FINANCIAL SERVICES BOARD (FSB) COMMENT ON IOSCO CONSULTATION REPORT: GLOBAL DEVELOPMENTS IN SECURITIZATION REGULATION

The following are the FSB's comments and responses to the questions.

CRA Issues:

1) Credit rating agencies that rate, and arrangers of securitisation structured finance transactions, should be obliged to publish details and notify investors;

1) When notified that a transaction is about to breach triggers of the transaction,
2) When there has been a breach of the triggers of the transaction,
3) Of the proposed remedies documented in the transaction documents, the remedy chosen to rectify the transaction and the proposed completion date.

2) The notation for the rating of a structured finance transaction should be expanded from the current (sf) notation employed by some credit rating agencies to incorporate the type of transaction, eg. RMBS, CMBS, Auto loans, etc. This notation should be standardised for the industry, for example "BigHousing" BBB+ (za) (sf- rmbs), or "RevvedUp" BBB- (za) (sf – autoloans). This will assist those not close to the market in having to interpret or analyse what the rating actually pertains to when looking at some of the titles or names given to transactions.

Issue One: Please comment on the TFUMP's proposals regarding risk retention requirements:

The main proposal is for TFUMP to monitor industry experience and views on the impact of differences it has identified in regulatory approach between mainly the US and the EU. It is expected to be able to determine the impact and accordingly develop appropriate regulatory responses and mechanisms to address the differences.

The FSB supports the proposal. However, the following is of concern:

1. The monitoring process should not be protracted and should bring the matter sharply to a close, in other words, it should be subject to a specified time frame.
2. It is unclear what the intentions are with regards to proceeding in the interim with debating and establishing those aspects that can in the interim be concluded on, eg. retention levels, etc.

In reference to the mechanisms to address differences, consideration could be given to establishing, together with the proposed appropriate regulation, a set of rules and limitations within which a

jurisdiction may actually grant exemptions. This may provide for better cross-border passporting of the securities.

Issue Two: Please comment on TFUMP's proposal on disclosure of information about stress testing and scenario analysis.

The FSB supports the proposal. However, the following is of concern:

1. Certain of the issuers/providers in emerging jurisdictions may need to improve the sophistication of their systems to enable them to provide such information on a transparent and frequent basis. Time may be needed to allow for this development.
2. The focus in this instance seems to be disclosure of information relating to stress testing and scenario analysis. However, this should only be two aspects that form part of the larger and full set of minimum requirements / rules for disclosures.
3. If disclosure of information about stress testing and scenario analysis is to be required for all types of investors (which is probably the correct approach), the outcomes or information provide will also need to be explained or translated in terms of the impact that it has for the investor, in other words, what it would mean for the investor.

Issue Three: Please comment on TFUMP's proposal regarding standardisation of disclosure.

Due to the fact that some current domestic legislation may prescribe the format and certain minimum disclosures, it is recommended that the standardisation be limited to minimum requirements of content to be disclosed. Accordingly, the matter may revolve more around appropriate minimum standards than harmonisation. Harmonisation would be achieved more from the ability to compare the products, including cross-border comparisons. This would allow any jurisdiction to combine its own legislated requirements with that which is to be the outcome of this project.

A central focus should be to ensure that investors will be able to know what the nature is of that which they are actually exposed to and to appreciate the risks that they are exposed to.