these legal system differences in mind and have not presented any challenges or increased the risk for investors. ▪ We also recommend that homogeneity of asset type not be implemented restrictively so as to exclude CMBS, where there can be diversity of underlying asset type, or to disqualify pools that contain exposures to both retail and commercial obligors. ▪ We question whether common currency is relevant as this risk can be hedged and criteria 8 seems to imply multiple currencies would be acceptable ("*currency profiles of assets*") provided hedged properly and disclosed. Cross border securitizations with mixed domiciled receivables are not uncommon and could potentially be excluded due to this criterion. We do not believe this is reasonable since these assets are typically subject to the same credit standards, those of a single originator. ▪ Additional consideration: We agree that the terms "*complex or complicated formulae*", "*exotic derivatives*" and "*homogeneity with respect to geographic origin*" need to be defined. We believe that the criteria should be satisfied for transactions backed by credit cards, retail and commercial mortgages, lines of credit, auto loans, dealer floor plan, lease, equipment and asset classes backed by some non-consumer assets that performed well over the years.	

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2. Asset performance history	
▪ We interpret this criterion as intending to apply specifically to "*new and potentially more exotic asset classes*"; however, we believe this is already the case in most markets. ▪ We are supportive of providing credit and performance history data to investors to permit investors to do their due diligence, and note that this practice is already carried on in Canada, although there is room for greater consistency between issuers. We are pleased that the consultative document does not specify a minimum time period, as we feel that could unnecessarily limit the development of new asset classes or eliminate new asset classes or issuers from receiving the benefit of the STC criteria qualification. ▪ We believe this criterion should be consistent with current practice and should not be overly burdensome to issuers in an attempt to provide data to investors that goes beyond their needs. This is an example of the general principle of balancing sufficient investor information while not over burdening issuers to the point of discouraging participation in the market. ▪ We agree that investors should consider whether the parties to the transaction have an established performance history for substantially similar credit claims or receivables to those being securitized and for an appropriate period of time. However, it is our expectation that this would be the normal course of business for most investors and not require specific criteria in the STC framework. ▪ Additional consideration: We agree that the market will benefit from regulatory guidance when it comes to creating "*substantially similar credit claims or receivables to those being securitised*" standards.	
3. Payment status	
▪ This is another criterion that is largely a feature of existing securitizations in Canada; generally, any asset that is delinquent, in default or has an insolvent obligor, is ineligible for securitization transactions (note: this category of assets may be contributed to, or become part of, a securitization but receives no, or de minimis, value. Accordingly, we are in principle in agreement with this criterion for purposes of the STC criteria. ▪ This criterion, however, should only apply at the time of inception of the transaction, or at any time assets are being added under a revolving transaction, and only to those assets being added. We agree that the terms "*default*", "*delinquent*" and "*material increase*" are well understood but often not uniform and may need further guidance depending on the application of the criterion. Different assets classes often	

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have different definitions for delinquent, and some level of delinquency should not exclude securitizations from being STC compliant. The criteria may be satisfied with pool selection eligibility criteria but some issues may exist for certain asset classes. However, this criterion will be difficult to draft, and policy-makers will need to be careful to be both consistent with market practice and other definitions that might exist. For instance, in a credit card securitization, there are often loans that are 90 days or more past due. Loans that are 90 days or more past due may be considered in default for auto loan purposes (e.g. banks typically charge off at 150 days; U.S.-based firms charge off at 120 days) but may not be considered in default for credit card transactions. The selection of credit card assets is typically completed by defining a universe of accounts, which may include accounts with delinquent balances as of the cut-off date. In terms of auto loans, loans delinquent less than 30 days are generally not considered delinquent by market standards. Careful consideration and possible differing definitions for different asset classes will be required. ▪ We highlight that the terms "*default*" and "*delinquent*" are already defined in the underlying transaction documents and disclosed to investors in the offering documents. Modifying them to meet a separate STC criteria definition may be problematic, since it can be difficult and costly to amend existing transaction documents. Our recommendation would be to use the definitions as defined in the documents and disclosed to investors. ▪ Due to operational limitations of tracking, the obligation of a party to a transaction to exclude assets for which they are aware of "*evidence indicating a material increase in expected losses or of enforcement*" will need to be carefully considered. While it is a reasonable criterion in theory, in practice it will be difficult to implement due to its subjective nature. Since different sellers / asset classes have different day counts for "*default*" or "*delinquent*", we would advocate leaving these items to the seller's practise or credit and collection policy rather than prescribing any day count periods. ▪ It is expected that there will be underlying assets that become non-performing subsequent to transfer to the securitization pool from time to time. Criteria will need to accommodate this potential change and allow for a maximum tolerable level of delinquent/defaulted assets in the pool.	
4. Consistency of underwriting	
▪ Although we support in concept the need for consistent underwriting in a securitization transaction, this criterion must recognize that underwriting criteria can legitimately change as a result of market changes and other business concerns of an issuer. This criterion, if too restrictive, may limit business flexibility and, consequently, participation in the market.	

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▪ This criterion is less of a concern for static pools of assets, but could be relevant if the different vintages covering a multi-year period have been included in the pool (which is often the case for certain asset classes such as auto loans). ▪ We highlight that consistent servicing should also be a consideration. ▪ This criterion is a significant concern for revolving pools of assets such as in credit card transactions. Issuers / servicers need the ability to evolve their businesses and react to economic changes. To the extent the criterion is retained, it must provide scope for an issuer to change its underwriting practices over time. What should be relevant is whether those changes are material, or, in particular, whether they are reasonably expected to have a material adverse effect on asset performance. ▪ The requirement for "uniform" underwriting standards may also be problematic. Originators could have different underwriting policies or standards depending on the acquisition channel, geographic region, etc., and there may be differences to how retail obligors and commercial obligors (or more specifically a small business obligors) are underwritten. ▪ Our recommendation is to remove references to "*uniform and non-deteriorating origination standards*" within this criterion and to continue to allow the originator to operate in a less restrictive manner and in the best interests of their business. Alignment of interest or "*skin-in-the-game*" will continue to ensure the originator is acting in the best interest of all parties to the transaction.	
5. Asset selection and transfer	
▪ We believe this criterion is already practiced in current Canadian securitization transactions, and we are therefore generally supportive of it being applied in a principled manner as noted below. In Canadian securitization transactions, assets are, for the most part, randomly selected for transfer, and the transfer has to effectively isolate the assets for the benefit of the note holders beyond the reach of the seller and other third parties, including other creditors of the seller, subject to the right of the seller to exercise a clean-up option under the transaction when the principal amount of the securitized assets has been reduced to 10% or less of the original principal amount. ▪ Although we are generally supportive of this criterion, we also recognize that it should not be applied in an absolute manner. While random selection of assets within applied eligibility criteria should be followed for the great majority of an asset pool, it should also be permitted to select eligible assets that result in the desired size and economics of the transaction. In addition, the normal practice of requiring substitution of eligible assets by the seller or servicer for assets that were in breach of the representations and warranties under the transaction at time of transfer (in other words, ineligible assets at time of transfer) should not be considered a violation of this criterion.	

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▪ We are pleased by the principled approach taken in this criterion with respect to "*true sale*". Rather than prescribing "*legal true sale*", we are pleased that the criterion takes the position of requiring "*true sale or effective assignment of rights*" to isolate the securitized assets. However, given the varying degrees of how legal true sale is determined in various jurisdictions, our recommendation is to limit the comments within the criterion to "*In order to meet the principle of true sale, the securitization should effect true sale or effective assignment of rights for underlying credit claims or receivables from the seller <u>on terms that are consistent with normal market standards in the respective jurisdictions.</u>*" ▪ Finally, the requirement to have the originator provide representations and warranties that the credit claims or receivables being transferred are not subject to any condition or encumbrance would need to be carefully considered in terms of its legal application and who in the organization would be required to provide the representation and warranties. We would suggest that it can be included in the representations and warranties already provided by the originators in the underlying transaction documents. ▪ Additional consideration: We agree that "*materiality*" should be included within this criterion as a qualifier, where appropriate.	
6. Initial and ongoing data	
▪ We are generally supportive of this criterion, and believe that it is currently practiced in Canadian securitization transactions to a large degree, although what qualifies as "*sufficient*" data is open to interpretation, and policy-makers will need to be cognizant of balancing investor benefit and over-burdening issuers. In addition, policy makers will need to be conscious of current market practices under securities legislation governing prospectus and offering memorandum disclosure and harmonize to those requirements. We were pleased to see that, in keeping with its principled approach, the consultative document did not prescribe a minimum period of data requirement such as five years. We believe this would unnecessarily limit potential new entrants to the market. ▪ Loan-level data disclosure is not mandated or provided in Canada for most asset classes and not viewed as necessary, particularly for revolving pools or sufficiently granular pools. ▪ The loan-level data to be provided should make sense in the context of the type of pool for the securitization (e.g. static versus revolving) and be useful to investors. For example, grouped-account disclosure may be more useful to investors in the context of revolving pools or sufficiently granular pools.	

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▪ The disclosure of loan-level data can present certain privacy legislation, and the criterion should consider the implications of obligor privacy in the final STC criteria. ▪ We are supportive of providing quarterly summary stratifications as this is consistent with standard market practice in Canada. ▪ For third-party assurance, there may be issues with making this report available directly to investors, as audit firms may be unwilling to provide this service if the disclosure is required to be made publicly available. Subject to consultation with our auditors, we request clarification that this could be included as part of the Agreed Upon Procedures/Comfort Letter already produced and delivered to the underwriters and the issuer. Furthermore, it may be unreasonable and costly to expect an independent third party to provide a level of assurance that the credit claims or receivables meet all elements of the eligibility requirements, as these may include requirements for the accounts to meet uniform and non-deteriorating underwriting standards, which would be difficult for a third party to verify. ▪ Accordingly we recommend that the initial portfolio review would be of a reasonable sample size rather than the complete portfolio.	
B. Structural risk *(pages 14 – 17)*	
7. Redemption cash flows	
▪ We recommend that "*liabilities subject to refinancing risk*" should not include RMBS and/or CMBS that are backed by Canadian mortgages, where terms are usually 5 years or less and the amount outstanding is renewable at maturity; and also recommend that it should not include auto lease securitizations, where the residual value provides funding collateral within the securitization. As proposed, we are concerned that two sizable asset classes in Canada, residential and commercial mortgages, may not meet the STC criteria given the characteristics of the Canadian mortgage market, and thus having a significant impact on these securitization markets.	
8. Currency and interest rate asset and liability mismatch	
▪ We believe the elements of this criterion are currently market standard in Canada and are, accordingly, supportive of this criterion, provided it remains a general principle and does not become unduly detailed to the point where it is cumbersome and either discourages issuers from participating in the market or severely limits the number and types of securitization transaction that will qualify under the STC criteria.	

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9. Payment priorities and observability	
▪ We question the requirement to provide investors with a liability cash flow model or information on the cash flow provisions allowing appropriate modelling of the securitization cash flow waterfall. The structure is independently modelled by rating agencies in support of the ABS ratings. Investors should perform independent credit analysis based on offering documents and investor reporting. Further, a cash flow model is not required in other securities offerings. ▪ For payment priorities, there may be deals where interest is paid sequentially from senior to junior tranches and then principal is paid sequentially. In those situations, the junior liabilities will receive interest prior to the payment of principal on the senior liabilities. We request clarification that this is not intended to be captured by the reverse waterfall comment in the second paragraph. ▪ With regards to the third paragraph, the relevant information for investors with regards to debt forgiveness, forbearance, payment holidays, restructuring and other asset performance remedies, is made available to investors in the appropriate offering document(s). Providing excessive information on these topics for ABS securitization would needlessly disclose key business strategies regarding debt forgiveness and other performance remedies to competitors and/or unlawful perpetrators. ▪ Many structures in Canada (as well as other markets) require the Servicer to purchase any loans or receivables that are modified in certain predetermined ways, such as debt forgiveness. Therefore, the investor would not be exposed to any incremental risk for these types of situations and accordingly expanded disclosure should not be required. We understand that this disclosure should be made available if the investor is exposed to any risk of asset performance from these programs. ▪ It is our understanding that the requirement to have amortization events, or triggers based on the deterioration in the credit quality of the underlying exposures, implies the deterioration in the performance metrics and not specifically the "credit quality" or credit score of the underlying assets. Also, there is not typically a provision to acquire new exposures of similar credit quality; however, the ratings of the notes could be impacted if there is an overall deterioration in the credit quality of the underlying pool ▪ We request clarification on what is meant by providing information that would *"allow investors to easily ascertain the likelihood of a trigger being breached or reversed".*	

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10. Voting and enforcement rights	
▪ There is a concern that the requirement that senior note holders always retain senior voting rights is too restrictive, as there may be cases /deals where junior note holders may have different voting rights. Furthermore, it is our understanding that voting rights and enforcement rights do not always go to the securitization in Canadian securitizations; therefore, we believe that this criterion should be broadened to reflect the differing practices in various markets.	
11. Documentation disclosure and legal review	
▪ As securitization transactions are funded through the issuance of securities, we believe this criterion is, and should be, covered by the disclosure requirements and liabilities under applicable securities laws. On-going disclosure requirements of any changes should likewise be governed by applicable securities laws. To the extent that the STC criteria were to touch on this point, it should be general and consistent with applicable securities laws. ▪ In terms of consistency of information and disclosure, it is imperative that we reach industry consensus on appropriate standards. ▪ We believe that the definition of "*sufficient initial offering documentation*" as defined in footnote 13 should be reduced to relevant transaction documents for an investor of public securitizations. The list of documents within footnote 13 is overly excessive and beyond what a typical investor would require for their due diligence. ▪ Further, it is not standard practice in Canada to give legal opinions to investors as they would then essentially have legal rights against the law firm, resulting in increasing costs passed on to the originator (from the law firm). ▪ Similar to the response to Criterion 10, most, if not all of the necessary information for an investor can be found in the disclosure / offering document(s), the prospectus or offering memorandum, and providing anything beyond the risk sharing of proprietary and sensitive data. This requirement may also be in conflict of the rules for marketing materials, which requires everything in the marketing materials to also be in the prospectus. Transaction documents are not typically provided to investors, rather they are available on request. ▪ Regarding "*sufficient period of time prior to issuance*", the typical practise is that transactions under Base Shelf Prospectus are typically issued in a tight window. Short-form Prospectus and OM-based deals may have more flexibility; however, for best execution, the deals are launched and priced within 4-5 days typically. As timing can be critical to a well-executed transaction, we would not be in favour of	

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disadvantaging ABS transactions by having a longer time frame than is currently permitted under securities legislation or current market practice.	
12. Alignment of interest	
▪ We are in agreement in principle with this criterion and note that it has been discussed at length in the context of risk retention by the issuer. ▪ We are pleased that the consultative document has again taken a principled approach to this criterion rather than setting out specific minimum amounts of risk retention. Consideration should be given to CMBS transactions where the originator / seller typically do not retain any exposure. ▪ Additional consideration: We do not agree that parties with a fiduciary responsibility to investors should have an obligation to "*review and confirm the material economic exposure retained by the originator or sponsor*" or to "*confirm that the originator or sponsor demonstrates a financial incentive in the performance of these assets following the securitization*". These are matters for issuer disclosure and compliance and liability that investors can rely on.	
C. Fiduciary and servicer risk *(pages 17 – 18)*	
13. Fiduciary and contractual responsibilities	
▪ We believe this practice generally exists in the Canadian securitization market; therefore, we are supportive of its inclusion as part of the STC criteria on a general basis. ▪ With regards to the last paragraph and reference to remuneration for those having a fiduciary responsibility, in Canadian securitizations, the Servicer (often the Originator) does not typically get paid for the services performed; therefore, the criteria should only be required where applicable. Also, for clarification, if the seller as servicer has retained some risk in the transaction, would that qualify as "*remuneration"*?	

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14. Transparency to investors	
▪ The requirements outlined are already a feature of securitization structures in Canada and the U.S.; however, depending on the actual standard, some disclosure and investor reports may require modification.	