

EuroABS Limited submission in response to BCBS IOSCO 11 December 2014 Discussion Paper on Criteria for identifying simple, transparent and comparable securitisations

We should like to focus on the following statements from page 11 of the Discussion Paper as these refer to our main area of expertise:

“An important lesson from the financial crisis was thus that the securitisation structure itself can represent a source of risk: complex and opaque structures may render it infeasible for some investors to understand the cash flow-generating mechanism and where disruptions may arise in the future. More generally, investors in such products are prone to model uncertainty when assessing the credit risk and pricing these assets.”

There are many examples of publicly traded Asset Backed Securities with complex structures e.g. Master Trusts. It is virtually impossible to model such transactions with 100% certainty without the cooperation of the issuer to secure confirmation of intention. These structures are necessarily complex, but, in the main, can also be observed to have performed well and, it could be argued, have provided benefits to domestic Economies.

EuroABS agrees with the Criteria for identifying simple, transparent and comparable (STC) securitisations and we submit that requiring issuers wishing to comply with the standards set to provide liabilities waterfall cash flow models (as set out in Criteria 9 Payment priorities and observability) is an important device to ensure that these issues:

- Are **Simple** enough to model with certainty and
- Have liabilities waterfalls that are **Transparent**

Given that **‘Complexity’** and **“Opacity”** are 2 of the main problems cited in the statements (from extract above) as being responsible for poor performance during the financial crisis 2007-2009, we consider that requiring issuer supplied liabilities waterfall cash flow models is an excellent way of retarding ambition to over complicate structure whilst also allowing for necessary complexity - required to achieve the aims and economic benefits of the transaction - on condition that such complexity can be modelled with certainty. Alternative options could be regulating in or out specific structural rules which could introduce arbitrary ‘cliff effects’ which we know from attending market expert multilateral discussion fora, most participants are keen to avoid.

Bank of England Eligibility Case Study

EuroABS consider that it may be useful in this discussion to observe that the Bank of England have a similar set of requirements for the ABS Sterling Monetary Framework Eligibility criteria. These rules, including *inter alia* liabilities waterfall cash flow models, have been in force for more than 3 years and have yielded 74 compliant issues and no legal disputes to date as per the following list:

UK Asset Backed Security Issues Applying for Bank of England Sterling Monetary Framework Eligibility¹

January 2015

Issuer/Asset Originator	Issue Name	Asset Class	BoE Compliance Web Site Link
Aldermore	Oak No.1	RMBS	http://www.investors.aldermore.co.uk/bond-investors/securitisation
Allied Irish Banks	Tenterden	RMBS	https://www.structuredfn.com/Portal/User/Login.aspx?ReturnUrl=%2fPortal%2f
Bank of Ireland	Bowbell No 1 plc (PX12)	RMBS	https://boeportal.co.uk/globalportal
Bank of Ireland	Bowbell No 1 plc (PX13)	RMBS	https://boeportal.co.uk/globalportal
Barclays	Gracechurch Mortgage Fin Note Programme (2006)	RMBS	http://www.barclays.com/prospectuses-and-documentation/secured-funding-documentation/securitisation/gmfinancing.html
Charter Court Financial Services	Precise 2014-2	RMBS	https://www.euroabs.com/IH.aspx?s=166
Charter Court Financial Services	Precise 2014-1	RMBS	https://www.euroabs.com/IH.aspx?s=166
Charter Court Financial Services	Precise No. 1 plc	RMBS	https://www.euroabs.com/IH.aspx?s=166
Clydesdale Bank	Lanark Master	RMBS	http://www.cbonline.co.uk/debtinvestors/
Clydesdale Bank	Lannraig Master	RMBS	http://www.cbonline.co.uk/debtinvestors/
Co operative Bank	Cambric Finance No.1 Plc	RMBS	http://www.co-operativebank.co.uk/investorrelations/debtinvestors/cambricfinanceprogramme
Co operative Bank	Leek Finance No. 17 Plc	RMBS	http://www.co-operativebank.co.uk/investorrelations/debtinvestors/leekprogrammes
Co operative Bank	Leek Finance No. 18 plc	RMBS	http://www.co-operativebank.co.uk/investorrelations/debtinvestors/leekprogrammes
Co operative Bank	Leek Finance No. 19 plc	RMBS	http://www.co-operativebank.co.uk/investorrelations/debtinvestors/leekprogrammes
Co operative Bank	Leek Finance No. 20 plc	RMBS	http://www.co-operativebank.co.uk/investorrelations/debtinvestors/leekprogrammes
Co operative Bank	Leek Finance No. 21 plc	RMBS	http://www.co-operativebank.co.uk/investorrelations/debtinvestors/leekprogrammes
Co operative Bank	Leek Finance No. 22 plc	RMBS	http://www.co-operativebank.co.uk/investorrelations/debtinvestors/leekprogrammes

¹ <http://www.bankofengland.co.uk/markets/Pages/money/eligiblecollateral.aspx>

Issuer/Asset Originator	Issue Name	Asset Class	BoE Compliance Web Site Link
Co operative Bank	Silk Road Finance No. 1 Plc	RMBS	http://www.co-operativebank.co.uk/investorrelations/debtinvestors/silkroadprogramme
Co operative Bank	Silk Road Finance No. 2 Plc	RMBS	http://www.co-operativebank.co.uk/investorrelations/debtinvestors/silkroadprogramme
Co operative Bank	Silk Road Finance No. 3 Plc	RMBS	http://www.co-operativebank.co.uk/investorrelations/debtinvestors/silkroadprogramme
Consilium Airton Limited	Slate No.1	RMBS	https://www.euroabs.com/IH.aspx?s=173
Consilium Airton Limited	Slate No.2	RMBS	https://www.euroabs.com/IH.aspx?s=173
Coventry Building Society	Leofric No 1 Plc	RMBS	http://www.coventrybuildingsociety.co.uk/your-society/treasury/Securitisation-Agree.aspx
Coventry Building Society	Mercia No. 1 Plc	RMBS	http://www.coventrybuildingsociety.co.uk/your-society/treasury/Mercia-No1-RMBS-Agree.aspx
First Rand Bank	Turbo Finance 4	AUTO	https://boeportal.co.uk/GlobalPortal/DealDetails.aspx?TabIndex=4&DealId=610&ABSNetDealId=1001610
First Rand Bank	Turbo Finance 5	AUTO	https://boeportal.co.uk/GlobalPortal/DealDetails.aspx?TabIndex=4&DealId=632&ABSNetDealId=1002152
GMAC	E-Carat 3	AUTO	https://boeportal.co.uk/GlobalPortal/DealDetails.aspx?TabIndex=4&DealId=613&ABSNetDealId=1001873
GMAC	E-Carat 4	AUTO	https://boeportal.co.uk/GlobalPortal/DealDetails.aspx?TabIndex=4&DealId=631&ABSNetDealId=1002163
Investec UK	Gemgarto 2012-1 plc	RMBS	https://www.euroabs.com/IH.aspx?s=152
Investec UK	Temese Funding 1 plc	LEASE	https://www.euroabs.com/IH.aspx?s=152
Investec UK	Temese Funding 2 plc	LEASE	https://www.euroabs.com/IH.aspx?s=152
Kensington Mortgages	Residential Mortgage Securities No 26 plc	RMBS	https://www.euroabs.com/IH.aspx?s=152
Kensington Mortgages	Residential Mortgage Securities No 27 plc	RMBS	https://www.euroabs.com/IH.aspx?s=152
Kent Reliance Building Society	Rochester Financing No. 1	RMBS	https://boeportal.co.uk/GlobalPortal/DealDetails.aspx?TabIndex=4&DealId=608&ABSNetDealId=1001729
Leeds Building Society	Albion No 1 Plc	RMBS	http://www.leedsbuildingsociety.co.uk/treasury/wholesale-funding/securitisation/albion-no-1/
Leeds Building Society	Albion No 2 Plc	RMBS	http://www.leedsbuildingsociety.co.uk/treasury/wholesale-funding/securitisation/albion-no-2/

Issuer/Asset Originator	Issue Name	Asset Class	BoE Compliance Web Site Link
Lloyds Banking Group	Arkle Master	RMBS	http://www.lloydsbankinggroup.com/Investors/debt-investors/securitisation/#
Lloyds Banking Group	Candide	RMBS	http://www.lloydsbankinggroup.com/Investors/debt-investors/securitisation/#
Lloyds Banking Group	Headingley RMBS 2011-1 plc	RMBS	http://www.lloydsbankinggroup.com/Investors/debt-investors/securitisation/#
Lloyds Banking Group	Permanent Master Issuer PLC	RMBS	http://www.lloydsbankinggroup.com/Investors/debt-investors/securitisation/#
Lloyds TSB Bank Plc	Sandown SME (2012-2)	RMBS	http://www.lloydsbankinggroup.com/Investors/debt-investors/securitisation/#
Nationwide Building Society	Silverstone	RMBS	http://www.nationwide.co.uk/about/investor-relations/funding-programmes
Paragon	Paragon Mortgages (No 16) plc	RMBS	http://www6.paragon-group.co.uk/pgroup.nsf/securitisationMainFS
Paragon	Paragon Mortgages (No 17) plc	RMBS	http://www6.paragon-group.co.uk/pgroup.nsf/securitisationMainFS
Paragon	Paragon Mortgages (No 18) plc	RMBS	http://www6.paragon-group.co.uk/pgroup.nsf/securitisationMainFS
Paragon	Paragon Mortgages (No 19) plc	RMBS	http://www6.paragon-group.co.uk/pgroup.nsf/securitisationMainFS
Paragon	Paragon Mortgages (No 20) plc	RMBS	http://www6.paragon-group.co.uk/pgroup.nsf/securitisationMainFS
Paragon	Paragon Mortgages (No 21) plc	RMBS	http://www6.paragon-group.co.uk/pgroup.nsf/securitisationMainFS
Principality Building Society	Friary No 1 plc	RMBS	https://www.euroabs.com/IH.aspx?s=160
Principality Building Society	Friary No 2 plc	RMBS	https://www.euroabs.com/IH.aspx?s=160

Issuer/Asset Originator	Issue Name	Asset Class	BoE Compliance Web Site Link
Royal Bank of Scotland (RBS)	Arran Residential Mortgages Funding 2010-1 plc	RMBS	https://www.structuredfn.com/dealaccess/rbs/index.html
Royal Bank of Scotland (RBS)	Arran Residential Mortgages Funding 2011-1 plc	RMBS	https://www.structuredfn.com/dealaccess/rbs/index.html
Royal Bank of Scotland (RBS)	Arran Residential Mortgages Funding 2011-2 plc	RMBS	https://www.structuredfn.com/dealaccess/rbs/index.html
Royal Bank of Scotland (RBS)	Greenock Funding No. 5	RMBS	https://www.structuredfn.com/dealaccess/rbs/index.html
Santander	Fosse Master Trust	RMBS	http://www.santander.co.uk/uk/about-santander-uk/investor-relations/fosse-master-trust
Santander	Holmes Master Trust	RMBS	http://www.santander.co.uk/uk/about-santander-uk/investor-relations/holmes-master-trust
Santander Consumer	Motor 14-1	AUTO	https://www.euroabs.com/IH.aspx?s=168
Skipton Building Society	Darrowby 1 RMBS	RMBS	https://www.skipton.co.uk/investorrelations/unsecuredisclaimer/securitisation
Skipton Building Society	Darrowby 2 RMBS	RMBS	https://www.skipton.co.uk/investorrelations/unsecuredisclaimer/securitisation
Skipton Building Society	Darrowby 3 RMBS	RMBS	https://www.skipton.co.uk/investorrelations/unsecuredisclaimer/securitisation
Virgin Money	Gosforth Funding Plc 2010-1	RMBS	http://uk.virginmoney.com/virgin/investor-relations/securitisation/mortgages.jsp
Virgin Money	Gosforth Funding Plc 2011-1	RMBS	http://uk.virginmoney.com/virgin/investor-relations/securitisation/mortgages.jsp
Virgin Money	Gosforth Funding Plc 2012-1	RMBS	http://uk.virginmoney.com/virgin/investor-relations/securitisation/mortgages.jsp
Virgin Money	Gosforth Funding Plc 2012-2	RMBS	http://uk.virginmoney.com/virgin/investor-relations/securitisation/mortgages.jsp
Virgin Money	Gosforth Funding Plc 2014-1	RMBS	http://uk.virginmoney.com/virgin/investor-relations/securitisation/mortgages.jsp
Volkswagen	Driver UK 2	AUTO	http://www.vwfsag.com/en/home/investor_relations/refinanzierung/asset_backed_securities.html
Volkswagen	Driver UK Master	AUTO	http://www.vwfsag.com/en/home/investor_relations/refinanzierung/asset_backed_securities.html

Issuer/Asset Originator	Issue Name	Asset Class	BoE Compliance Web Site Link
West Bromwich Building Society	Hawthorn Finance Ltd	RMBS	https://www.euroabs.com/IH.aspx?s=114
West Bromwich Building Society	Kenrick No.1 plc	RMBS	https://www.euroabs.com/IH.aspx?s=114
West Bromwich Building Society	Kenrick No.2 plc	RMBS	https://www.euroabs.com/IH.aspx?s=114
Yorkshire Building Society	Brass RMBS No 1 plc	RMBS	http://www.ybs.co.uk/your-society/treasury/wholesale_funding/securitisation/index.html
Yorkshire Building Society	Brass RMBS No 2 plc	RMBS	http://www.ybs.co.uk/your-society/treasury/wholesale_funding/securitisation/index.html
Yorkshire Building Society	Brass RMBS No 3 plc	RMBS	http://www.ybs.co.uk/your-society/treasury/wholesale_funding/securitisation/index.html
Yorkshire Building Society	Brass RMBS No 4 plc	RMBS	http://www.ybs.co.uk/your-society/treasury/wholesale_funding/securitisation/index.html
Yorkshire Building Society	Tombac No. 1 plc	RMBS	http://www.ybs.co.uk/your-society/treasury/wholesale_funding/securitisation/index.html

Sincerely,

Ben Bates

EuroABS Limited