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Subject: EBF response to the BCBS and IOSCO consultation on Criteria for identifying simple, transparent and comparable securitisations

The EBF welcomes the opportunity to express the views of the EU banking industry in this new consultation in the realm of the prudential treatment of securitisations. The identification of simple, transparent and comparable securitisations is central to the revival of a robust and stable securitisation market which benefits for the economy are warranted and timely.

The EBF has participated in the various consultations launched during the last 2 years by global and European policy makers[1]. Those response papers contain the EBF position as regards the market characteristics, risks involved and prudential requirements of securitisations including detailed examples and illustrative data. For the sake of consistency, references are made in this response paper to key points extensively developed in the aforementioned EBF responses.

Regarding the identification of simple, standard and transparent securitisations, in the opinion of the EBF the proposal presented by the EBA in its recent discussion paper[2] is, by and large, a framework of reference for the EU securitisation market. It is a sensible proposal with a sound rationale and grounded on actual data that can, at large, achieve the objective sought of reviving the EU securitisation market without posing any threat to financial stability. Though the EBF still thinks that further recognition could be given to certain instruments like synthetic securitisations and asset-backed commercial paper (ABCP) provided that they meet the conditions requested.

A recurring reminder in EBF papers is the need to start the evaluation of new prudential proposals by analysing the overall effect that previous standards and regulations have had on the financial stability objectives altogether. In this vein, the regulatory reform has already changed substantially from the start of the crisis. The prudential treatment of securitisations is now much stricter including retention rules, more transparency and increased capital and liquidity requirements. It is time to identify portfolios and transactions which prudential treatment should be adjusted in order to allow a healthy flow of credit to the economy in a context of sufficiently controlled financial stability.

[1] Links to the EBF responses to the following consultations:

- European Banking Authority (EBA) on Simple Standard and Transparent Securitisations (January 2015);
- Bank of England and European Central Bank on the functioning of the securitisation market (July 2014);
- Basel Committee's second paper on the Revision of the Securitisation Framework (March 2014);
- Basel Committee's first paper on the Revision of the Securitisation Framework (March 2013).

[2] EBA Discussion Paper on simple standard and transparent securitisations (October 2014).

The policy reaction to the financial crisis has imposed indiscriminately tougher requirements, in particular in the case of capital, to securitisation transactions given that certain vehicles were at the core of the upsurge of financial instability. The problem is that this tightened-up requirements have been applied virtually indiscriminately across the range of securitisation instruments. A closer look makes significant differences evident. The consultation paper of the BCBS and IOSCO is a step in the right direction of assessing the risk of instruments according to their risks. Nevertheless, the EBF would like to make the following comments.

<u>Number and relevance of criteria</u>

In our opinion, the ambition of this paper should be to capture the largest number of securitisation that can be reasonably labelled as simple and transparent, as well as comparable. In our view, level of detail in the criteria is excessive and can mar the abovementioned objective if a considerable number of the truly simple, transparent and comparable securitisations fail to meet just certain details which applicability is suited to other types of securitisations.

The EBF would recommend to limit the number of criteria or to define a set of criteria for each type of underlying asset class.

<u>Prudential treatment of securitisations</u>

We observe that there have been several initiatives for labelling securitisation, and there are different proposals to segregate eligible securitisations like in the liquidity buffer of the Liquidity Coverage Ratio (LCR) or the initiative to label Prime Collateralised Securities (PCS). Nevertheless, the volumes treated on the market and the production remain subdued. New initiatives to segregate safe securitisations like the recent one from the EBA and the one put forward in this consultative paper of the BCBS and IOSCO would neither create a positive effect in the market if they do not come hand in hand with a prudential treatment that reflects the safety inherent to the eligible transactions.

Various measures need to be taken:

- On capital requirements:
  - The pool capital should be the reference to determine the allocation of capital to Standard, Transparent and Comparable tranches and it should be calibrated in a way that the overall amount of capital of all tranches is close to the pool capital (i.e. neutrality).
  - Floors to risk weights should not be too stringent lest the incentives to high quality instruments are removed.
- On liquidity requirements:
  - More favourable treatment should be limited to liquid bonds, based on market observations.
- On leverage requirements:
  - The originator should benefit from the funding of exposure without consideration to accounting re-consolidation due to limited risk transfer.

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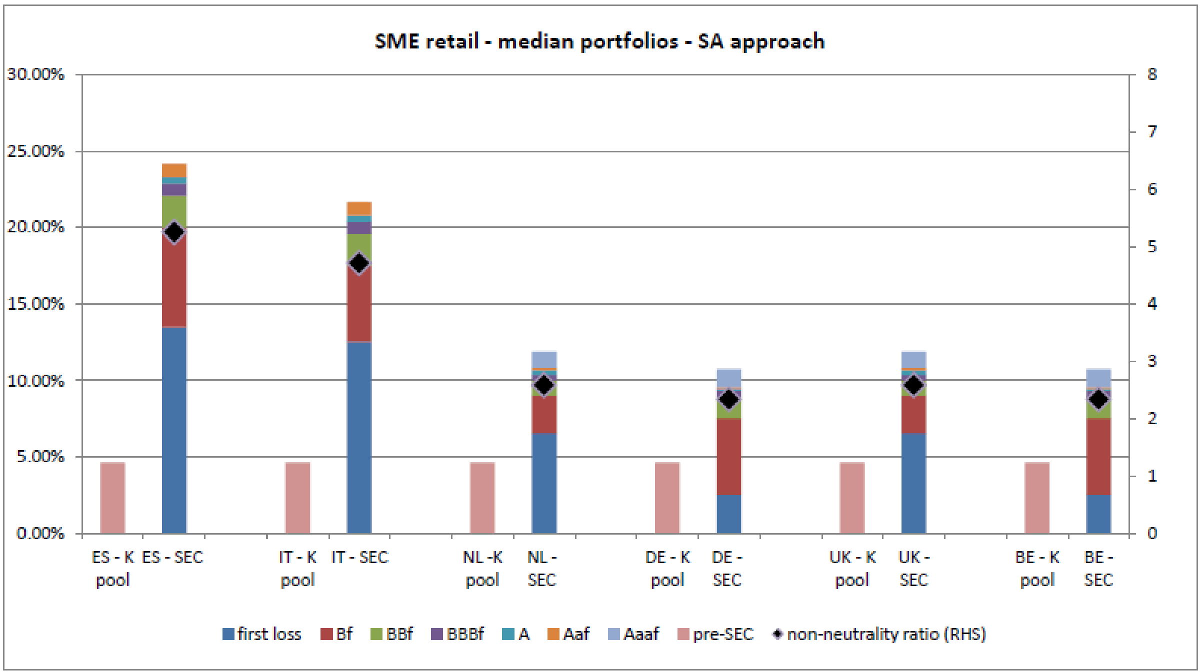
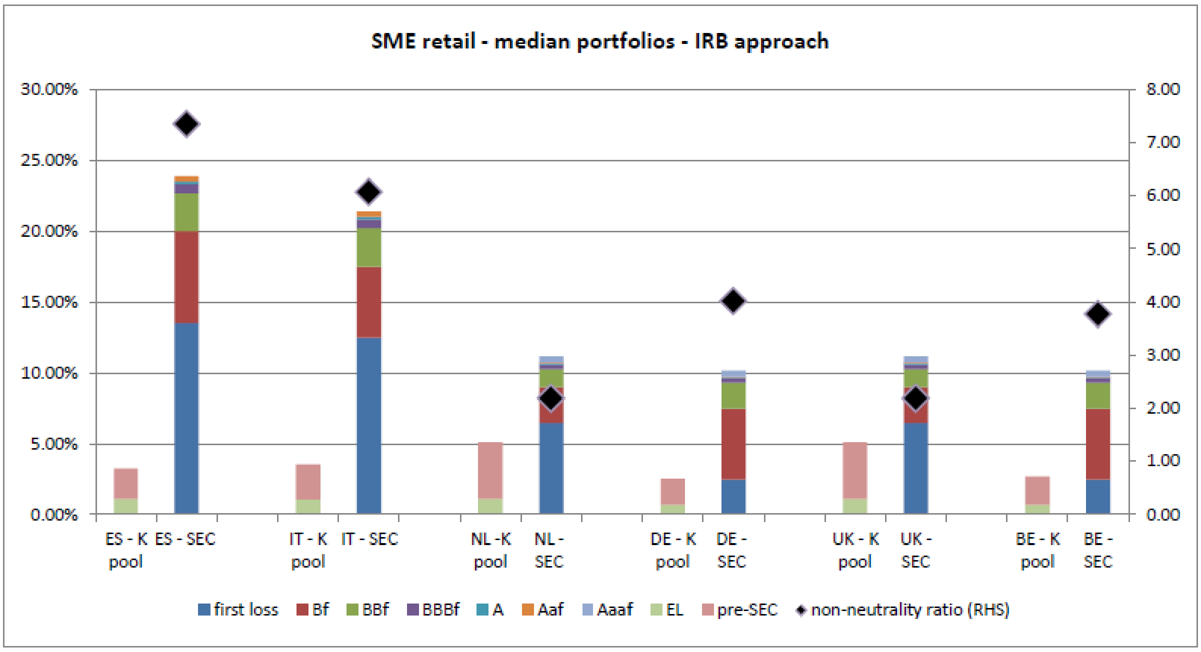
<u>Neutrality of capital requirements</u>

The major obstacle to the revival of a healthy securitisation market is the sheer multiplying factor of the actual capital requirements of securitisations compared to those of the underlying assets. EU origination is particularly affected by this problem as it is clearly illustrated in the following charts[3] which portray the median capital requirements for SME retail securitisations compared to those of their underlying assets, firstly under the standardised approach and, secondly, under the internal rating based approach:





Pink bars show the capital requirement of the underlying assets on the left axis whereas multicolour bars represent the pile of capital requirements for the corresponding

[3] Source: EBA discussion paper on Simple Standard and Transparent Securitisations (link on footnote number 2).

securitisations. Diamond marks reflect, on the right axis, the resulting multiplying factor. The latter ranges from 2 times to 7 times in selected EU countries.

There is where the main problem lies in the current framework and the new rules are not expected to improve the picture and will, in fact, worsen the situation for high quality pools. It is imperative to, first and foremost, assign a reasonable capital requirement for simple standard and transparent securitisations.

Scope of simple, transparent and comparable securitisations

We consider that ABCP and specific types of synthetic securitisations can be simple, transparent and comparable securitisation vehicles and therefore should not be excluded from the proposed framework.

We would suggest that the Committee gives further consideration to the possibility of adapting some criteria for the eligibility of private synthetic securitisation notably criteria numbers 5, 7, 8, 9, 10 and 13 in the consultative paper.

Asset-Backed Commercial Paper (ABCP)

Cash securitisation using ABCP conduits is a simple tool for banks to provide financing for a wide range of clients and assets. Using conservatively-sized credit enhancement, ABCP programs enable banks to extend low-risk secured financing to their clients, and clients to monetise their assets rather than depend solely on their credit status to raise financing. The tranching technique used here by the securitisation process enables banks to leave most foreseeable credit risk with the originator of the assets and play their traditional role of transferring funding to the real economy. The quality of the credit enhancement is always dependent on a thorough analysis of the underlying assets.

Assets financed in ABCP conduits are of good quality, essentially trade and auto receivables. Securitisation structures highly mitigate risks on the portfolio and on the sellers. Current regulatory capital immobilised by these transactions already seems to exceed that warranted by their level of risk. That is why we would like to express our deep concerns about the impact that the new securitisation framework proposed by the Committee would have on these transactions.

Synthetic securitisations

As regards synthetic securitisations, we believe that the framework should be able to discriminate between some sort of synthetic securitisation like that issued in the past which incurred big losses (e.g. those with subprime collateral) and the synthetic transactions which are used by banks to manage and effectively reduce their portfolio credit risk with true risk transfer mechanisms. The new framework should attempt to exclude the former, and include the latter.

The “true sale” criterion excludes every synthetic securitisation from eligibility, in particular risk-transfer securitisations originated by banks. These transactions represent a strong tool supporting the economy since they help reducing banks’ balance sheet exposures, allowing them to originate new loans. Some criterion might be adapted to fit with private synthetic securitisation, in particular criteria numbers 5, 7, 8, 9, 10 and 13).