Criteria for identifying short-term “simple, transparent and comparable” securitisations

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Introduction

In July 2015, the Basel Committee on Banking Supervision (BCBS) and the Board of the International Organization of Securities Commissions (IOSCO) published the final criteria for identifying short-term simple, transparent and comparable (STC) securitisations.1 In July 2016, the BCBS published revisions to its securitisation framework that incorporated the regulatory capital treatment of STC term securitisations.2 The purpose of these criteria and associated regulatory capital treatment is to assist the financial industry in its development of STC securitisation structures.

As short-term securitisations, typically those using an asset-backed commercial paper (ABCP) conduit to issue forms of commercial paper, differ significantly in structure from term securitisations, the STC criteria published in July 2015 cannot be applied to them without appropriate amendments. During the development of STC criteria for term securitisations, many commenters indicated that it would be useful to extend the scope of the STC criteria to short-term securitisations, in particular exposures related to ABCP conduits. ABCPs are a key part of securitisation markets in some jurisdictions and can provide a significant source of funding to the economy. In response to the comments received, BCBS-IOSCO have developed a set of 17 STC criteria specifically catering for short-term securitisations, focusing on exposures related to ABCP conduits (see Annex).

The STC criteria for short-term securitisations (hereafter “short-term STC criteria”) do not serve as a substitute for investor due diligence. The criteria are also non-exhaustive and non-binding. Interested parties may complement these criteria with additional and/or more detailed criteria based on specific needs and applications.

Objectives of the short-term STC criteria

The short-term STC criteria aim to assist the financial industry in its development of short-term STC securitisations. They were designed to help the parties to such transactions to evaluate the risks of a particular securitisation across similar products and to assist investors with their conduct of due diligence on securitisations.

- **Simplicity** refers to the relative homogeneity of underlying assets included in each transaction financed by the ABCP conduit, with simple characteristics, and a conduit structure that is not overly complex.
- **Criteria on transparency** provide:
  - investors with sufficient information on the underlying assets and underlying transactions, as well as details about the conduit structure and liquidity and credit support received; and
  - the sponsor with granular information on the underlying assets.
- **Criteria promoting comparability** could assist investors in their understanding of such investments and enable more straightforward comparison across similar securitisation products within an asset class. Importantly, they should take appropriate account of differences across jurisdictions.

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1 See www.bis.org/bcbs/publ/d332.htm.
2 See www.bis.org/bcbs/publ/d374.htm.
Scope of the short-term STC criteria

The short-term STC criteria cover ABCP conduits that primarily finance themselves through the issuance of commercial paper, typically involving one or multiple sellers of assets to the ABCP conduit (often short-term trade receivables). Credit securities arbitrage and structured investment vehicle (SIV) structures, where most of the problems occurred during the financial crisis, are excluded from the scope of short-term STC criteria.

The short-term STC criteria focus on the characteristics of the ABCP conduit and the underlying transactions and not on the legal form of the instruments issued or used to fund it (eg the ABCP conduit could issue short-term commercial paper or accept loans from lenders secured against the underlying assets/transactions).

The short-term STC criteria also do not prevent single-seller conduits (which are generally less common) from qualifying for STC status. However, in such an instance, some of the proposed criteria may be less relevant because they have been designed to reflect the dual-layer structure of multi-seller conduits (in particular, the asset risk criteria). Single-seller conduits are often less diversified, and investors should be clearly aware of the risk of concentration.

Design of the short-term STC criteria

The design of the short-term STC criteria follows the STC criteria published in July 2015 for term securitisations. While all principles underlying the STC criteria for term securitisations are relevant for short-term securitisations, some criteria have been amended to reflect specific aspects of ABCP conduits, in particular:

- the short maturity of the commercial paper issued by ABCP conduits;
- the different forms of programme structures (multi-seller, single seller); and
- the existence of multiple forms of liquidity and credit support facilities on different levels of the ABCP structure (ie conduit level or transaction level).

This section describes the key areas considered by BCBS-IOSCO in the design of the short-term STC criteria.

1. Transaction-level and conduit-level criteria

One of the main amendments made to the STC criteria for term securitisations was to split the criteria into two categories to reflect the two levels of stakeholders, relevant in ABCP conduits:

(i) the sellers, who are typically the original lenders and, potentially, servicers of the underlying assets; and

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3 During the financial crisis, these structures left investors exposed to a very high risk, as they had often little liquidity support and relied on the ability to liquidate the entire portfolio to repay the commercial paper holders in times of stress. Many of these structures have failed as a result, as they did not manage to sell their assets or had to sell them at a high discount rate during the crisis.

4 A single-seller conduit is typically a bank or an auto captive that sells receivables or short-dated assets to a bankruptcy-remote special purpose vehicle which then issues commercial paper secured by these receivables. They typically have a first lost piece to cover defaults that remain with the seller (eg in the form of a letter of credit) and liquidity facility.

5 Some jurisdictions use multi-seller structures in which a conduit typically holds interest from multiple pools of credit claims or receivables from various sellers. These sellers can be non-financial institutions.
(ii) **the sponsor**, who establishes or manages an ABCP conduit, and plays an essential fiduciary role in ensuring the quality of the underlying transactions and pools of assets financed by the ABCP conduit.

Graph 1 provides a stylised view of a typical ABCP conduit structure and illustrates the various roles that banks may play.

As a result, the short-term STC criteria distinguish between criteria relevant at the transaction level and at the conduit level. Most criteria are relevant at both levels, but have a slightly different focus to reflect the differences in risk, stakeholders or structure at each level.

For instance, for the criterion on consistency of underwriting (Criterion A4):

- **at the transaction level**, the sponsor ensures that sellers apply a consistent underwriting standard between the assets transferred to the transaction and those retained on their balance sheet; and

- **at the conduit level**, the sponsor makes representation and warranties to investors that it has taken steps to verify that assets financed by the conduit have been subject to consistent underwriting standards.

The transaction-level and conduit-level criteria, in this regard, complement each other and ensure a consistent standard of underwriting by highlighting the different roles to be played by the sponsor.
2. Role of the sponsor

The short-term STC criteria focus on ABCP conduits in which the sponsor is generally not the asset originator, nor the asset servicer. However, the sponsor usually has a key role in providing the credit and liquidity support for, and establishing and managing, the ABCP conduit. For this reason, the short-term STC criteria also consider the perspective of the role that a sponsor should have in an STC-compliant ABCP conduit.

The criteria specify that a sponsor should assume fiduciary responsibility vis-à-vis the investors (eg holders of the commercial paper or the lenders to the ABCP conduit) under the proposed STC short-term securitisation framework, including:

- ensuring that the transactions financed by the ABCP conduit and their underlying assets meet the transaction-level standards; and
- reporting to investors whether and how criteria are appropriately met.

3. Nature and level of the support desirable

The short-term STC criteria specify that, in order for the ABCP conduit to qualify for STC status, the commercial paper issued by the ABCP conduit needs to be fully supported. The party providing support should irrevocably and unconditionally commit to pay the investors in full and on time. Investors are thus fully insulated from underlying liquidity risk and asset-related credit risk, except in the event of the insolvency of the support provider. To further mitigate this risk, the criteria will also require that the party providing full support be a registered financial institution that is licensed to take deposits from the public and subject to prudential regulation in accordance with the Basel framework.

4. Confidentiality and disclosure

Due to the “private” nature of the transactions financed by the ABCP conduit and the commercially sensitive data shared with the sponsor, full disclosure of detailed granular data on the transactions to ABCP investors can be undesirable. The short-term STC criteria therefore lay emphasis on the sponsor being accountable to investors.

5. Re-securitisation

The issue of re-securitisation arises in two contexts for multi-seller conduits, namely in terms of (i) simplicity of underlying assets and (ii) the structure of the ABCP programme:

- In terms of simplicity of underlying assets, Criterion A1 (nature of assets) at the transaction level is meant to ensure that transactions whose underlying assets are securitisation tranches are not eligible for STC status.
- In terms of structure, the same criterion, at the conduit level, clarifies that a programme-wide credit enhancement should not prevent an ABCP conduit from qualifying for STC, regardless of whether such enhancement is considered as a re-securitisation.

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6 BCBS-IOSCO considered that, if partially supported ABCP conduits are deemed to be STC-compliant, greater transparency in the structure and more granular information on the underlying transactions would be necessary for investors to conduct due diligence and determine their risk exposure. This added complexity would go against the purpose of the criteria to identify STC structures per se from an investor perspective.

7 Under some conditions, a programme-wide credit enhancement may "technically" be classified as a re-securitisation under the Basel capital framework.
enhancements also insulate investors from losses, similar to facilities or enhancements provided at the transaction level.

6. Cap on maturity transformation

Multi-seller conduits can finance short-term trade receivables along with other longer-term assets. Some of these longer-term assets are meant for term securitisations during their ramp-up period (a practice called “warehousing”).

The short-term STC criteria set a cap on maturity transformation of three years to limit maturity mismatch and ensure that an STC-compliant ABCP conduit would not finance a disproportionately large share of such longer-term assets, given the short-term maturity of the commercial paper it issues. In deciding the quantum of the cap, BCBS-IOSCO took into account the risk mitigation for maturity mismatch provided by the complementary requirement that the STC ABCP conduit be fully supported by a sponsor subject to capital and liquidity regulation.

The computation of the cap is based on both (i) the maturities of the contractual obligations resulting from the ABCP conduit’s beneficial interests held and (ii) the maturities of the underlying assets financed by the ABCP conduit (incorporating the possibility of a simplified approach to reduce operational burden). By taking into account the higher of the computation based on both (i) and (ii), the approach was designed to be more relevant from the perspective of investors.

7. Different stakeholders / key parties

The short-term STC criteria aim to standardise the terminology and provide clarity on how the responsibilities are allocated among the stakeholders and which party in an STC-compliant ABCP conduit is best placed to identify or justify that the criteria are being met.

Feedback to the consultation

Overall, respondents welcomed the development of the short-term STC criteria to extend the STC framework to short-term securitisations, in particular exposures related to ABCP conduits.

Notwithstanding, respondents raised a number of technical concerns where they believed that the criteria as proposed were too prescriptive and granular. Other respondents requested further clarity on certain aspects of the criteria. After considering all comments, BCBS-IOSCO have amended certain aspects of the criteria that were considered overly prescriptive, and clarified other issues where respondents raised doubts about their interpretation or implementation. Changes made include (among others):

- Amending the definition of “seller” to cover transactions that do not involve the sale of assets to the ABCP conduit.
- Clarifying in Criterion A1 (“Nature of assets”) that the criterion does not automatically exclude equipment leases and auto loans and leases securitisations from the short-term STC framework.
- Clarifying in Criterion C16 (“Fiduciary and contractual responsibilities”) that the sponsor’s role is limited to ensuring that it has received the relevant representations from the sellers (eg well documented procedures, strong systems and reporting capabilities), instead of having to make the verification itself.
In finalising the short-term STC criteria, BCBS-IOSCO have aimed to strike the right balance between achieving the objectives of the criteria and establishing the level of detail for global criteria that can be applied to all asset types and across jurisdictions. It is important to note that additional and/or more detailed criteria may be necessary based on specific needs and applications.
Criteria for identifying simple, transparent and comparable (STC) short-term securitisations

Terms and definitions

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>ABCP conduit / conduit</td>
<td>Asset-backed commercial paper (ABCP) conduit, being the special purpose vehicle which can issue commercial paper.</td>
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<tr>
<td>ABCP programme</td>
<td>The programme of commercial paper issued by an ABCP conduit.</td>
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<tr>
<td>assets / asset pool</td>
<td>The credit claims and/or receivables underlying a transaction in which the ABCP conduit holds a beneficial interest.</td>
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<tr>
<td>investor</td>
<td>The holder of commercial paper issued under an ABCP programme, or any type of exposure to the conduit representing a financing liability of the conduit, such as loans.</td>
</tr>
<tr>
<td>obligor</td>
<td>The borrower underlying a credit claim or a receivable that is part of an asset pool.</td>
</tr>
<tr>
<td>seller</td>
<td>A party that (i) concluded (in its capacity as original lender) the original agreement that created the obligations or potential obligations (under a credit claim or a receivable) of an obligor or purchased the obligations or potential obligations from the original lender(s), and (ii) transferred those assets through a transaction or passed on the interest8 to the ABCP conduit.</td>
</tr>
<tr>
<td>sponsor</td>
<td>Sponsor of an ABCP conduit. It may also be noted that other relevant parties with a fiduciary responsibility in the management and administration of the ABCP conduit could also undertake control of some of the responsibilities of the sponsor.</td>
</tr>
<tr>
<td>transaction</td>
<td>An individual transaction in which the ABCP conduit holds a beneficial interest. A transaction may qualify as a securitisation, but may also be a direct asset purchase, the acquisition of undivided interest in a revolving pool of asset, a secured loan etc.</td>
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</table>

Scope of application

For an ABCP conduit to be considered STC, the following criteria need to be met at both the conduit level and the transaction level.

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8 For instance, transactions where assets are sold to a special purpose entity sponsored by a bank’s customer and then either a security interest in the assets is granted to the ABCP conduit to secure a loan made by the ABCP conduit to the sponsored special purpose entity, or an undivided interest is sold to the ABCP conduit.
A. Asset risk

1. Nature of assets

<table>
<thead>
<tr>
<th>Relevant to the conduit level</th>
<th>Relevant to the transaction level</th>
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<tr>
<td>The sponsor should make representations and warranties to investors that the subsections of Criterion A1 defined at the transaction level are met, and explain how this is the case on an overall basis. Only if specified should this be done for each transaction. Provided that each individual underlying transaction is homogeneous in terms of asset type, a conduit may be used to finance transactions of different asset types. Programme-wide credit enhancement should not prevent a conduit from qualifying for STC, regardless of whether such enhancement technically creates re-securitisation.</td>
<td>The assets underlying a transaction in a conduit should be credit claims or receivables that are homogeneous, in terms of asset type. The assets underlying each individual transaction in a conduit should not be composed of “securitisation exposures” as defined in the Basel III securitisation framework. Credit claims or receivables underlying a transaction in a conduit should have contractually identified periodic payment streams relating to rental, principal, interest, or principal and interest payments. Credit claims or receivables generating a single payment stream would equally qualify as eligible. Any referenced interest payments or discount rates should be based on commonly encountered market interest rates, but should not reference complex or complicated formulae or exotic derivatives.</td>
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</table>

| 2. Asset performance history |
|-------------------------------|----------------------------------|
| Relevant to the conduit level | Relevant to the transaction level |
| In order to provide investors with sufficient information on the performance history of the asset types backing the transactions, the sponsor should make available to investors sufficient loss performance data on claims and receivables with substantially similar risk characteristics, such as delinquency and default data on similar claims, and for a time period long enough to permit meaningful evaluation. The sponsor should disclose to investors the sources of such data and the basis for claiming similarity to credit claims or receivables financed by the conduit. Such loss performance data may be provided on a stratified basis. | In order to provide the sponsor with sufficient information on the performance history of each asset type backing the transactions and to conduct appropriate due diligence and to have access to a sufficiently rich data set to enable a more accurate calculation of expected loss in different stress scenarios, verifiable loss performance data, such as delinquency and default data, should be available for credit claims and receivables with risk characteristics substantially similar to those being financed by the conduit, for a time period long enough to permit meaningful evaluation by the sponsor. |

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9 For the avoidance of doubt, this criterion does not automatically exclude securitisations of equipment leases and securitisations of auto loans and leases from the short-term STC framework.

10 See www.bis.org/bcbs/publ/d374.htm.

11 Payments on operating and financing lease are typically considered to be rental payments rather than payments of principal and interest.

12 Commonly encountered market interest rates may include rates reflective of a lender’s cost of funds, to the extent that sufficient data are provided to the sponsors to allow them to assess their relation to other market rates.

13 The Global Association of Risk Professionals (GARP) defines an exotic instrument as a financial asset or instrument with features making it more complex than simpler, plain vanilla, products.

14 Stratified means, by way of example:
- all materially relevant data on the conduit’s composition (outstanding balances, industry sector, obligor concentrations, maturities etc) and conduit’s overview; and
- all materially relevant data on the credit quality and performance of underlying transactions, allowing investors to identify collections, and, as applicable, debt restructuring, forgiveness, forbearance, payment holidays, repurchases, delinquencies and defaults.
### 3. Payment status

<table>
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<tr>
<th>Relevant to the conduit level</th>
<th>Relevant to the transaction level</th>
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<tr>
<td>The sponsor should, to the best of its knowledge and based on representations from sellers, make representations and warranties to investors that Criterion A3 at the transaction level is met with respect to each transaction.</td>
<td>The sponsor should obtain representations from sellers that the credit claims or receivables underlying each individual transaction are not, at the time of acquisition of the interests to be financed by the conduit, in default or delinquent or subject to a material increase in expected losses or of enforcement actions.</td>
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### 4. Consistency of underwriting

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<tr>
<th>Relevant to the conduit level</th>
<th>Relevant to the transaction level</th>
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| The sponsor should make representations and warranties to investors that:  
- it has taken steps to verify that, for the transactions in the conduit, any underlying credit claims and receivables have been subject to consistent underwriting standards, and explain how; and  
- when there are material changes to underwriting standards, it will receive from sellers disclosure about the timing and purpose of such changes.  
The sponsor should also inform investors of the material selection criteria applied when selecting sellers (including where they are not financial institutions). | The sponsor should ensure that sellers (in their capacity as original lenders) in transactions with the conduit demonstrate to it that:  
(a) any credit claims or receivables being transferred to or through a transaction held by the conduit have been originated in the ordinary course of the seller’s business subject to materially non-deteriorating underwriting standards. Those underwriting standards should also not be less stringent than those applied to credit claims and receivables retained on the balance sheet of the seller and not financed by the conduit; and  
(b) the obligors have been assessed as having the ability and volition to make timely payments on obligations.  
The sponsor should also ensure that sellers disclose to it the timing and purpose of material changes to underwriting standards. |

### 5. Asset selection and transfer

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<th>Relevant to the conduit level</th>
<th>Relevant to the transaction level</th>
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| The sponsor should:  
- provide representations and warranties to investors about the checks, in terms of their nature and frequency, it has conducted regarding enforceability of underlying assets; and  
- disclose to investors the receipt of appropriate representations and warranties from sellers that the credit claims or receivables being transferred to the transactions in the conduit are not subject to any condition or encumbrance that can be foreseen to adversely affect enforceability in respect of collections due. | The sponsor should ensure that credit claims or receivables transferred to or through a transaction financed by the conduit:  
(a) satisfy clearly defined eligibility criteria; and  
(b) are not actively selected after the closing date, actively managed or otherwise cherry-picked.  
The sponsor should be able to assess thoroughly the credit risk of the asset pool prior to its decision to provide full support to any given transaction or to the conduit.  
The sponsor should ensure that the transactions in the conduit effect true sale such that the underlying credit claims or receivables:  
- are enforceable against the obligor;  
- are beyond the reach of the seller, its creditors or liquidators and are not subject to material re-characterisation or clawback risks; |

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**Provided they are not actively selected or otherwise cherry-picked, the addition of credit claims or receivables during the revolving periods or their substitution or repurchasing due to the breach of representations and warranties do not represent active portfolio management.**
Criteria for identifying simple, transparent and comparable short-term securitisations

- are not effected through credit default swaps, derivatives or guarantees, but by a transfer\(^\text{16}\) of the credit claims or the receivables to the transaction; and
- demonstrate effective recourse to the ultimate obligation for the underlying credit claims or receivables and are not a re-securitisation position.

The sponsor should ensure that, in applicable jurisdictions, for conduits employing transfers of credit claims or receivables by other means, sellers can demonstrate to it the existence of material obstacles preventing true sale at issuance\(^\text{17}\) and should clearly demonstrate the method of recourse to ultimate obligors.\(^\text{18}\) In such jurisdictions, any conditions where the transfer of the credit claims or receivables is delayed or contingent upon specific events and any factors affecting timely perfection of claims by the conduit should be clearly disclosed.

The sponsor should ensure that it receives from the individual sellers (in their capacity as either original lender or servicer) representations and warranties that the credit claims or receivables being transferred to or through the transaction are not subject to any condition or encumbrance that can be foreseen to adversely affect enforceability in respect of collections due.

6. Initial and ongoing data

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<tr>
<th>Relevant to the conduit level</th>
<th>Relevant to the transaction level</th>
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| To assist investors in conducting appropriate due diligence prior to investing in a new programme offering, the sponsor should provide to potential investors sufficient aggregated data that illustrate the relevant risk characteristics of the underlying asset pools in accordance with applicable laws. To assist investors in conducting appropriate and ongoing monitoring of their investments’ performance and so that investors who wish to purchase commercial paper have sufficient information to conduct appropriate due diligence, the sponsor should provide timely and sufficient aggregated data that convey the relevant risk characteristics of the underlying pools in accordance with applicable laws. The sponsor should ensure that standardised investor reports are readily available to current and potential investors at least monthly. Cutoff dates of the aggregated data should be aligned with those used for investor reporting. | The sponsor should ensure that the individual sellers (in their capacity as servicers) provide it with:

(a) sufficient asset-level data in accordance with applicable laws or, in the case of granular pools, summary stratification data on the relevant risk characteristics of the underlying pool before transferring any credit claims or receivables to such underlying pool; and

(b) timely asset-level data in accordance with applicable laws or granular pool stratification data on the risk characteristics of the underlying pool on an ongoing basis. Those data should allow the sponsor to fulfil its fiduciary duty at the conduit level in terms of disclosing information to investors, including the alignment of cutoff dates of the asset-level or granular pool stratification data with those used for investor reporting. The seller may delegate some of these tasks, in which case the sponsor should ensure that there is appropriate oversight of the outsourced arrangements. |

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\(^\text{16}\) This requirement should not affect jurisdictions whose legal frameworks provide for a true sale with the same effects as described above, but by means other than a transfer of the credit claims or receivables.

\(^\text{17}\) For instance, the immediate realisation of transfer tax or the requirement to notify all obligors of the transfer.

\(^\text{18}\) For instance, equitable assignment or perfected contingent transfer.
### Structural Risk

#### 7. Full Support

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<th>Relevant to the conduit level</th>
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<tr>
<td>The sponsor should provide the liquidity facility(ies) and the credit protection support(^{19}) for any ABCP programme issued by a conduit. Such facility(ies) and support should ensure that investors are fully protected against credit risks, liquidity risks and any material dilution risks of the underlying asset pools financed by the conduit. On that basis, investors should be able to rely on the sponsor to ensure timely and full repayment of the commercial paper.</td>
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#### 8. Redemption Cash Flow

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<th>Relevant to the conduit level</th>
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<tr>
<td>Unless the underlying pool of credit claims or receivables is sufficiently granular and has sufficiently distributed repayment profiles, the sponsor should ensure that the repayment of the credit claims or receivables underlying any of the individual transactions relies primarily on the general ability and willingness of the obligor to pay rather than the possibility of the obligor refinancing or selling the collateral and that such repayment does not primarily rely on the drawing of an external liquidity facility provided to this transaction.</td>
<td>(-)</td>
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#### 9. Currency and Interest Rate Asset and Liability Mismatches

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<tr>
<th>Relevant to the conduit level</th>
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<tr>
<td>The sponsor should ensure that any payment risk arising from different interest rate and currency profiles: (i) not mitigated at the transaction level; or (ii) arising at the conduit level; is appropriately mitigated. The sponsor should also ensure that derivatives are used for genuine hedging purposes only and that hedging transactions are documented according to industry-standard master agreements. The sponsor should provide sufficient information to investors to allow them to assess how the payment risk arising from the different interest rate and currency profiles of assets and liabilities is appropriately mitigated, whether at the conduit level or at the transaction level.</td>
<td>To reduce the payment risk arising from the different interest rate and currency profiles of assets and liabilities, if any, and to improve the sponsor’s ability to analyse cash flows of transactions, the sponsor should ensure that interest rate and foreign currency risks are appropriately mitigated. The sponsor should also ensure that derivatives are used for genuine hedging purposes only and that hedging transactions are documented according to industry-standard master agreements.</td>
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#### 10. Payment Priorities and Observability

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<th>Relevant to the conduit level</th>
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<tr>
<td>The commercial paper issued by the ABCP programme should not include extension options or other features which may extend the final maturity of the asset-backed commercial paper, where the right to trigger does not belong exclusively to investors. The sponsor should:</td>
<td>To prevent the conduit from being subjected to unexpected repayment profiles from the transactions, the sponsor should ensure that: • priorities of payments are clearly defined at the time of acquisition of the interests in these transactions by the conduit; and</td>
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\(^{19}\) A sponsor can provide full support either at the ABCP programme level or at the transaction level, ie by fully supporting each transaction within an ABCP programme.
(i) make representations and warranties to investors that Criterion B10 is met at the transaction level and, in particular, that it has the ability to appropriately analyse the cash flow waterfall for each transaction which qualifies as a securitisation; and

(ii) make available to investors a summary (illustrating the functioning) of these waterfalls and of the credit enhancement available at the programme level and at the transaction level.

- appropriate legal comfort regarding the enforceability is provided.

For all transactions which qualify as a securitisation, the sponsor should ensure that all triggers affecting the cash flow waterfall, payment profile or priority of payments are clearly and fully disclosed to the sponsor in both the transactions’ documentation and reports, with information in the reports that clearly identifies any breach status, the ability for the breach to be reversed and the consequences of the breach. Reports should contain information that allows sponsors to easily ascertain the likelihood of a trigger being breached or reversed. Any triggers breached between payment dates should be disclosed to sponsors on a timely basis in accordance with the terms and conditions of the transaction documents.

For any of the transactions where the beneficial interest held by the conduit qualifies as a securitisation position, the sponsor should ensure that any subordinated positions do not have inappropriate payment preference over payments to the conduit (which should always rank senior to any other position) and which are due and payable.

Transactions featuring a revolving period should include provisions for appropriate early amortisation events and/or triggers of termination of the revolving period, including, notably: (i) deterioration in the credit quality of the underlying exposures; (ii) a failure to replenish sufficient new underlying exposures of similar credit quality; and (iii) the occurrence of an insolvency-related event with regard to the individual sellers.

To ensure that debt forgiveness, forbearance, payment holidays, restructuring, dilution and other asset performance remedies can be clearly identified, policies and procedures, definitions, remedies and actions relating to delinquency, default, dilution or restructuring of underlying debtors should be provided in clear and consistent terms, such that the sponsor can clearly identify debt forgiveness, forbearance, payment holidays, restructuring, dilution and other asset performance remedies on an ongoing basis.

For each transaction which qualifies as a securitisation, the sponsor should ensure that it receives, both before the conduit acquires a beneficial interest in the transaction and on an ongoing basis, the liability cash flow analysis or information on the cash flow provisions allowing appropriate analysis of the cash flow waterfall of these transactions.

## 11. Voting and enforcement rights

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<th>Relevant to the conduit level</th>
<th>Relevant to the transaction level</th>
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| To provide clarity to investors, the sponsor should make sufficient information available in order for investors to understand their enforcement rights on the underlying credit claims or receivables in the event of insolvency of the sponsor. | For each transaction, the sponsor should ensure that, in particular upon insolvency of the seller or where the obligor is in default on its obligation, all voting and enforcement rights related to the credit claims or receivables are, if applicable:
- transferred to the conduit; and
- clearly defined under all circumstances, including with respect to the rights of the conduit versus other parties with an interest (eg sellers), where relevant. |
### 12. Documentation disclosure and legal review

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<td>To help investors understand fully the terms, conditions and legal information prior to investing in a new programme offering and to ensure that this information is set out in a clear and effective manner for all programme offerings, the sponsor should ensure that sufficient initial offering documentation for the ABCP programme is provided to investors (and readily available to potential investors on a continuous basis) within a reasonable period of time prior to issuance, such that the investor is provided with full disclosure of the legal information and comprehensive risk factors needed to make informed investment decisions. These should be composed such that readers can readily find, understand and use relevant information. The sponsor should ensure that the terms and documentation of a conduit and the ABCP programme it issues are reviewed and verified by an appropriately experienced and independent legal practice prior to publication and in the event of material changes. The sponsor should notify investors in a timely fashion of any changes in such documents that have an impact on the structural risks in the ABCP programme.</td>
<td>(-)</td>
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</table>

### 13. Alignment of interest

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<tr>
<th>Relevant to the conduit level</th>
<th>Relevant to the transaction level</th>
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<tr>
<td>In order to align the interests of those responsible for the underwriting of the credit claims and receivables with those of investors, a material net economic exposure should be retained by the sellers or the sponsor at the transaction level, or by the sponsor at the conduit level. Ultimately, the sponsor should disclose to investors how and where a material net economic exposure is retained by the seller at the transaction level, or by the sponsor at the transaction or the conduit level, and demonstrate the existence of a financial incentive in the performance of the assets.</td>
<td>(-)</td>
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### 14. Cap on maturity transformation

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<th>Relevant to the conduit level</th>
<th>Relevant to the transaction level</th>
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<tr>
<td>Maturity transformation undertaken through ABCP conduits should be limited. The sponsor should verify and disclose to investors that the weighted average maturity of all the transactions financed under the ABCP conduit is three years or less. This number should be calculated as the higher of: 1. the exposure-weighted average residual maturity of the conduit’s beneficial interests held or the assets purchased by the conduit in order to finance the transactions of the conduit; and 20</td>
<td>(-)</td>
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</tbody>
</table>

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20 Including purchased securitisation notes, loans, asset-backed deposits and purchased credit claims and/or receivables held directly on the conduit’s balance sheet
2. the exposure-weighted average maturity of the underlying assets financed by the conduit calculated by:
   a. taking an exposure-weighted average of residual maturities of the underlying assets in each pool; and then
   b. taking an exposure-weighted average across the conduit of the pool-level averages as calculated in Step 2a.

Where it is impractical for the sponsor to calculate the pool-level weighted average maturity in Step 2a (because the pool is very granular or dynamic), sponsors may instead use the maximum maturity of the assets in the pool as defined in the legal agreements governing the pool (e.g. investment guidelines).

C. Fiduciary and servicer risk

15. Financial institution

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<tr>
<th>Relevant to the conduit level</th>
<th>Relevant to the transaction level</th>
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<tr>
<td>The sponsor should be a financial institution that is licensed to take deposits from the public, and is subject to appropriate prudential standards and levels of supervision.</td>
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16. Fiduciary and contractual responsibilities

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| The sponsor should, based on the representations received from the seller(s) and all other parties responsible for originating and servicing the asset pools, make representations and warranties to investors that:
  - the various criteria defined at the level of each underlying transaction are met, and explain how; and
  - the seller’s (sellers’) policies, procedures and risk management controls are well documented, adhere to good market practices and comply with the relevant regulatory regimes; and that strong systems and reporting capabilities are in place to ensure appropriate origination and servicing of the underlying assets.

The sponsor should be able to demonstrate expertise in providing liquidity and credit support in the context of ABCP conduits, and that it is supported by a management team with extensive industry experience.

The sponsor should at all times act in accordance with reasonable and prudent standards. The policies, procedures and risk management controls of the sponsor should be well documented, and the sponsor should adhere to good market practices and relevant regulatory

The sponsor should ensure that it receives representations from the seller(s) and all other parties responsible for originating and servicing the asset pools that they:
  - have well documented procedures and policies in place to ensure appropriate servicing of the underlying assets;
  - have expertise in the origination of assets that are the same as or similar to those in the asset pools;
  - have extensive servicing and workout expertise, thorough legal and collateral knowledge, and a track record in loss mitigation for the same or similar assets;
  - have expertise in the servicing of the underlying credit claims or receivables; and
  - are supported by a management team with extensive industry experience.

21 National supervisors should decide what prudential standards and level of supervision are appropriate for their domestic banks. For internationally active banks, prudential standards and the level of supervision should be in accordance with the Basel framework. Subject to the determination of the national supervisor, in addition to risk-based regulatory capital this may include liquidity, leverage capital requirements and other requirements, such as related to the governance of banks.
regime. There should be strong systems and reporting capabilities in place at the sponsor.
The party or parties with fiduciary responsibility should act on a timely basis in the best interests of the investors.

17. Transparency to investors

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<th>Relevant to the transaction level</th>
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<tr>
<td>To help provide full transparency to investors and to assist them in the conduct of their due diligence, the sponsor should ensure that the contractual obligations, duties and responsibilities of all key parties to the conduit, both those with a fiduciary responsibility and the ancillary service providers, are defined clearly in the initial offering documentation of the conduit and the ABCP programme it issues. The sponsor should also make representations and warranties to investors that the duties and responsibilities of all key parties are clearly defined at the transaction level.</td>
<td>The sponsor should conduct due diligence with respect to the transactions on behalf of the investors. To assist the sponsor in meeting its fiduciary and contractual obligations, the duties and responsibilities of all key parties to all transactions (both those with a fiduciary responsibility and the ancillary service providers) should be defined clearly in all documentation underlying these transactions and made available to the sponsor. The sponsor should ensure that provisions regarding the replacement of key counterparties (in particular, the servicer or liquidity provider) in the event of failure or non-performance or insolvency or other deterioration of any such counterparty for the transactions are well documented (in the documentation of these individual transactions).</td>
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<tr>
<td>The sponsor should ensure that the initial offering documentation disclosed to investors contains adequate provisions regarding the replacement of key counterparties of the conduit (eg bank account providers and derivatives counterparties) in the event of failure or non-performance or insolvency or deterioration of creditworthiness of any such counterparty. The sponsor should also make representations and warranties to investors that provisions regarding the replacement of key counterparties at the transaction level are well documented. The sponsor should provide sufficient information to investors about the liquidity facility(ies) and credit support provided to the ABCP programme for them to understand its functioning and key risks.</td>
<td>To enhance the transparency and visibility of all receipts, payments and ledger entries at all times, the sponsor should ensure that, for all transactions, the performance reports include all of the following: the transactions' income and disbursements, such as scheduled principal, redemption principal, scheduled interest, prepaid principal, past due interest and fees and charges, and delinquent, defaulted, restructured and diluted amounts; and accurate accounting for amounts attributable to principal and interest deficiency ledgers.</td>
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22 “Underlying documentation” does not refer to the documentation of the underlying transactions.