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THE BOND MARKET ASSOCIATION

May 24, 2001

Basel Committee on Banking Supervision
The Bank for International Settlements
CH-4022 Basel
Switzerland

Re: *The New Basel Capital Accord – Asset Securitization Aspects*

Ladies and Gentlemen:

The Bond Market Association (the "Association")[1] appreciates this opportunity to comment on the consultative package released by the Basel Committee on Banking Supervision (the "Committee") in January of this year. This letter contains some of our comments on the asset securitization proposals included in the consultative package. We anticipate submitting an additional letter in which we will comment on some portions of the securitization proposals that were not fully laid out in the January consultative package, particularly the application of internal ratings based approaches to securitization.[2]

The Association supports the Committee's efforts to rework the capital adequacy framework for internationally active banking groups and particularly to better align regulatory capital requirements with the risk of various assets. Given the important and growing role of securitization as a funding source and credit risk/liquidity management tool for banks, it is important that the new Accord address securitization in a systematic and well thought out way. The January consultative package shows that the Committee has made a good start in that direction. However, the consultative package also suggests

[1]The Association represents securities firms and banks that underwrite, distribute and trade debt securities domestically and internationally. The Association's member firms account for in excess of 95 percent of all primary issuance and secondary market trading activity in the U.S. debt capital markets, including the issuance, underwriting and trading of securitized instruments. The views expressed in this letter reflect input received from a broad range of Association members who are active in the securitization market, including members of the Association's Mortgage and Asset-Backed Securities Capital Adequacy Task Force. More information about the Association and its members may be found at its internet website, located at http://www.bondmarkets.com.

[2]In addition to these submissions by the Association, the European Securitisation Forum, or "ESF" (a European-based initiative of the Association, whose diverse membership includes banks, securities houses, issuers, investors, rating agencies, legal and accounting firms and other professional participants in the securitization markets throughout Europe) will be submitting separate comments on the securitization-related aspects of the proposed new Accord. The ESF's comments, although developed separately by its membership, are consistent in all material respects with those provided by the Association herein.

some discomfort with securitization on the Committee's part, which translates in some cases into inappropriately strict requirements for securitization and some unjustified incremental capital requirements for securitization as opposed to other bank activities.

EXECUTIVE SUMMARY

The Association's members are active in all aspects of asset securitization, and the Association has comments on the proposed treatment of banks as originators, investors and conduit sponsors under the new Accord. We have summarized our comments on each of these, and some other, aspects of the consultative package below:

1. On the treatment of originating banks (see Part 2 below), we:

    - **Request** that the treatment of credit enhancements (and other securitization positions) should to the greatest extent possible depend solely on the risk of a particular position, rather than on who holds it (originator vs. third party).

    - **Support** the Committee's apparent decision not to require transferors to hold dollar-for-dollar capital against retained interests in excess of the on-balance sheet capital required for the underlying assets.

    - **Oppose** the imposition of the managed assets approach for revolving structures.

    - **Oppose** the imposition of a capital requirement for many servicer advance obligations.

    - **Suggest** that "clean break" requirements should simply require derecognition of the securitized assets under locally applicable accounting standards, rather than imposing an additional supervisory layer of requirements tied to any specific, existing accounting standard.

2. On the treatment of investing banks (see Part 3 below), we:

    - **Support** both the external ratings based approach and the look-through approach for unrated positions.

    - **Suggest** some enhancements to each of these approaches.

3. On the treatment of bank sponsors (see Part 4 below), we:

    - **Support** external ratings based ("*ERB*"), internal ratings based ("*IRB*") and "look through" approaches for calculating risk-weights of program credit enhancements.

- **Oppose** automatic deduction from capital for sponsor-provided first loss positions.

- **Support** the continued use of both credit conversion factors and risk weights in calculating required capital for liquidity commitments.

- **Recommend** a 10% conversion factor for short-term liquidity commitments.

- **Oppose** additional draw limitations for liquidity commitments.

4. On the treatment of synthetic securitizations (see Part 5 below), we:

    - **Recommend** a holistic approach to synthetic securitizations, as a distinct class of innovative risk management transactions.

    - **Support deducting** retained first loss positions from capital.

    - **Oppose requiring** a threshold level of risk transference or a restriction on the size of the first loss position, as we think the deduction from capital approach adequately addresses these issues.

    - **Recommend** a 0% capital charge be assigned to the originating institution for exposures evidenced by mezzanine risk notes that are sold to third parties, when cash or eligible collateral is held in an SPV for the benefit of the originating/beneficiary institution.

    - **Support recognizing** the implied credit quality of the senior risk position in synthetic securitization transactions.

    - **Oppose** the use of “w” to limit the impact of credit derivatives on risk weights.

5. We **oppose** the assessment of an additional *ex ante* capital charge to address implicit and residual risks arising from securitizations.

6. Generally, we **request**:

    - That we and other concerned parties be given a chance to comment on another draft of these proposals before they are finalized.

    - An adequate transition period once the new Accord has been adapted and adopted within any particular country.

COMMENTS

1. Interests of the Association and Securitization Market Background

The Association's members include both banks and securities firms who are active in a wide range of asset securitization activities. As securitization issuers, dealers and investors, bank members of the Association would be directly subject to the new Accord. As providers of investment banking, securities underwriting, distribution, trading and other capital markets services to banks and other financial institutions that are engaged in asset securitization activities, the Association's securities firm membership would also be impacted by these proposals. Both categories of the Association's membership thus have fundamental interests in preserving an adequate safety and soundness cushion for regulated institutions, while simultaneously promoting economically efficient securitization markets.

As the Committee itself has recognized, securitization can serve as an efficient means of redistributing a bank's credit risk to other banks and non-bank investors.[3] The Association agrees, and believes that securitization has also proven its value as an efficient funding and capital management mechanism. It can also be an effective means for banks to redistribute the inherent market risks they face to investors and the broader capital markets, thereby facilitating prudent risk management and diversification. In addition, as supported by the discussion and data set forth in the body of this letter, securitization has proven its value as a source of safe and stable fixed income assets from the perspective of banks as investors.

Securitization transactions structured as sales subject bank assets to market scrutiny and can allow reductions in required capital when regulatory levels are proven to be overly conservative. However, securitization is also frequently a more efficient and flexible financing option in comparison with others available to banks. For example, the ability of a bank issuer to subdivide and redirect cash flows from underlying assets among a range of sold and retained interests can provide it with both cheaper funding and the ability to achieve a more precise matching of the duration of its managed assets and liabilities.

From a broader economic and systemic perspective, the existence of efficient securitization markets has increased the availability, and reduced the cost, of financing in the primary lending markets. Efficient securitization markets serve to reduce disparities in the availability and cost of credit, by linking local and regional credit-granting activities to a national, and increasingly, global, capital market system. Securitization thus subjects the loan origination and credit extension functions of individual financial institutions to the pricing and valuation discipline of the capital markets. This promotes the efficient allocation of capital and management of risk within those institutions, while serving to mitigate systemic risk throughout the financial system as a whole. Consumer

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[3]See paragraph 14 of the *Overview of the New Basel Capital Accord* included in the January consultative package.

and business borrowers—the clients of banking institutions—benefit directly from the increased supply and lower cost of loans.

In view of these important micro- and macro-economic benefits, the Association regards it as critically important for regulatory capital regulations to avoid imposing unnecessary restrictions on the ability of banks to benefit from the application of securitization techniques to fund and manage their lending operations efficiently.

2. **Treatment of Originating Banks**.

2.1. **Clean Break Criteria (paragraph 518[4])**.

The Association agrees that a bank should have to meet minimum criteria to remove securitized assets from its risk-based capital calculation. However, we do not think that the Committee should impose an additional supervisory level of clean break requirements, particularly in jurisdictions that have well-defined accounting and legal standards for derecognition of financial assets. Any particular standards imposed by the Committee will create another layer of complexity and interpretation and generate unnecessary incremental transaction costs.

For instance, in the U.S., banking organizations have to meet the requirements of Statement of Financial Accounting Standards No. 140 ("SFAS 140") in order to derecognize financial assets. U.S. banks have spent four years now working through interpretive complexities relating to the application of SFAS 140 and its predecessor, SFAS 125. The Committee should build upon well-developed regimes of that sort where they exist, by simply requiring that financial assets must be derecognized in accordance with local GAAP before they can be excluded from the calculation of required capital.

If the Committee decides to leave specific clean break requirements in the final Accord, there are a number of technical points which should be corrected. Specifically:

- We recommend that the Committee avoid using the phrase "true sale", as that phrase has a very specific legal meaning, at least in the United States, and is not appropriate in all circumstances.

- Second, we do not think the Committee should specify any requirements for the type of entity to which a transfer is made, since some securitization transfers do not even involve special purpose entities.

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[4]Unless otherwise specified, all three digit paragraph references below refer to paragraphs of the main *Consultative Document*, and one or two digit paragraph references refer to paragraphs of the separate *Consultative Document* on *Asset Securitisation*. Where both the securitization chapter in the main document and the separate securitization document contain substantially similar text, we comment here only on the main document, since we assume that the main document more closely approximates the Committee's intended text for the final new Accord.

- Third, the January proposal borrowed heavily from SFAS 140 in describing the clean break requirements, but in doing so left out some alternatives that are permitted by SFAS 140 and are relied upon in many transactions. To the extent that the Committee decides to use certain clean break formulations drawn from SFAS 140 as a model, it should retain all of the flexibility permitted by SFAS 140.

2.2. **Minimum Capital Requirements for Credit Enhancements** (paragraphs 520-522).

2.2.1. Neutral Treatment of Second Loss Positions.

The Association's primary concern with this portion of the consultative package is that it continues to treat different banks holding similar positions differently. In particular, paragraph 521 states that in order for a second loss credit enhancement to be treated as a direct credit substitute there must be significant first loss protection that has been provided by a third party. As a result, an identical second loss position held by two different banks (one the originator and one an investor) could have radically different capital treatment.

For example, assume a securitization of $100 million of installment loans where:

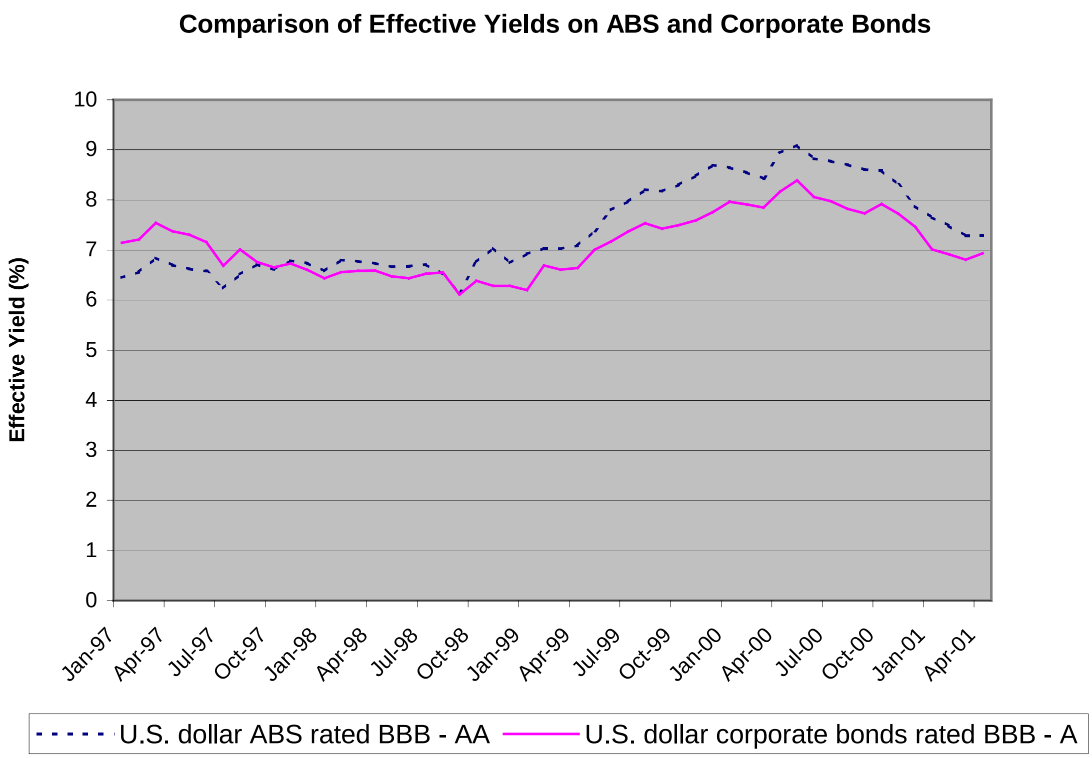
- the first loss position is a combination of an excess spread/interest-only strip asset and a spread account which are available to cover future losses up to a maximum of $4 million, both of which are retained by the originating bank; and

- the only other positions are a $4 million junior (second loss) class of securities rated "A" or its equivalent and a $96 million senior class of securities rated "AAA" or its equivalent.

Under the standardized external ratings-based approach in the proposal, an investing bank (other than the originating bank) that held the junior securities could assign them a risk weight of 50%. On the other hand, if the originating bank retains the junior securities it appears that the junior securities would be deducted from capital because the first loss protection is not provided by a third party.

This divergence in capital treatments creates a tremendous artificial incentive for originating banks to sell second loss positions, even when those second loss positions bear a market coupon that is higher than the originator's on-book cost of funds. This incentive exists under the current rules and has a significant observable effect on banks' issuing activity. Specifically, most banks that issue asset-backed securities sell subordinated tranches rated down to BBB or its equivalent, in order to avoid the excessive capital charges that would result if they retained those tranches. This issuance pattern is common even where the issuing banks have unsecured investment grade ratings

and could generally raise funds on balance sheet at a lower cost than the coupon on BBB or A category tranches.



The chart above[5] compares the effective yields for U.S. dollar ABS rated between BBB and AA, on the one hand, and U.S. dollar corporate bonds of issues rated between BBB and A. As shown, even though the ABS category shown includes AA-rated securities, which lower the average yield, the ABS category has generally had a higher yield than the corporate category since October 1997. This demonstrates that for banks rated BBB and above, ABS tranches rated BBB to A have generally not provided the most attractive funding cost least over that time period. The fact that banks have continued to generally sell those tranches is attributable largely to the excessive capital costs associated with retaining those tranches.

As the Committee moves towards its commendable goal of more closely aligning regulatory capital requirements with risk, these types of artificial incentives should be eliminated. The capital requirement for a securitization position under the standardized approach should be the same for any bank, regardless of whether or not it is the originator. This is particularly clear for external ratings, where the external rating agency

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[5]Source: Merrill Lynch Global Bond Indices, as found on Bloomberg.

provides an independent check on the credit quality of a position. It also should apply under internal ratings-based approaches for banks that qualify to use them.

Also, an originating bank that has a retained second loss position externally rated in one transaction should be able to use that tranche as a benchmark to support equivalent capital treatment on substantially similar tranches in other transactions. For instance, say a bank has issued two series of floating rate securities out of a revolving credit card master trust, each with an $80 million Class A (rated AAA in each case), a $10 million Class B (rated A in each case) and a $10 million Class C (rated BBB in the first series and unrated in the second). Neither series has any credit enhancement other than the subordination of the various classes and excess spread.

Because there is a single master trust, proportional interests in the exact same receivables support each series. In light of these facts and the identical enhancement structure, the originator should be able to impute the BBB rating received on the first Class C to the second unrated Class C. This should also be permitted if there are separate asset pools (for instance in two separate securitizations of installment loans) where the originator reasonably believes that the asset quality is substantially the same and the enhancement structure required by the rating agencies supports that belief.

2.2.2. Limiting Capital on First Loss Positions.

The Association believes strongly that, regardless of the size of an originator's retained interests in securitized assets, the originator should not be required to hold more capital with respect to those assets than the amount of capital that would be required if the underlying assets were held on the originator's balance sheet. Although the consultative package does not discuss the point at length, it appears that the Committee agrees. Specifically, Section 520 states: "originators and loan servicers that provide credit enhancement must deduct the full amount of the enhancement from capital, *taking into account the risk-based capital charge that would have been assessed if the assets were held on the balance sheet*" (emphasis added). We understand from discussions with staff for the Committee that the italicized language was intended to limit the capital requirement for credit enhancements to the on-balance sheet requirement for the whole pool. We support that decision and request that the Committee clarify this point in the final Accord. For instance in the phrase quoted above, the phrase "taking into account" could be changed to "limited to."

We note that the U.S. Federal bank regulatory agencies proposed eliminating the on-balance sheet capital charge as a cap in a September 2000 release. We trust that the Committee would provide fair public notice and an opportunity for comment before

implementing a change like that in the final Accord. We strongly oppose such a change and have previously provided comments to the U.S. regulators on the point.[6]

2.2.3. Capital Treatment of Servicer Advances.

The Association believes that the proposal to require capital against servicing advance obligations would frequently result in excessive capital, and we oppose that proposal. At least two categories of servicer advance obligations should be excluded from any new capital requirement.

First, in many transactions (particularly private residential mortgage securitizations), the servicer is required to advance delinquent principal and interest to investors unless the servicer reasonably determines that an advance would eventually not be recovered from late collections or liquidation proceeds. The servicer then has a first priority claim to late collections or liquidation proceeds on the related receivable. Importantly, if the servicer determines that an advance that it expected to be able to recover as described above will not in fact be recovered in that manner, the servicer is entitled to a priority reimbursement for the shortfall from collections on other receivables in the transaction. The risk to a servicer in making advances of this type is close to zero, and we think that in these circumstances any “commitment” that the servicer has is unconditionally cancelable, since the servicer does not have to make the advance if it does not expect to recoup it.

Second, in some transactions, servicer advances are wholly discretionary. Here it is even more clear that any “commitment” that exists is unconditionally cancelable and therefore should have a credit conversion factor (and resulting capital requirement) of zero.

2.2.4. Calculations When Enhancements are “Deducted from Capital.”

Under the current Accord, we believe there is some international inconsistency as to how capital requirements are calculated on credit enhancements that must be “deducted from capital.” Specifically, in the U.S., rather than requiring banks literally to deduct positions of this type from capital, the call report instructions take banks through algebraic steps that put a deemed amount of risk-weighted assets onto their balance sheet. The required amount of additional assets is meant to result in an increased capital requirement in the amount that was supposed to be “deducted from capital.” In fact, however, the resulting capital requirement is slightly different from what would result if the enhancement position were literally deducted from capital. In the spirit of international consistency, this discrepancy should be eliminated under the new Accord.

2.3. **Minimum Capital Requirements for Revolving Securitizations with Early Amortization Features**.

[6]See letter dated December 22, 2000 from the Bond Market Association to the U.S. Federal bank regulatory agencies regarding “Proposed Rules Concerning Capital Treatment of Residual Interests Retained In Asset Securitizations and Other Transfers of Financial Assets” (available on the Association’s Internet website).

The Association opposes the proposed “managed assets” approach to revolving securitization transactions that incorporate early amortization provisions. In our view, early amortization provisions (which are a standard feature in credit card and certain other revolving securitization transactions) represent a form of liquidity protection for bondholders, rather than constituting credit recourse to the banking organization that sponsors the securitization transaction. As such, we believe that any additional regulatory capital required pursuant to the managed assets approach would duplicate capital requirements already imposed on such sponsoring organizations for sale of assets with recourse.

Moreover, the specific terms and conditions of early amortization and similar liquidity provisions may vary among transactions, and may have different repayment priorities, structural features and operational characteristics. As a consequence, we do not believe that the imposition of a uniform capital treatment for all such provisions would be appropriate without a case-by-case examination of these differences.

We believe that alternative measures would be more desirable than the imposition of a uniform 10 or 20 percent risk weight in dealing with any special risks or contingencies posed by early amortization features. Such measures might include enhanced public disclosure of securitization performance. In this regard, however, we believe that existing disclosure practices are adequate. Banks that securitize credit card receivables in revolving master trusts are required, both by the governing documents for those transactions and by established market custom and practice, to provide monthly information to investors, rating agencies and other market participants that explicitly addresses factors bearing on early amortization risk. These data also constitute an appropriate base of information for use by banking regulators in supervising individual sponsoring organizations’ management of early amortization risks and related contingencies. The Association believes that these disclosure and supervisory practices are adequately supported by the current level of information that is generated and made available by bank sponsors with respect to early amortization provisions, and that the continuation of such practices is preferable to instituting a new capital charge against “managed assets.”

3. **Treatment of Investing Banks**.

3.1. **Rated ABS**. (paragraphs 525-526)

The Association strongly supports a ratings based approach for securitization positions. This is an important step forward in matching regulatory capital requirements to the true risk of assets. The Association advocates more gradients in the risk weighting grid and lower risk weights for some of the gradients included in the Committee’s proposal. However, even without those changes, the grid proposed by the Committee is a tremendous improvement over the current regime. The Committee should at least adopt that grid as proposed, but we hope the Committee will also enhance the grid. We expect

to submit additional materials to the Committee that will detail and support our suggested gradients.

At a minimum, the risk weight for securitization positions at a given rating level should never be higher than the risk weight for an identically rated conventional corporate exposure. In this connection, we note that the 150 percent risk weight proposed by the Committee for securitization exposures rated in the first rating category below investment grade is lower than the risk weight proposed by U.S. Federal bank regulators last year (200%), and we support that reduction. However, the 150% risk weight for securitization positions begins at a higher rating level (BB+) than the corresponding risk weight for corporate exposures (BB-), and the Association strongly opposes that discrimination against securitization positions.

The consultative package does not explain this difference, but we understand from discussions with staff that it may arise from a concern about the presence of greater systemic risk in securitization positions. For a number of reasons, the Association does not believe that this result can be correct.

- First, the Association believes that holding securitization exposures improves the granularity of a bank's portfolio, and that benefit should offset any increase in systemic risk. A large portion of securitization positions relate to retail (consumer) assets, such as residential mortgages, credit card receivables and auto loans. The Committee has acknowledged, "By its very nature, retail business is highly unlikely ever to worsen the granularity of a bank portfolio."[7] Even for ABS where the underlying assets are wholesale corporate exposures, the ABS position will by definition represent an interest in a pool that has inherent diversification, so that it is more likely to add to the granularity of the investing bank's portfolio than would an exposure to a single identically rated corporate obligor.

- Second, the ratings of asset-backed securities take into account likely sources of systemic risk in the underlying pool (such as geographic or industry concentrations), when those risks are considered material to the risk of the position.

- Third, available empirical evidence does not support higher risk weightings in connection with securitization positions with a given rating than for conventional corporate exposures with the same rating.

Recently available data from the rating agencies show that, if anything, overall risk in asset securitizations is less than in corporate securities. For example, consider the following:

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[7]Paragraph 427 of the *Consultative Document* on *The Internal Rates-Based Approach*.

- Moody's shows no defaults for ABS in its historical database from 1985 to the present, regardless of rating.

- S&P shows a single investment grade default, but this was the result of fraud.

- S&P shows some BB defaults but at a rate approximately 1/2 that of corporate BB exposures. S&P shows no defaults at the B level.

- Investment grade ABS transactions show approximately 1/3 the downgrade risk of corporate transactions over a five-year timeframe, and subinvestment grade transactions show approximately 80% of the corresponding corporate downgrade risk.

We urge the Committee to reconsider its risk weights in light of the highly positive experience in the asset securitization market.

Finally, for positions rated below investment grade and un-rated positions, the Association accepts that significantly higher capital is justified under the standardized approach. However, any risk weight that is applied should not result in capital requirements that exceed the required capital if the underlying assets were held on balance sheet.

3.2. **Unrated ABS**. (paragraphs 527-529)

The Association commends the Committee for including the look-through approach for un-rated securitizations in the January proposal. This is an elegant and prudent way of dealing with these transactions. We suggest a few refinements or clarifications:

- The last sentence of paragraph 527(a) says, "In the case of an indirect claim, all liabilities of the trust or special purpose vehicle (or conduit) that issues the securities are related to the issued securities". While it is correct that the special purpose entities involved in this type of transaction have limited activities and liabilities, there should be flexibility for some practical exceptions to what appears to be an absolute prohibition on "unrelated" liabilities. For U.S. transactions, the appropriate way to phrase this requirement (borrowing from rating agency requirements) would be that all parties entering into contracts with the SPE (other than the holders of the most senior asset-backed securities it issues) are required to promise not to file an involuntary bankruptcy petition against the SPE and that all parties with a contractual interest in the cash flows from the receivables should have agreed to an order of application of cash flows.

- Paragraph 527(b) says that the underlying assets "must be fully performing when the securities are issued." The Association is not certain what the Committee means by "fully performing," but we are concerned

that this standard is unrealistically strict. Even securitizations of liquidating pools of receivables generally permit some portion of the receivables to be delinquent up to some specified limit (such as 90 days) at the time of closing. In master trust structures, this cannot be avoided. Even if there were no delinquencies at the time of first issuance, there will always be some at the time of any subsequent issuance. If this paragraph is retained, it should be revised to provide flexibility to handle these types of situations. However, it will be very difficult to specify numerical limits that will be appropriate in all circumstances. We suggest that this paragraph be deleted as a specific requirement and that supervisory discretion be used to handle any transactions with inappropriate levels of non-performing assets.

- Paragraph 529 says that if the underlying assets have varying risk weights, then the look-through approach will assign the senior securitization position to the highest of those underlying risk weights. We believe it would be more appropriate to assign the senior securitization position a risk weight that equals the weighted average of the underlying risk weights. That would be the result if the investing bank held the underlying receivables directly, and we do not see why the result should be different under the look-through approach.

- The Committee should limit the use of the look-through approach to situations where no rating has been sought for the position, as opposed to situations where an external rating was applied for but not given due to credit risk.

4. **Treatment of Sponsoring Banks**.

4.1. **Comments on Proposed Treatment of Credit Enhancement**

4.1.1. Treatment of Second Loss Program Enhancements that are not Externally Rated

The Association thanks the Committee for including an approach for calculating the applicable risk weight for program credit enhancement by reference to the related underlying asset pools. Although we continue to believe that a full internal ratings based approach is an appropriate and preferred method for establishing minimum capital levels, the approach that the Committee has proposed appropriately recognizes the substantial first loss protections enjoyed by most program credit enhancements and provides an acceptable, temporary alternative to an internal ratings based approach for these exposures, subject to the following comments.

First, although not explicitly stated, based on our review of the Accord's description of conduit transactions, in particular the discussion set forth in paragraphs 39 through 42 of

the consultative paper, we believe that the Committee appropriately views seller-provided and other transaction level enhancement as first loss positions. We would appreciate a clear statement to this effect in the final Accord.

Second, we understand that a group of banks that sponsor multi-seller conduits will be submitting a comment that requests additional clarifications and modifications to the Committee's proposed approach. While those requests are not finalized at this writing, we support them in the form that we have most recently seen them.

4.1.2. Treatment of First Loss Program Enhancements

We do not believe that an automatic deduction from capital is appropriate for first loss positions provided by sponsor banks. Rather, we believe that the minimum capital requirements for first loss credit enhancement positions provided by conduit sponsors should be established based on the credit quality of those positions, not on the fact they are being provided by a bank as a conduit sponsor. Furthermore, we do not see any reason to treat sponsor-provided first loss positions differently than first loss positions provided by investors or, for that matter, originators.

First, linking the capital requirements to the credit risk of a position under an ERB or IRB approach directly serves the important goal of aligning required capital to actual risk. While the role a bank plays in providing credit enhancement may implicate other areas of concern for regulators, we do not believe these additional concerns in any way change the fundamental proposition that the risk of a position remains the same irrespective of who provides that position.

We believe that other areas of the regulatory framework provide safeguards to address non-credit related risk. For instance, were an originator to provide implicit recourse to prevent a transaction from defaulting, a regulator would have the ability to require that originator to return some or all securitized assets to its risk-based capital calculation. Prior to applying an IRB, a bank will be required to satisfy its regulators that its internal ratings system is sufficiently developed to assess the risks of potential investments. We believe that regulatory tools such as these are the more appropriate means of addressing additional "role" risks.

Second, we do not believe that the integrity of the capital system will be compromised by allowing reliance on an ERB or an IRB for the calculation of required capital for first loss credit enhancement positions. Under either approach, regulators must approve the entity that will be rating a particular position prior to that entity's being permitted to calculate the credit risk of that position. Furthermore, regulators will have the ability to satisfy themselves of the continued integrity of the system through supervisory review.

Third, because both rating agencies and banks take into account the relative subordination of a position when assigning a rating to that position, the increased risk of a first loss position will be reflected in the rating assigned to that position. We therefore do not believe that the level of subordination of a position should serve as an additional

distinction for determining regulatory capital, as it will be addressed in the ratings assigned to that position.

For these reasons, we believe that if a position is rated by an external rating agency or under a qualifying internal ratings system, the capital requirement should be derived from the standard risk weights assigned in the ERB. If a position is not rated, but a bank is qualified for the IRB approach, its internal rating of the position should apply.

If the Committee were not willing to allow a full IRB approach, we also propose an alternative that would allow a bank to use a qualified external rating agency's methodology to internally assign a rating to a first loss position which would be used to determine the required capital under the standardized approach. Most first loss positions are not assigned a rating by an external rating agency. Thus, to avoid higher capital requirements if an IRB approach were not permitted, a bank would have to incur additional costs and delays to have its first loss positions externally rated. We do not feel that such costs or delays need to be incurred if a bank itself is willing to apply an external rating agency's methodology to determine an assigned rating. We feel that there would be sufficient protection to the system provided through regulatory review of the proper application of this methodology by a bank's supervisors.

Additionally, we believe, at a minimum, the "look through" approach available for investors providing credit enhancement should also be available as an alternative for sponsor banks providing first loss credit enhancement.

4.1.3. Treatment of Sponsor Putting its own Assets into a Conduit

While we agree that a sponsor assumes the role of originator in certain respects when it transfers its own assets into a conduit sponsored by it, we do not believe that the role in which a bank provides a credit enhancement position should affect the required capital for that position as it does not affect the risk of that position. Therefore, for the same reasons discussed in Section 4.1.2. above, we believe that a sponsor/originator should not automatically be required to deduct from capital credit enhancement positions related to securitizations of its own assets. Instead we believe both an ERB and IRB approach should be fully applicable to these positions.

If the Committee were to reject this position, we believe that the final Accord should clarify that a sponsor/originator should only be required to deduct from capital that portion of credit enhancement that is available to cover losses on assets securitized by it. This would, of course, include any retained interest in the assets and any other transaction-specific credit enhancement positions of the sponsor/originator. We want to emphasize, however, that it should not include all program credit enhancement provided to the conduit by the sponsor. Rating agencies that rate the commercial paper of a multi-seller conduit (each, a "Multi-Seller Conduit") will require that originator/sponsor securitizations be structured to the same ratings level as all other transactions in the Multi-Seller Conduit. Therefore, because a program credit enhancement provider will

have the same benefit of this first loss protection in a securitization of its own assets as with any other transaction, we do not believe that the treatment of program enhancement should be affected by the fact that the sponsor has put its own assets into the conduit. At the very most, the deduction from capital should only relate to that portion of the program credit enhancement available to be drawn for losses on the sponsor/originator's securitized assets. For instance, if the sponsor provides a $10 million letter of credit as program enhancement but only $1 million could be applied to cover losses on its securitized assets, we believe that only $1 million should be deducted from capital. The balance should continue to be treated as though the sponsor had not securitized its own assets.

4.2. Comments on Proposed Treatment of Liquidity Commitments

4.2.1. Calculation of Required Capital for Liquidity Commitments

We have several comments relating to the calculation of required capital for liquidity commitments. First, we support the continuation of the current method of calculating required capital for liquidity commitments, under which the credit equivalent amounts of off-balance sheet items are multiplied by their applicable risk weight before the application of the related conversion factor. Second, we believe that an IRB approach should be available when determining the risk weight for the applicable off-balance sheet item.

Under the current capital accord, the credit equivalent amounts of off-balance sheet items are multiplied by the applicable risk weight in determining the minimum capital associated with the off-balance sheet item. For example, assume a 2-year commitment to make loans aggregating up to $1,000 to an OECD bank. Under the current regulatory scheme, the capital requirement calculation would be 50% x 20% x 8% x $1,000 = $8.00 (credit conversion factor x risk weight x minimum capital requirement x stated commitment). Although the consultative paper implies the continuation of this approach,[8] some readers have been uncertain as to whether the Committee is proposing to eliminate the risk weight factor from this calculation. If this were the case, using the same assumed commitment discussed above, the capital requirement calculation would be 50% x 8% x $1000 = $40.00 (credit conversion factor x minimum capital requirement x stated commitment), a change in current practice which would in our view be unwarranted and distortive.

The Association strongly believes that the regulatory capital requirement for commitments must continue to take into consideration both the likelihood of draw under a commitment (the conversion factor) and the risk of default if drawn (the risk weight). Assume a 1-year commitment to a Multi-Seller Conduit to fund $1000. Further assume that this commitment relates to an asset pool that is rated AAA. The on-balance sheet position of this commitment would be assigned a risk weight of 20% under the proposed rules. Therefore, the regulatory capital requirement calculation for the unfunded commitment under the Committee's proposal would be 20% x 20% x 8% x $1000 = $3.20 (conversion factor x risk weight x minimum capital requirement x stated commitment). Assuming the Committee accepts our proposed 10% conversion factor discussed in Section 4.2.2., below, under the Association's proposal below, this calculation would be 10% x 20% x 8% x $1000=$1.60

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[8] For instance, paragraph 55 of the Asset consultative paper says that liquidity enhancements may be "converted at 20% and generally risk-weighted at 100%." (emphasis added). The use of the term "generally" clearly implies that sometimes these commitments would not be risk-weighted at 100%. The only reason we can see why that would happen is because the risk-weighting on the underlying assets would apply.

Eliminating the risk weight factor from the calculation for regulatory capital for commitments eliminates the mechanism for assessing the underlying credit risk of loss to a bank associated with funding a liquidity commitment to a Multi-Seller Conduit. This results in a regulatory capital requirement that could be significantly higher than the overall risk of the bank's position, for positions rated A- or above, and significantly lower than the overall risk of the bank's position, for positions rated BB+ and below. Either result moves the regulatory system in the opposite direction from its stated goal of aligning minimum capital with the risk of a position.

We believe that an IRB approach should be available for determining required capital for liquidity commitments. If a full IRB approach is not available to a bank for any reason, we believe banks should be permitted to generate ratings by internally leveraging the rating agencies' models. So long as banks are able to input certain key factors that are typically developed as part of the structuring process but are not necessarily fixed model inputs (*e.g.* discounts associated with maturity mismatches between the life of the vehicle and the life of the underlying pool), we believe this could be a reasonable approach that would be manageable from an implementation standpoint.

If a bank were unable to use either of the above approaches, we encourage the Committee to allow the application of a "look through" approach (with appropriate modifications) for determining required capital for liquidity commitments. Among others, we would suggest the following modification to the look through approach when used to determine the appropriate risk weight for a program liquidity facility. One requirement for a commitment to be treated as a liquidity commitment under the proposed Accord is that the facility is not subordinate to the interests of the ABCP holders—in other words, its interest must at least be a *pari passu* interest. Because the credit risk for both rated and unrated positions that are pari passu is identical, we believe that the unrated program liquidity facility should be "deemed" to have the same risk weight applicable to the long-term equivalent rating of the short-term rating on the ABCP for purposes of calculating required capital.[9]

4.2.2. Appropriate Conversion Factor for Commitments

For reasons discussed below, the Association believes that the assignment of a 20% conversion factor for short-term commitments overstates the risk of these commitments and believes that a more appropriate conversion factor for short-term commitments should not exceed 10%.[10] While the Association feels that a 20% conversion factor is too high for even corporate exposures, we particularly feel that structure and purpose of liquidity commitments to Multi-Seller Conduits reduce substantially the risk that these

[9] We acknowledge that the rating of the ABCP is in part based on the availability of the liquidity commitment to cover market disruptions and payment mismatches. However, the presence of asset quality tests in the liquidity commitments will limit their availability to being drawn only when sufficient performing assets are available to back their funding. Therefore, although a liquidity commitment bears ABCP market disruption risk and cash flow mismatch risk, it does not bear the risk of providing credit enhancement to support the ABCP. The credit risk of both positions, once drawn, is the same.

[10] We are not commenting on the conversion factor for commitments of longer than a year in this paper.

commitments will actually be drawn in a particular transaction. In particular, asset-quality tests built into liquidity commitments and structural components of related underlying securitization transactions serve to protect commitments from funding against non-performing assets. Thus, the risk of exposure of a commitment is effectively reduced to the extent that the underlying assets default. In the unlikely event that a commitment to a Multi-Seller Conduit is ever drawn, the funded commitment would be supported by performing assets. Additionally, at the time of draw, capital would be maintained against the amount of the drawn commitment.

First, liquidity commitments[11] are unlikely to be drawn in the ordinary course as they are back-up funding sources for the highly stable ABCP market, which is the primary funding source for Multi-Seller Conduit transactions. Because the ABCP market has historically been very stable, the likelihood of draws under an outstanding liquidity commitment to address market disruptions is minimal. Even in the turbulent capital market conditions in the fourth quarter of 1998 and the period of investor concerns over potential Year 2000 issues, the Association is not aware of any draws on liquidity commitments to Multi-Seller Conduits due to market disruption or general inability to access the ABCP market even when some highly rated corporate borrowers were unable to access the corporate commercial paper market.

Additionally, liquidity commitments are not generally susceptible to draws for economic reasons when commercial paper rates spike, as the conduit administrator, not the customer, determines when to draw on liquidity commitments in accordance with the terms of a transaction. Because increased commercial paper costs are generally passed through to the customer, the conduit administrator, who is also typically a liquidity provider, does not have the same incentive that a customer would to fund through the liquidity commitment. Because customers are typically charged an increased margin for fundings under a liquidity facility, this option represents an unattractive funding source which, if utilized by a bank, would likely cause a client to seek alternative forms of financing.

Second, Multi-Seller Conduit transactions have structural features designed to allow an administering bank to maintain the stability of a receivables pool and mitigate the effect of defaults. These structural features include frequent pool reporting requirements, amortization triggers for revolving facilities that permit the liquidation of a receivables pool once it fails to meet specified performance requirements, audit mechanisms that allow an administering bank to inspect its customer's operations and ensure proper servicing of the receivables pool and the ability when warranted of an administrator to take control of payment systems to provide for direct payments to the Multi-Seller Conduit, alleviating bankruptcy and fraud risk of its customers.

Third, liquidity commitments to Multi-Seller Conduits employ asset-quality tests designed to ensure that the level of an outstanding commitment at any time does not

[11]References to "liquidity commitments" in this section should be interpreted to apply equally to "parallel purchase commitments" discussed more fully in Section 4.2.3., below.

exceed the availability of performing assets. Such tests typically involve a comparison of the level of commitment to all or a specified percentage of the dollar amount of eligible non-defaulted receivables and cash proceeds balances. As defaults on a receivables pool increase, the availability under the committed facility decreases. In essence, these commitments are based on the quality of the underlying assets and effectively reduce the risk exposure of a commitment to the extent that they relate to the non-performing portion of the related pool.

Fourth, the credit quality of the assets that would actually be funded under a draw on a liquidity commitment is enhanced by the diversity and isolation of the underlying receivables pools. If called upon to fund a commitment to a Multi-Seller Conduit, the liquidity provider will be repaid from payments on a pool of receivables with a number of obligors, concentrations of which are typically limited in a given pool. Thus the deterioration of the credit quality of any one obligor typically has a minimal impact on the credit quality of the related receivables pool. Banks are also generally isolated from the credit risk related to the originator of receivables by their transfer to a bankruptcy-remote entity prior to funding through the Multi-Seller Conduit. Furthermore, because the underlying receivables pools often liquidate quickly, the length of exposure to any one obligor is often minimal. Although we understand from discussions with staff that they are concerned about the presence of greater systemic risk in securitization positions, as discussed in Section 3.1, above, credit enhancement is sized to absorb any potential increased systemic risk.

Fifth, liquidity commitments in Multi-Seller Conduits have the benefit of the first loss position provided at the customer level. Credit enhancement is sized to absorb losses in securitization transactions. Even under a new regulatory capital scheme, banks will continue to hold capital against program credit enhancement (whether funded or unfunded) at the required risk weight. Thus capital is already being maintained in the system for the credit risk of securitization transactions.

Sixth, the utilization history of liquidity commitments (including parallel purchase commitments) of the Multi-Seller Conduits administered by certain sponsoring banks supports the argument in favor of a continued exemption from capital requirements for short-term commitments. The Association understands that a group of sponsoring banks may provide data on this point to the Committee.

Because of their short term and structural features that effectively reduce the credit risk and risk of draw under these commitments, as supported by the historical draw information presented above, the Association believe that the assignment of a 20% conversion factor for Short Term Commitments overstates the risk of these commitments and believe that a more appropriate conversion factor for Short Term Commitments would be 10%.

4.2.3. Draw Limitation Requirement for Liquidity Commitments

The Association believes that the requirements limiting the circumstances under which a commitment can be drawn that are set forth clause (d) of paragraph 54 of the consultative paper are unnecessary and sufficiently vague as to cause confusion and should be eliminated. Having made this comment, we want to make clear that we support what we believe to be the intent behind the inclusion of this provision—that there should be a distinction between liquidity, on the one hand, and credit enhancement and direct credit substitutes, on the other hand.

First, we would appreciate if the final Accord would clarify that the limitation that a facility "not act as a permanent revolving facility" is not meant to preclude liquidity treatment for short-term commitments that are renewed annually. We believe that so long as a short-term liquidity commitment is subject to full credit review prior to annual renewal, it would be inappropriate to consider it a "permanent revolving facility". The fact that one or even multiple renewal requests are granted does not mean that anything less than a full credit review was done prior to such renewal. Nor does any one renewal suggest that the next request will automatically be granted. In fact, banks do refuse to extend their liquidity commitments from time to time. As the Committee acknowledges in paragraph 47 of the consultative paper, a commitment of one year or less, as opposed to a longer-term commitment, genuinely reduces a bank's potential credit risk by reducing the duration of its commitment. At a minimum, if a regulator does not feel that a bank is conducting an appropriate annual review of the credit risk of a commitment, the end result should be that the commitment be treated as a long-term commitment not as credit enhancement, as paragraph 54 of the consultative paper could be read to suggest.

Second, we are also concerned that the draw limitation requirement could be interpreted to mean that only commitments that permit a draw in the event of a general ABCP market disruption could be considered liquidity commitments. We do not think that would be an appropriate interpretation. Rather, we believe that commitments so limited could be considered unconditionally cancelable as the Committee suggests in paragraph 46 of the consultative paper, thus theoretically qualifying for a 0% conversion factor. Thus, any draw limitation requirement for liquidity commitments must be broader than this limited circumstance but narrow enough to distinguish between liquidity, on the one hand, and credit enhancement, on the other hand. We believe that the appropriate distinguishing limitation is the presence of a reasonable asset quality test that assures against drawing funding against bad or deteriorating assets as specified in subparagraph 54(f) of the consultative paper.

We note that there are a number of reasons for drawing on a liquidity commitment that are not related to pool performance issues which should not cause the ineligibility of a commitment as liquidity. These include conduit management, administrative convenience and client and investor relationship issues, including permitting temporary funding to cover small exposures, providing short-term (typically one day) swingline funding for exposures and permitting reallocation of commercial paper maturities.

Also, we believe that any limitations on draws beyond the asset quality test limitation unfairly discriminate against asset-backed liquidity commitments. So long as a liquidity commitment does not provide credit enhancement, it is, generally speaking, the functional equivalent of a corporate back stop facility. There are no comparable criteria for usage of corporate commercial paper back stop facilities.

For these reasons, we believe that the requirements limiting the circumstances under which a facility may be drawn and requiring that a facility may not act as permanent revolving funding more fully specified in clause (d) of paragraph 54 of the consultative paper should be eliminated from the proposed rules governing the characterization of a commitment as liquidity.

4.2.4. Scope of Treatment for Liquidity Commitments

The Association would like to have the scope of treatment for liquidity commitments clarified in two respects in the final Accord. First, we note that the discussion of liquidity commitments in the Consultative Document occurs solely in the context of commitments of a bank as a conduit sponsor. As a matter of course, a portion of a liquidity commitment for a particular transaction may be syndicated to several banks other than the conduit sponsor. To avoid any confusion as to the scope of the application of the rules governing liquidity commitments, we believe that the final Accord should make clear that liquidity treatment applies to all banks providing liquidity to a conduit.

Second, it is also a common market practice that a bank providing a liquidity commitment for a particular transaction enters into two interrelated commitments. The first commitment is the liquidity commitment as contemplated in the consultative paper. The second commitment is an equal parallel commitment that runs directly to the transferor of the assets into the conduit. The parallel commitment is entered into so that the conduit itself does not have to make a commitment to fund additional purchases of assets from time to time in a particular transaction. Instead, it is given the option to have the liquidity provider fund those draws directly.

The inclusion of a parallel commitment allows a conduit to do directly (fund through a liquidity provider) what it otherwise would do indirectly (draw on liquidity). The decision as to whether to fund through liquidity or a conduit is generally at the conduit's discretion, not the client's. Further, like a liquidity commitment, a parallel purchase commitment will fund on against performing assets and will represent a *pari passu* interest with liquidity draws on the cash flows from a particular transaction. Finally, to the extent that a bank's liquidity commitment is drawn, the availability under the parallel commitment is correspondingly reduced. Functionally, the dual liquidity/parallel commitment is essentially one commitment to a transaction that can be drawn in two different ways. We believe that the final Accord should make clear that (x) liquidity treatment applies to parallel purchase commitments that function in the same way as liquidity commitments and (y) a bank need only hold capital against the stated amount of

the liquidity commitment since at no time does available commitment amount under these related commitments exceed the stated amount of the liquidity commitment.

4.3. Proposed Disclosure Requirements

We read the Consultative Document's disclosure requirements for SPVs as potentially applying to Multi-Seller Conduits. If this is the intent of the Committee, we feel strongly that the level of detail not only greatly exceeds that which is necessary to assure transparency or currently required by the market, but also could serve to overshadow the material information relevant to investors in ABCP. Overall parameters, such as credit and investment criteria and structure requirements for transactions done in a conduit are the relevant material disclosure for ABCP investors. The sheer volume of material that would be generated with the level of deal-by-deal disclosure proposed could actually serve to reduce rather than increase transparency. Furthermore, we feel that current bank and securities regulations, accounting and other required disclosures provide investors and other interested parties with all material information on the activities of a Multi-Seller Conduit. Finally, we note that Multi-Seller Conduits function like a bank or other lending institution that provides funding to a number of customers. We believe that more general disclosure such as that required for a bank is therefore more appropriate than the specific disclosure required for a particular originating entity.

5. Synthetic Securitizations.

Synthetic securitizations represent modern risk management techniques that allow institutions the flexibility to use tranching to disaggregate risks associated with credit portfolios. They allow institutions to transfer various risk positions in either funded or unfunded form to market participants, depending on market conditions. While these transactions represent a confluence of other risk mitigation techniques—including credit derivatives, credit–linked notes, guarantees and components of traditional securitizations—we believe that a holistic approach to synthetic securitizations as a distinct class of innovative risk management transactions is appropriate. Alternatives that would simply assign regulatory capital charges to individual components of a synthetic securitization would result in an aggregation of capital charges and impede further development and innovation of risk management techniques.

Instead, we recommend a hybrid approach that: i) identifies certain components of synthetic securitizations and treats them consistently with their treatment elsewhere under the Basel capital adequacy framework, while ii) recognizing the benefits of the risk measurement and quantification process associated with either obtaining qualified external rating agency evaluations of various risk positions within these structures or, for qualifying institutions, an internal ratings evaluation. Such an approach could be based on a small number of basic requirements, would be simple and practicable to apply and would accommodate institutions operating under the standardized approach. The Association is further considering synthetic securitization treatment under the IRB

approach and looks forward to commenting in the near future on the Committee's work on this and other aspects of the synthetic securitization proposals when completed.

5.1. **First Loss Positions.**

Consistent with our position in Sections 2.2.1. and 2.2.2. of this letter, we believe that the treatment of first loss positions in synthetic securitizations (regardless of their format) should follow that applied to traditional securitizations. In particular, we believe that there should be no difference in the capital treatment for the holder of a first loss position in a synthetic securitization based on whether it is an investing bank or an originating bank. This is especially the case where external ratings, with corresponding risk weights, exist for such positions. This potent capital charge is widely recognized as a prudent supervisory tool and we believe it eliminates in great part, any need to require a threshold level of risk transference or a restriction on the size of the first loss position, especially when considered in conjunction with our other suggestions presented below.

5.2. **Note Treatment**.

Traditional synthetic securitizations have one or more mezzanine note positions senior to the first loss position and subordinate to the senior risk position. In those cases where notes are sold to third parties and cash or eligible collateral is held in an SPV for the benefit of the originating/beneficiary institution, we recommend a 0% capital charge be assigned to the originating institution for that exposure, regardless of the position of the exposure. This is consistent with the current Basel Accord and current practice, and recognizes that the risk of this position has been transferred from the originating institution to the note holders.

5.3. **Super-Senior Risk Positions**.

In recognition of the Committee's ratings-based approach and the need for specific recognition of synthetic securitization transactions, we believe it would be appropriate to recognize the implied credit quality of the most senior risk position (a so-called "super-senior" position) in synthetic securitization transactions, whether or not a swap covering this super-senior position has been entered into by the originating bank.

We support making such recognition of implied ratings on un-hedged super-senior risk positions subject to two conditions. First, the retained first loss position must be deducted from capital by the originator. The next most senior note position must be demonstrably legally subordinated to or *pari passu* with such super-senior position, and must achieve the highest possible rating (*e.g.*, AAA or Aaa) from at least one recognized external rating agency. Second, the originating bank must demonstrate the ability to evaluate the risk exposure of the retained positions and to provide adequate capital support for them via a functioning internal risk rating system and application of a credible economic capital assessment process.

We believe these recommendations, combined with the formidable structural criteria referred to above, can form the basis for a workable approach to synthetic securitizations that will allow banks internationally to manage credit risk on a more economic basis. Consistent with our comments on other aspects of securitization transactions, we believe that as a result of our view that a bank's role in a securitization does not affect the risk of its position with respect thereto, this treatment of senior positions should be applied to both originating and investing institutions. Consistent with our position in Section 2.2.2 above, we further believe that an originating bank securitizing assets and retaining a first loss position in a synthetic transaction larger than the on-balance sheet capital requirement should not be required to hold more capital post-securitization than it held prior to the securitization. Finally, in transactions in which these strict criteria have been met, we believe that a further condition requiring that the deducted retained first loss position be no greater than a reasonable estimate of the losses on the portfolio would be unnecessary to achieving a sound capital treatment of an un-hedged super-senior position and inappropriately economically distorting.

Where a super-senior position has been hedged with a third party, we believe that such position should carry a 0% risk weight due to the outstanding, market-validated credit quality of that tranche. In addition, we recommend that the implied credit quality of an un-hedged super-senior position be recognized fully and risk weighted pursuant to the general capital rules and the nature of the portfolio securitized. In appropriate cases (*e.g.*, a pool containing sovereign assets) the risk weight of an un-hedged super-senior position should be 0%, but, in any event, the risk weight of such a position should not exceed the 20% weight accorded to AAA exposures generally in the Accord.

5.4. **The Use of "w" with Credit Derivatives**.

As the Committee has noted, the treatment of synthetic securitizations is closely related to the general treatment of credit derivatives used to mitigate credit risk. We wish to comment here on one particular aspect of that related topic. The Association opposes the use of "w" to limit the effect of credit derivatives provided by private entities on risk weights. The minimum operating requirements that the Committee has proposed are sufficient to support a presumption that a credit derivative that is designed to fully guarantee an exposure will have the effect of completely substituting the protection seller's credit risk for the risk of the underlying obligor.[12]

6. **Treatment of Implicit and Residual Risks Arising from Securitizations** (paragraph 545)**.**

The Committee has indicated that, upon concluding further work relating to implicit recourse and residual risks, the Committee may impose an *ex ante* minimum capital charge for securitization transactions to address implicit and residual risks. The

[12] The Association is commenting separately on the credit risk mitigation provisions of the proposal (including the "w" factor), with particular emphasis on repurchase, securities lending and other funding transactions.

Association strongly opposes any such incremental capital charge. We believe that the other elements of the proposed Accord require more than adequate capital in connection with securitizations. This is another instance where the Committee's conservative approach to securitization threatens to handicap this safe and beneficial market with capital requirements that have no parallel in other bank activities.

7. **Other Comments**.

7.1. **Adoption Process for the Accord**.

Because of the importance of the new Accord, the Association is concerned that an artificial deadline is causing very complex matters to be handled with too much haste. We believe that it is imperative that we and other concerned parties be able to comment on concrete proposals. As the approach relating to securitizations generally remains vague (including the internal ratings-based approach discussions and proposals for synthetic securitizations), we believe that another draft should be circulated for comment prior to issuing final rules.

7.2. **National Implementation**.

After the Accord has been adopted and any particular nation has completed its internal process for adapting and adopting the Accord, we believe a minimum of a two year transition period should be allowed in order to transition deal structures appropriately and to have time to have internal systems approved for an internal ratings based approach.

8. **Conclusion**

Again, the Association appreciates the opportunity to provide comments to the Committee on these important proposals. Should you have any questions or desire further information regarding any of the matters discussed herein, please do not hesitate to contact George P. Miller, Association Deputy General Counsel, at 212.440.9403.

Sincerely,

/s/
Jeffrey Mayer
Bear Stearns & Co., Inc.
Chairman - Mortgage and Asset Backed Securities Executive Committee

/s/
Jeffrey A. Perlowitz
Salomon Smith Barney, Inc.
Vice Chairman- Mortgage and Asset Backed Securities Executive Committee

cc: Docket No. 00-06, Office of the Comptroller of the Currency
Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System
Robert E. Feldman, Executive Secretary, Federal Deposit Insurance Corporation

Manager, Dissemination Branch, Records Management and Information Policy,
Office of Thrift Supervision