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**Attention of:**  
Basel Committee on Banking Supervision  
Board of the International Organization of Securities  
Commissions

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**MEAG Feedback on BCBS/ IOSCO Consultative Document – Criteria for identifying simple, transparent and comparable securitizations**

Dear Sir or Madam,

First of all we welcome the opportunity to present MEAG's views on BCBS/IOSCO's proposal for criteria which may help identifying less complex securitisation structures and would like to herewith submit our answers to you.

MEAG in its capacity as the asset manager of ERGO Versicherung and Munich RE is actively involved in the ABS market and thus takes a keen interest in the future development of this market.

If you have any further questions with regards to our replies, we would be more than happy to further discuss these with you.

Best regards,

MEAG

## ANNEX

## Questions

- 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?**

In general, we agree that the 14 STC criteria set out in the annex of the paper help to define and identify "simple", "transparent" and "comparable" securitisations. However, we would like to underline that most of skilled securitisation investors have the in-depth analysing capabilities to identify their target investments and differentiate between different levels of complexity and transparency. Consequently, investors ask for an appropriate risk premium that anticipates the transaction's specific complexity and transparency. Therefore, we question the benefit of pre-defined detailed criteria as long as those criteria only increase complexity in reporting and documentation for investors. With regard to a successful revival of the securitisation markets, we believe it is important to improve the regulatory treatment for securitised bonds given that capital charges for securitisation positions are still very harsh in comparison to other assets classes (i.e. covered bonds). In our view, this disadvantage is one of the major obstacles for liquid securitisation markets.

- 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?**

We deem the STC criteria set out in the annex of the consultative document to be quite useful, unless stated otherwise below:

- **As regards section A – Asset risk**, we would like to point out that in our view it is essential to have equivalent definitions for certain collateral

performance data i.e. “delinquencies”, “CDR”; “CPR” to ensure the comparability and sound analysis of different collateral pools.

- In terms of no. 6 –“Initial and ongoing data”, we prefer monthly reporting dates rather than quarterly. Also, it might be very helpful to have a contact person (i.e. name, phone number and e-mail address) if there is a data inconsistency in the investor report or questions regarding the reported data arise. Often it takes quite a while to find the right person in charge and receive reliable information necessary for further analysis.
- Furthermore, we appreciate the idea that an appropriate independent third party shall be appointed to review the conformity of the initial deal portfolio with the defined eligibility criteria. The review period could be extended if the transaction involves a revolving period.
- In terms of no. 5 – Asset selection and transfer – we believe it is important to clarify that transactions including a revolving period during which a reinvestment of redeemed assets in line with certain eligibility criteria are considered STC transactions. We think that defining eligibility criteria should ensure the collateral quality of the securitized portfolio, particularly once the mentioned independent third-party “supervisor” is in place. In terms of European CLO transactions, we are of the opinion that the active management is a substantial part of the deals to enhance the collateral quality on the noteholders' behalf and it should not per se lead to an exclusion of those deals from the STC.
- **Regarding section B Structural Risk**, we welcome the aim to increase transparency on the voting and enforcement rights for investors, which it is important to understand before investing (No. 10 “Voting and enforcement rights”). In this context we think it is crucial to bear in mind that it is not necessary or helpful in all cases to set the voting rights to the most senior class. If as proposed all voting rights are regularly awarded to the most senior noteholders, the mezzanine tranches would to a certain extent be more risky, given the dependence on the senior noteholders' decisions. Consequently, this would lead to higher required risk-premiums for the mezzanine investors and increase the deal costs from an issuer's perspective. Otherwise, it may prove difficult to place the mezzanine tranches if the additional risk is not rewarded adequately, and a capital release for the originators would not be possible.
- As regards criterion no. 11 “Documentation and legal review”, we like the idea of composing transaction documents clearly and effectively, i.e. the prospectus, which would simplify the analysis and the comparison of different transactions. With respect to the other transaction-related

documents apart from the prospectus, it would certainly be helpful to obtain these to facilitate the overview of the rights and duties of the involved parties. However, we would like to point out that the complete analysis would be very time-consuming, which should be considered by the originator or issuers. Besides, it is not clear to us in which way the proposed review and verification process for the securitisation's legal documentation would work in practice. Does it mean that the originator would have to mandate and pay for two different legal advisors – one to set up the transaction documents and one to review these documents to create the appearance of an independent control unit?

- In terms of criterion 12 "Alignment of Interest", we value the idea of a "skin-in-the-game", but given that there are already legally binding retention requirements in place, we do not think it is necessary to incorporate this again in the STC criteria.
- With respect to the additional considerations, we think they are quite helpful when interpreting the single criteria, but do not need to become part of them. However, we believe it is necessary to define some of the terms used in more detail in order to avoid misinterpretations. This definition should be part of the description of the criterion.

***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.***

- No comment.

***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 elements of initial documentation are standardised.***

- As stated earlier, we think that it is beneficial to have a certain level of standardisation of prospectuses, investor reports and key transaction terms, in order to help analyse and compare different deals.
- A standardised template including where to find the relevant information in the prospectus might be a first step in the right direction and indeed helpful.