IACPM

INTERNATIONAL ASSOCIATION OF CREDIT PORTFOLIO MANAGERS

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Basel Committee on Banking Supervision
Centralbahnplatz 2
CH-4002 Basel, Switzerland
Via upload to www.bis.org/bcbs/commentupload.htm

International Organization of Securities Commissions
C/ Oquendo 12
28006 Madrid, Spain
Via email to: Consultation-2014-10@iosco.org

Re: D304 – Criteria for identifying simple, transparent and comparable securitisations

To the Members of the Basel Committee and the International Organization of Securities Commissions:

The International Association of Credit Portfolio Managers[i] (the "IACPM") appreciates the opportunity to comment on the consultative document, "Criteria for identifying simple, transparent and comparable securitisations" (the "CD"). The IACPM appreciates the efforts of the BCBS and IOSCO to develop a regime for simple, transparent and comparable securitisations ("STC"), and to improve the functioning of securitisation markets.

Below we offer our views and comments in two parts. In the first part, we provide context for the IACPM's views and describe the important role of securitization tools in the management of bank credit portfolios. In the second part, we provide our support of views articulated by other groups as part of the consultative process.

I. Background and Context

The IACPM's institutional member firms comprise the world's largest financial institutions, and as such overlap the membership of several other financial industry associations. Our perspective is different, however, in that the IACPM represents the teams within those institutions who have responsibility for managing credit portfolios. IACPM members are the group responsible for managing the bank's loan portfolio, including actively controlling concentrations, adding diversification and managing the return of the portfolio relative to the risk, and managing counterparty risk related to derivatives exposure.

In carrying out these responsibilities successfully, credit portfolio managers contribute to maintaining the safety and soundness of their respective financial institutions. Effective credit portfolio management is critically important to our prudential supervisors and to policy makers more broadly because of its role in supporting financial institutions' ability to lend.

Banking regulators in many jurisdictions have long recognized securitisations (both cash and synthetic) as an effective risk transfer tool. Synthetic transactions on portfolios of loans held by banking institutions as part of their core lending business are an important risk management tool, especially where operational or legal transfer restrictions exist and liquidity of the underlying assets is challenging (such as middle market, SME and emerging markets loans). With genuine risk transferred to non-bank investors, the activity can free up risk capacity, allowing banks to extend new credit to the real economy. This may also reduce borrower re-financing risk and thus help reduce pro-cyclicality.

The IACPM has commented to the U.S. Securities and Exchange Commission (SEC) on the importance of synthetic securitisations as a risk management tool for portfolio managers, in relation to proposed Rule 127B, and these comments and analyses are relevant to this discussion in support of the important role these transactions play in managing portfolio risk:
http://www.sec.gov/comments/s7-38-11/s73811-18.pdf
http://www.sec.gov/comments/s7-38-11/s73811-51.pdf
http://www.sec.gov/comments/s7-38-11/s73811-53.pdf

Very importantly, several investors in these synthetic securitisations also wrote to the SEC in support of maintaining these transactions. Their comments demonstrate the willingness of sophisticated investors to accept bank balance sheet securitisations if properly structured to align interests (it would be virtually impossible to execute such a transaction if not structured in this way). The most detailed comments came from the Dutch pension fund PGGM, and BlueCrest Capital and Orchard Global Asset Management also commented.
PGGM letter: http://www.sec.gov/comments/s7-38-11/s73811-49.pdf
BlueCrest letter: http://www.sec.gov/comments/s7-38-11/s73811-47.pdf
Orchard letter: http://www.sec.gov/comments/s7-38-11/s73811-50.pdf

These transactions are examples of synthetic securitisations working at their best, providing mutual benefit for both buyers and sellers. Banks can use these tools to transfer risk, manage concentrations, and free lending capacity and when properly structured and collateralized, a synthetic securitization transaction is straightforward to analyze. These transactions do not involve complex cash waterfalls and other complex elements that are a feature of traditional securitisations.

Additionally, material reforms by regulators in recent years have addressed and continue to address previously identified weaknesses, such as Significant Risk Transfer rules, Risk Retention Rules and Recognizing the Cost of Credit Protection. Related areas of other regulations have further contributed to strengthening this area, such as in treatment of off balance sheet exposures, and margining requirements.

II. Response to Proposed Regime for STC

We support the views presented by the GFMA, IACMA and IIF (the Joint Associations) in their letter to you, and focus on the arguments for inclusion of synthetic securitisations in the criteria for STC (Section A.4 of the Joint Associations letter).

Specifically, we point your attention to the alternative proposal the Joint Associations present to deem any retained tranches of synthetic securitisations used for credit risk mitigation purposes as STC. Retained tranches have desirable qualities of a cash securitization and other simple features:

- Quality of risk assessment: The bank owns the underlying assets and is closest to the elements of the credit risk assessment including financial statements, knowing the local economy, competition and quality of management. An originating bank of a synthetic securitization will engage in the timely review and monitoring process of the underlying assists in the normal course of its relationship lending business.

- Alignment of Interest: This is now preserved in regulatory directives.

- Credit intermediation performed by one entity: As the bank owns the underlying assets and is the sole entity in the lending process rather than a chain of different entities, there is less interconnectedness compared to other securitisation asset classes, and less potential for conflicts of interests.

- Voting Rights: As the assets are held by the by originating bank, voting rights stay with the originator.

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The IACPM appreciates your attention to our thoughts and concerns. We would be pleased to discuss any aspect of our response in further detail should it be of interest to the BCBS and IOSCO.

Sincerely,

Som-lok Leung
Executive Director
International Association of Credit Portfolio Managers

[i] **The IACPM is an industry association established in 2001 to further the practice of credit exposure management by providing an active forum for its member institutions to exchange ideas on topics of common interest. Membership in the IACPM is open to all financial institutions that manage portfolios of corporate loans, bonds or similar credit sensitive financial instruments. The IACPM represents its members before regulatory and administrative bodies in the US and internationally, holds conferences and regional meetings, conducts research on the credit portfolio management field, and works with other organizations on issues of mutual interest relating to the measurement and management of portfolio risk. Currently, there over 100 financial institutions worldwide that are members of the IACPM. These institutions are based in 17 countries and include many of the world's largest commercial wholesale banks, investment banks and insurance companies, as well as a number of asset managers. More information about the IACPM may be found on our website: www.iacpm.org.**