

Luxembourg,

February 13, 2015

To:

Basel Committee on Banking Supervision;

International Organization of Securities Commissions

Dear Sirs,

Re: Criteria for identifying simple, transparent and comparable securitisations

We are grateful for the opportunity to comment on the discussion paper published by BCBS-IOSCO. Evidence is still pointing out to the fact that a lot of SMEs are still struggling to obtain competitive financing from the traditional sources. Therefore, we welcome any effort aimed at revitalising the European securitization since we believe that creating a more liquid market of simple, transparent and comparable ABS will pave the way to unblocking the funding constraints of SMEs, thus channelling more resources to the real economy.

Our comments are primarily intended to complement the proposed criteria, as we think that additional factors should be taken into account when identifying the features of a high quality securitization.

Yours sincerely,



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Director
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Q1 *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 understand that the effort on defining simple, transparent and comparable securitization is part of a broader push towards the identification of the features of “high quality” securitization. If the ultimate aim of these efforts is to grant lower risk weights to transactions that could qualify for more favourable treatment, then we believe that more factors should be addressed by these criteria, in order to contain the credit risk arising from the securitised receivables. For instance, we believe it is important that industry, region, and top-borrowers concentrations are limited.

Q2 *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 believe that it is of paramount importance to lay out as soon as possible the features that the ABS transactions will need to display in order to qualify for preferential treatment. We think that once the features will have been agreed, the regulatory bodies will have to incorporate them into the capital requirements for banks and insurance companies.

Most of the figures are in square brackets as we understand those limits could vary according to the jurisdiction. However, we wanted to convey the message that exposures to certain risks should be limited: the extent of such limitation can be discussed in a later stage.

A - ASSET RISK

1 – Nature of the assets

We believe the criterion should be strengthened by adding requirements along the following lines:

Loans criteria
– They are fully disbursed loans or financial leases;
– They are senior, first lien loans.
Borrowers criteria
– Borrowers are not in default under another financial obligation owing to the originator;
– Borrowers are not marked as in default in the jurisdiction’s Central Bank register;
– Borrowers are not related entities of the originator.
Features of the loan exposures
– They are amortising, i.e. there are no interest only / bullet loans;
– They are loans or leases originated by the originator in compliance with all applicable legal provisions and the credit and collections policies of the originator in effect at the time of origination.
– They are loan or lease exposures that do not envisage inflation-linked interest rates, teaser rates or flexible features;
– All properties pledged as collateral in secured loans or leased are fully built;
– All loans/leases are paid by direct debit;
– No loans/leases feature extendable maturity; inflation-linked payments; teaser rates;
– No loans/leases have a payment which is less frequent than semi-annual;
– No loans/leases are either syndicated or constitute a revolving facility;
– They are lease exposures that do not comprise the residual value of the leased asset;
– Not more than [10%] of loans have a balloon principal repayment on or about the maturity date;
– Not more than [10%] of loans/leases can switch their interest rate;
– Not more than [20%] of the loans/leases pay less frequently than the notes;

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| – There are limitations related to the minimum rating/scoring category either at the individual borrower level or at portfolio level; |
| – No loans/leases include provisions prohibiting its transfer/sale. |

We also believe that it would be preferable not to exclude a priori multi country/jurisdiction deals: given the small size of some markets, e.g. in the CEE, the criterion of homogeneity with respect to jurisdiction, legal system and currency may be too restrictive for the development and recovery of the relevant ABS markets. Rather, specific criteria for such multi country deals should be set, such as the requirement for appropriate FX hedging, and the condition that the relevant legal system provides clarity on the treatment of securitisation.

2 – Asset performance history

We agree with this criterion.

3 – Payment status

We would also require that:

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| – No loans/leases have been severely in arrears in the last [12] months; |
| – The default definition does not exceed 6 months missed payments; |

However, we would not discourage the securitisation of delinquent receivables tout-court, provided the arrears are of “technical” nature and limited to a few days.

4 – Consistency of underwriting

We suggest requiring that:

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| – The securitised loans have been granted by the originator without relying on broker or external agents; unless the originator’s standard underwriting criteria have been consistently applied to borrowers introduced by external agents. |
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5 – Asset selection and transfer

We believe that the criterion should not exclude synthetic securitization by making reference to true sale: unfunded structures where the underlying portfolio is in compliance with criterion #1 should be allowed to qualify for preferential treatment.

We believe that the asset selection should also be mindful of not exceeding a given set of concentration thresholds. The figures are in square brackets since we don’t consider them to be unnegotiable limits; however, we are of the opinion that concentration should be limited, in favour of greater granularity/diversification. We suggest requiring that:

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| – The obligor group concentration for the largest obligor does not exceed [0.75%]; |
| – As of the portfolio sale date, or during revolving, the Effective Number of the portfolio exceeds [250], and, according to the scheduled amortization of the assets, it is expected to remain above [150] for the weighted average life of the senior note; |
| – No region accounts for more than [40%] of the portfolio; |
| – No industry accounts for more than [25%] of the portfolio; |
| – Not more than [20%] of the portfolio in the Real Estate and Construction (defined respectively by NACE Code 41, 42, 43 and 68); |

6 – Initial and ongoing data

We believe that the criterion should not allow stratification tables to be provided; rather, a loan-level information should always be available

On June 20, 2014, ESMA published a Regulatory Technical Standard that provides for disclosure and reporting requirements for all Structured Finance transactions in Europe. We understand that, following implementation of such regulation, ESMA will host a repository of transaction documents and investor reports comprising standardised information. We think this measure will be sufficient and will improve the securitisation market.

B – STRUCTURAL RISK

7 – Redemption cash flow

We suggest requiring that:

– Commingling considerations are addressed in the structure as to insulate the risk of the seller/servicer's insolvency;
– Set-off considerations, as relevant in a given jurisdiction, are addressed in the structure as to mitigate the risk of the seller's insolvency;
– The cash reserve covers for the senior expenses and the interest payments for two payment dates, assuming the interest index rate increases by 5%.
– The structure envisages excess spread trapping to cover defaulted assets, and cash trapping triggers that prevents funds from flowing to the junior retained tranche if the underlying assets' performance deteriorates.

8 – Currency and interest rate asset and liability mismatches

We do not deem hedging to be of essential importance, and it shouldn't therefore be a requirement. Most transactions feature both floating assets and liabilities, as a consequence the interest mismatch risk comes down to a mere basis risk.

9 – Payment priorities and observability

We recommend that payment holidays are clearly defined and limited in the Servicing agreement. Moreover we suggest requiring that:

– The servicer agreement provides for maximum amounts of each type of permitted variations;
– The servicer is required to disclose in the periodic report any asset repurchased by the originator;
– The transaction either features a backup servicer or backup servicer facilitator provisions.

10 – Voting and enforcement rights

We don't have any comment.

11 – Documentation disclosure and legal review

We understand this should already be achieved according to ESMA's technical standards published on June 20, 2013.

12 – Alignment of interest

We don't have any comment.

C – FIDUCIARY AND SERVICER RISK

We suggest the following requirement on the *originator*.

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| – The originator’s business model is not an originate-to-distribute model. The originator maintains on its books an exposure to assets similar to those securitised; |
| – The transaction’s size represents less than [60%] of the originator’s exposure to SMEs; |

Q3 *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.*

N/A to EIF/EIB as neither institution is active in the short-term securitization markets.

Q4 *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.*

Given the complexity of the waterfalls and the various mechanics governing the accounts, we believe that it would be very difficult to draft a template which meets the twofold purpose of both being concise and providing a thorough representation of the deal’s mechanics. On the back of this, we are of the opinion that standardization efforts for prospectus would add little value.