



IBT

台灣工業銀行
Industrial Bank of Taiwan

Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 BASEL
Switzerland

July 31, 2003

Re: Comments on the New Basel Capital Accord

Dear Sirs,

We are pleased to submit herewith our comments on the Third Consultative Paper with respect to the New Basel Capital Accord, concerning the **capital treatments for Securitisation**. We shall greatly appreciate it if you can provide further clarifications and take into consideration our concerns before finalizing Basel II.

1. IRB Approach

Originating banks must deduct all positions that fall below the K_{IRB} threshold.

2. Standardised Approach (Capital Treatment for Securitisation)

| Securitisation Exposure | Originating Bank | Investing Bank |
|----------------------------|--------------------------|---|
| Rated non-investment grade | All positions: Deduction | BB+ to BB-: 350% B+ and below: Deduction |
| Unrated | Deduction | Deduction |

3. Simplified Standardised Approach (Annex 9 of CP3)

A bank under this approach should not offer credit enhancement, liquidity facilities or other financial support to a securitisation. In other words, only

investing banks can adopt Simplified Standardised Approach, under which the risk weight is 100%. Originating banks, however, have to adopt either IRB or Standardised Approach.

Introduction

By way of background, Industrial Bank of Taiwan is an investment bank incorporated in Taiwan. Established in September 1999, the bank engages in direct investment, corporate lending and various financial services through our subsidiaries in securities and investment trust businesses. The bank is supervised by the Central Bank of China and the Ministry of Finance in Taiwan.

In February 2003, our bank successfully launched Taiwan's first asset backed securitization – the IBT CLO Trust Certificate. As an originator, the bank put forward for securitization a portfolio of corporate loans amounting to NT\$ 3.59 billion. The deal consists of a senior tranche of NT\$ 2.7 billion and a subordinated tranche of NT\$ 827 million. The bank bought back the subordinated tranche for credit enhancement.

Asset securitisation is regarded as an important instrument to improve asset/liability management of banking institutions and to expand the scale of Taiwan's financial market. The supervisory authorities and the banking industry in Taiwan have been counting on its success to foster a stable financial and economic environment. However, the development of asset securitisation in Taiwan is at an infant stage, requiring support and time for its maturity.

Challenges facing emerging markets for securitisation

Asset securitisation is at its initial stage of development in Taiwan as well as in many other emerging countries. The lack of sophisticated investors and the short history of securitisation in these countries have brought great challenges to banks involved in the market.

Originating banks usually have to buy back the subordinated portion in a securitisation due to lack of liquidity and to enhance the credit of the senior portion. If a liquid market exists for the subordinated securities, there will not be so much concern for originating banks after all. However, it will take quite a long time before such a liquid market to develop. Meanwhile, BIS ratios for

originating banks under standardized approach will drop, unfairly punishing originating banks. Though IRB approach in this respect offers a more favorable capital treatment for securitisation, most banks in emerging markets are small in capital size and thus unlikely can adopt the IRB approach in the first place. In addition, it is often the case that an originating bank will exercise its clean-up call option (to convert its investment in subordinated tranche into loan asset) when the senior tranche of the securitisation is redeemed. The BIS ratio increases after the call option is exercised even though the risk exposure for the originating bank remains the same. In our opinion, this inconsistency for the capital treatment under standardized approach should be reviewed thoroughly.

Furthermore, securitisation deals in emerging countries are subject to stricter rating reviews given the historical data required by the rating agencies are often unavailable. The ratings would be further downgraded if international rating standards (considering sovereign risk) are adopted upon the implementation of Basel II. Under such circumstances, unfavorable credit ratings will substantially increase the costs of issue, further undermining the development of securitisation.

Securitisation market, on the other hand, has entered a mature stage in developed countries (U.S. and Europe) after almost four decades of development. A liquid market well exists for subordinated certificates from securitisation. Even junk bonds have been well received by a certain big pool of investors. Guarantees from government agencies have helped the issue of many securitisation products. In short, the securitisation markets in these countries are active and mature. We believe, substantial support and time from all parties concerned have contributed to the successful development of securitisation in developed countries.

Concerns and Requests

To foster a fair and favorable environment for the development of securitisation in emerging markets, we therefore ask the Committee to consider the followings before finalizing Basel II:

1. to postpone the implementation of the capital treatment for securitisation in Basel II by offering a grace period to emerging countries so as to help them develop a mature securitisation market. The length of the grace period can be determined based on the experience of securitisation development in

developed countries. We shall also appreciate it if the Committee can provide us related information on developed countries .

2. to bestow national discretion on supervisory authorities for the capital treatment for securitisation under standardised approach.
3. As most banks in emerging countries will adopt the standardized approach initially instead of the IRB approach in assessing credit risks, it is recommended that during grace period mentioned in Item 1 the capital charged for assets under securitisation does not exceed the charge before the securitisation. It is further recommended that a bank operating under the Simplified Standardised Approach can also assume the role of an originating bank for securitisation.

Should you require further data or explanation on our point of view expressed in this letter, please do not hesitate to contact us. This letter has been copied to our supervisor: the Central Bank of China, the Bureau of Monetary Affairs of the Ministry of Finance.

Yours Sincerely,

Kenneth C.M.Lo
Chairman & CEO

3rd Floor,97,Sung-Jen Road

Taipei, Taiwan

Tel:886-2-2722-8801

Fax:886-2-2345-1102

[URL:http://www.ibt.com.tw](http://www.ibt.com.tw)

E-mail:Kenneth@ibt.com.tw