



13 March 2013

Mr. Wayne Byres
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Basel Committee on Banking Supervision
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Dear Mr. Byres,

DB's response to the Basel Committee on Banking Supervision on revisions to the securitisation framework

We welcome the opportunity to provide feedback on the Committee's proposed revisions to the securitisation framework.

The securitisation markets have been subject to many changes in practice and regulation in recent years. There is a broader question around the combined effect these changes have had on the diversity of funding sources available, and the role securitisation plays as a funding source in the wider economy. That said, we agree with the Committee's objective that further measures be taken in order to address cliff effects, making the securitisation framework more sensitive and reducing the reliance on external ratings.

Having studied the proposal and after undertaking our own internal analysis, our main concern with the proposal is that the resulting capital charges are not in line with the capital charges for the underlying portfolio pre-securitisation. Left unchanged, the proposed rules would have significant costs, not just for the viability of the securitisation business but also in the broader economy. The proposed modified supervisory formula approach (MSFA) calibration would substantially reduce the incentives for banks to participate in securitisations as investors and may have a severe impact on the securitisation market and the availability of affordable credit to the wider economy. Similar conclusions could be drawn for the other revised approaches under both hierarchies.

We propose, therefore, that the BCBS use the current supervisory formula approach (SFA) as the primary method for internal risk based approach (IRBA) banks and that the BCBS place an increased focus on the adequate calculation of the IRB capital requirements for the underlying pool of securitised assets (KIRB). This approach would meet the Committee's objectives of less reliance on external ratings and high risk weights for senior notes if the pool quality is too low relative to the size of credit enhancement and it incorporates maturity into KIRB calculations. It would also bring greater consistency amongst regulatory standards as it is in line with the non-securitisation IRBA framework and the recently published US Basel III Notice of Proposed Rulemaking.

Moving SFA to the top of the hierarchy is, however, only feasible if there is sufficient time for servicers to enhance reporting standards and sufficient time for banks to develop the required IRB rating systems. A grandfathering clause for transactions that are originated prior to the start date of this framework is essential.

While the revision is focused on the banking book, there is inevitably an impact on securitisations in the trading book. This is because standardised rules in the trading book explicitly reference the approaches used in the banking book. For example, there is a cross-reference in place for the



floor calculation for the Comprehensive Risk Measure. In order to avoid unintended consequences from the revision, we suggest extending the upcoming QIS to include the impact on the trading book.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'A. Procter'.

Andrew Procter
Global Head of Compliance, Government and
Regulatory Affairs



ANNEX I - Executive summary

A) Economic impact

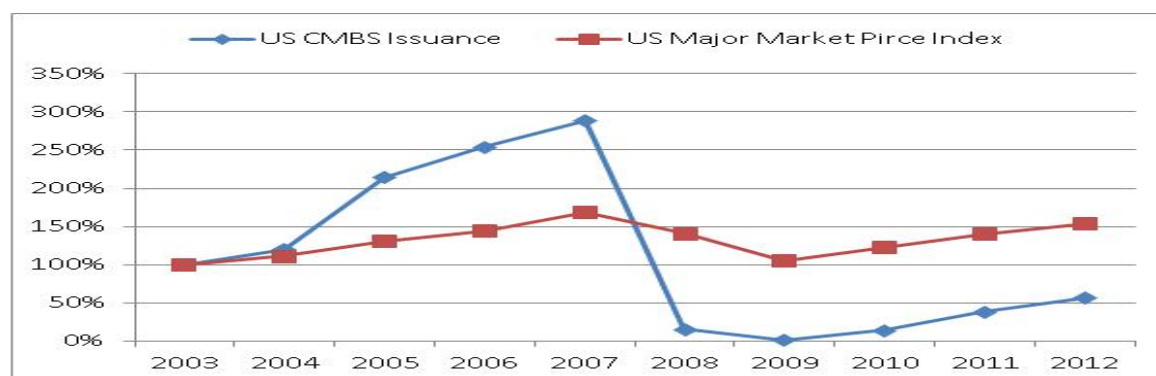
The securitisation markets have been subject to many changes in recent years. Some of these changes occurred organically through the work of various industry groups, issuers and investors. The reemergence of the commercial mortgage backed securities (CMBS) market in the US has provided the best evidence that changes designed and implemented by market participants can and have addressed past structural problems and corrected many of the issues which were at the core of the problems in the sector in the mid-2000s.

Recent progress notwithstanding, the need for additional regulatory changes has been recognized not only by the regulators and central banks in the EU and US but by investors. Investors have assumed that regulators would work hand in hand with market participants to protect the quality and stability of the securitisation market without unnecessarily hindering the functionality of these markets. We are, however, concerned that the BCBS will disproportionately impact market functionality.

We believe that the proposed changes would materially impact the viability of the securitisation business and damage the broader economy. Given the large number of assets and markets which benefit from securitisation, for the purpose of simplicity we will briefly review the broader potential impact through two of the largest non-residential asset classes: US commercial mortgages and the US auto loan market.

The larger of the two markets and the one which would also suffer most if the proposed changes were implemented is the commercial real estate market. In short, by virtue of the fact the capital charges for a CMBS transaction are not consistent with the charges for holding commercial mortgages, the result will severely erode the availability of financing and increase borrowing costs for owners of commercial real estate. This will not only effect owners but the negative corresponding effect on property values will hamper the ability of the banking system (especially regional and community banks) to improve capital ratios. The risks are as acute as in both the US and European commercial real estate markets, the balance of securitised and balance sheet loans maturing over the next few years totals hundreds of billions.

As shown in the chart below, the reemergence of a strong new issue CMBS market in the US has contributed to a near complete recovery of commercial property values in major markets. This comes after approximately a 40% decline in average prices between 2007 and 2009 and the complete collapse of the new issue CMBS market. Pre-crisis, securitisation funding played an important role in expanding the size of the lending market which serves as a major source of investment for not only the banking industry but insurance companies as well.

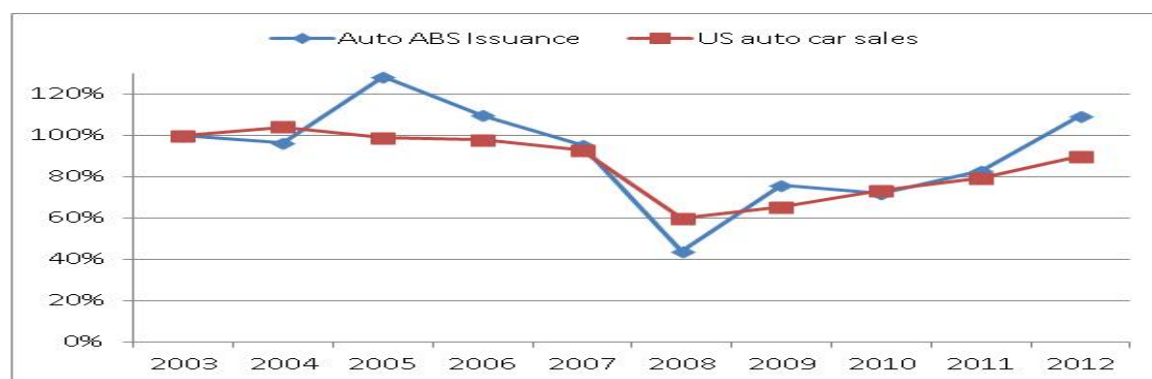




Aside from the collective financial impact on banks and the very severe impact on CMBS issuance, we also would expect a meaningful loss of jobs. In the EU, the commercial real estate industry employs 4 million people and contributes approximately €300B to GDP.¹ In the US, the immediate impact would come from CMBS lenders, and the many service providers to the industry such as accounting firms, law firms, servicers, rating agencies, and technology companies which provide analytic and information services. However the related downward pressure on property prices would negatively impact many others.

Evidence of the positive benefits of having a healthy securitisation market can be found in a recent survey of global real estate investors, who collectively manage assets of over \$4 trillion. They ranked four US cities (NY #1, San Francisco #3, Washington DC #4, Houston #5) among the five most attractive markets globally for investment. The stability of asset values which result from the stabilizing impact securitisation has on these markets is a major reason why they are so attractive to global investors. In the EU, the lack of a vibrant new issue CMBS market is one reason why the recovery of commercial real estate (CRE) market has languished compared to the US market.²

The consumer debt market is more diverse but it exhibits similar trends to those described in the CRE/CMBS markets. In the US asset backed securities (ABS) market, issuance of deals backed by prime and subprime auto loans is the largest segment of the market. Over the past ten years, the number of cars sold in the US has exhibited nearly a perfect correlation to the balance of related ABS issuance. As almost every purchase of a car in the US requires financing the securitisation is an important and sizable source of financing, intuitively it follows that the ability of lenders to securitize assets drives vehicle sales. One of the main reasons that securitisation remains a primary funding source for issuers is the cost advantage it offers compared to alternative sources. For example, last year Ford Credit (the largest auto ABS issuer in 2012), was able to sell triple-A notes in its US public retail ABS transactions at a weighted average spread of 9 to 22 bps over the relevant benchmark. This is substantially lower than the cost of its unsecured corporate debt which were offered at spreads of 199 to 338 bp over the relevant benchmark. (fn: Ford Credit 10-k filing, December 2012).



Apart from risking a renewed decline in underlying asset values, the proposed rules also endanger the liquidity institutional investors currently access in the secondary securitized markets. Significantly higher capital costs will cause dealers to reduce inventory levels and impact their ability to provide liquidity to markets. For fixed income market participants facing unprecedented low yields in sovereign bond and corporate markets, securitized bonds have become even more important. The lower overall market liquidity will cause buyers to price in larger liquidity premiums for all securitised products which will harm the banks, insurance companies, government and corporate pension funds, university endowments and the millions of employees, retirees and shareholders that depend on the returns generated by investments in those products.

¹http://www.epra.com/media/EPRA_Real_estate_in_the_real_economy_infog1_1354797656783.pdf

² <http://afire.org/sites/default/files/pdf/press/2013-foreign-investment-survey-pr.pdf>

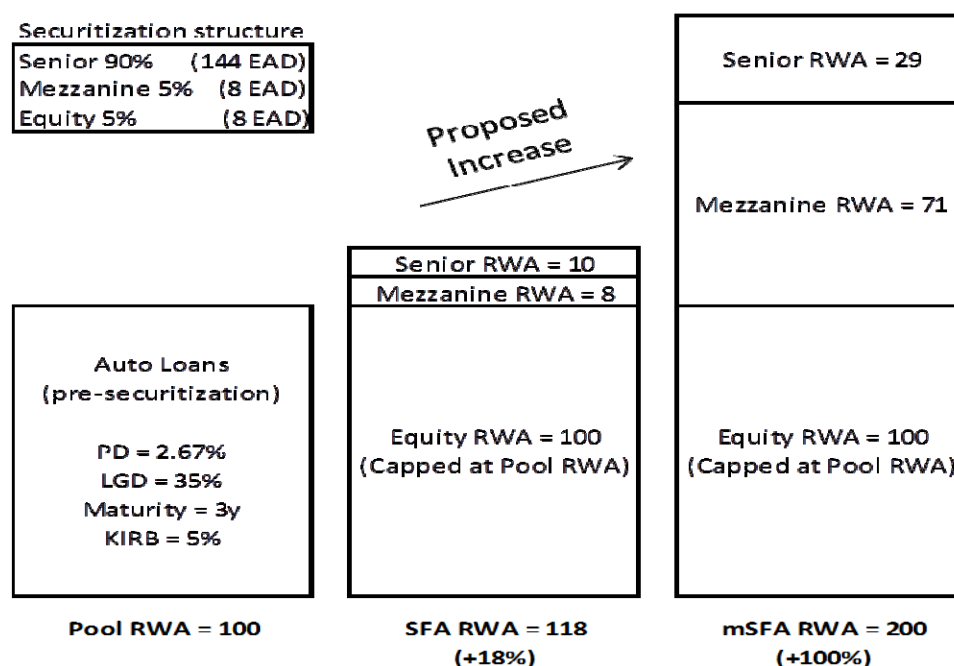


In some cases buyers may disappear from the markets as they face not only much less liquidity but in some cases higher capital costs. In the ABS space, in particular, the additional financing costs will initially be borne by the companies financing assets but will in time be passed through to consumers and influence purchasing decisions. Already, questions stemming from earlier proposals regarding risk retention and the absence of a distinction between commercial and residential mortgage servicing assets have introduced doubt about the long term viability of the CMBS and ABS markets, additional regulatory burdens may prove terminal.

B) Considerations around the possible alternatives and hierarchies of approaches

Our main concern with the proposal is that the resulting capital charges are not in line with the capital charges for the underlying portfolio pre-securitisation. As shown in the example below, the securitisation risk weighted assets (RWA) based on MSFA leads to implausible results when compared to the (pre-securitisation) RWA of the pool.³ In certain cases, the capital charges for senior notes are so punitive that the benefit of credit enhancement would no longer be recognized.

Calculation of RWA for Auto Loan Example



The proposed MSFA calibration would, to a large extent, eliminate the incentives for banks to participate in securitisations as investors.⁴ From an RWA perspective, the proposal would incentivise banks acting as investor to buy the entire pool (i.e. without any credit enhancement) and would incentivise originating banks to sell the entire pool, rather than securitise. As the number of buyers able to own pools of assets in an unstructured form is significantly lower than those who can buy in securitised form, borrowing costs would increase significantly, which again would have a direct impact on the real economy as discussed above.

Similar conclusions may be made for the revised RBA/IAA and the Backstop Concentration Approach (BCRA). Therefore, based on the current calibration, we would expect the results under both hierarchies to have a severe impact on the securitisation market.

³ Similar results can be obtained for a variety of portfolios and structures irrespective of which hierarchy in the proposal would be adopted.

⁴ E.g. if a bank held the senior and mezzanine note in the auto loan example on page 2 above, there is no RWA benefit of having 5% credit enhancement in the structure.



With respect to the MSFA: the proposed threshold requiring a self assessed risk parameter for all assets in the underlying pool (as opposed to predominant share) prior to applying MSFA, significantly exceeds what is required to achieve the Committee's objectives. As a result, the likely consequence will be that banks will choose to apply the BCRA to the majority of their otherwise MSFA eligible positions. This will result in less risk sensitive and overly-conservative risk weights which will not enhance the quality or stability of the securitisation market, but rather serve to shrink it with the consequent negative effects on the real economy.

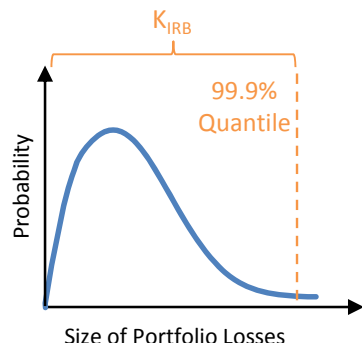
We had expected the BCBS to reflect and evaluate the outcome of various changes in regulation in the revised securitisation framework, e.g. amendments to the Credit Rating Agency Regulation and higher risk weights for re-securitisations under Basel 2.5. These changes are significant and should be considered in the proposed rules in order to facilitate a cohesive regulatory framework.

C) Our recommendation

In our view, the approach which best meets regulatory objectives, whilst preserving market functioning would use the current (already conservative) SFA approach as the primary method for IRBA banks and put increased focus on an adequate calculation of the IRB capital requirements for the underlying pool of securitised assets (K_{IRB}). K_{IRB} (by construction) is an internationally agreed metric to derive capital requirements for the underlying pool. There is, therefore, a very good reason for low capital charges of senior tranches with sufficient credit enhancement, provided the K_{IRB} calculations are properly made.

We elaborate further on our proposed hierarchy in response to Question 4 in Annex 2.

Calculation of K_{IRB}



- K_{IRB} covers portfolio losses for 99.9% of cases
- The components to calculate K_{IRB} are asset class specific and are validated by historical loss data, leading to higher capital charges for asset classes with historically high credit losses
- Therefore, for senior tranches where the credit enhancement exceeds the K_{IRB}, the tranche is unlikely to suffer losses, endorsing that the risk weight is already sufficiently conservative

This approach meets all objectives outlined in the proposal except for the cliff effect. However, the cliff effect is an unavoidable result of using risk sensitive capital requirements and not addressed by either of the two proposed hierarchies.



Our proposed approach, to use the current SFA approach, has the following benefits:

- Less reliance on external ratings
- High risk weights for senior notes if the pool quality is too low relative to the size of credit enhancement
- Incorporates maturity in KIRB calculation

In addition, this approach is more consistent with regulatory standards:

- Consistency with the non-securitisation IRBA framework
- Consistency with the recently published US Basel III Notice of Proposed Rulemaking

Moving SFA to the top of the hierarchy is, however, only feasible if there is sufficient time for servicers to enhance reporting standards and for banks to develop the required IRB rating systems. A grandfathering clause for transactions that are originated prior to the start date of this framework is essential.

We note also that, while the revision is focusing on the banking book, there is an inevitable impact on securitisations in the trading book. This is because standardised rules in the trading book explicitly reference the approaches used in the banking book. For example, there is a cross-reference in place for the floor calculation for the Comprehensive Risk Measure. In order to avoid unintended consequences, we suggest extending the upcoming QIS to include the impact on the trading book.



ANNEX II – Specific questions raised by the Committee

Question 1: What additional costs and benefits of the two hierarchies should the Committee consider? Which hierarchy presents the greater benefits relative to its drawbacks? Which hierarchy would best address the shortcomings identified with the current framework, whilst meeting the Committee's objectives?

Please see comments in section B and C of our executive summary.

Question 2: As regards Alternative A, could both the revised RBA and the SSFA be accommodated without raising concerns about regulatory arbitrage or level playing field?

RBA/IAA are more risk sensitive than SSFA. Introducing different approaches will not lead to a level playing field. The concern could, however, be partially mitigated by lowering the entry requirements for MSFA and by providing incentives for developing MSFA suitable rating systems. This would ensure that RBA / SSFA are only fall-back solutions for a small number of transactions and limit the impact of the non-level playing field. However, this will require a significant amount of time for banks and servicers to get ready for MSFA.

Furthermore, the national discretion in setting rules is a major concern with regard to global consistency. For example, national competent authorities have the right to decide if either the RRBA or the Simplified Supervisory Formula Approach (SSFA) should be applied if the MSFA is not applicable.

Question 3: As regards Alternative B, which methods could a bank use to conclude that a securitisation exposure is of high-quality? Would the use of these methods likely result in a capital charge consistently related to credit risk across banks and countries? Would Alternative B produce material cliff effects as exposures deteriorate below high-quality?

Under Alternative B, the limitation of the RRBA/IAA and the MSFA/SSFA to “senior, high-quality” tranches is too conservative and increases the cliff effect. With respect to senior high quality tranches, a bank's right to select between RRBA and MSFA/SSFA is appreciated. This proposal allows flexibility of choice between the RRBA and MSFA. It should, however, be clarified that a single choice need not be made on the banking book level. As far as consistency in approaches is concerned, it should be possible to define objective criteria that allow different treatment of securitisation distinguishing by underlying asset classes (e.g., auto loans) or risk drivers.

With respect to “all other tranches” we note that the Concentration Ratio KIRB approach may only be used if the IRB Parameters can be estimated for all the underlying exposures. This requirement goes beyond what is required to achieve the Committee's objectives of greater prudence and risk sensitivity.

Consequently, banks will be forced to apply the Backstop Concentration Ratio Approach (BCRA), to the majority of their otherwise MSFA eligible positions. This will result in less risk sensitive and overly-conservative risk weights which will not enhance the quality or stability of the securitisation market, but rather serve to shrink it with the consequent negative effects on the real economy as discussed in Part A above.

Question 4: Are there alternative hierarchies or revisions to the two proposed (or a combination of both) that the Committee should consider?

1. SFA
2. IAA
3. RRBA
4. SSFA
5. BCRA
6. Deduction



Re-ordering the hierarchy generally makes sense to reduce the reliance on external ratings. Using SFA (instead of MSFA) as the primary approach (with an increased focus on adequate KIRB calculations) would achieve the core objectives of the proposal and set incentives for banks to develop internal rating systems. However, in Europe this only meets the core objectives if the SFA entry requirements are achievable based on information that is available for CRD II compliant securitisations. Requiring a 100% coverage ratio would eliminate the use of SFA for a significant number of securitisation transactions. We suggest, therefore, use of a coverage ratio that it is consistent with the non-securitisation IRB framework (based on materiality and significance considerations).

Placing IAA second in the hierarchy would better satisfy the Committee's objective regarding the reliance on external rating if the revised IAA would place more emphasis on internal research in the risk modelling rather than mimicking rating agency models. This would, however, require changing the IAA to a DFA compliant format and would require a scope extension to non-ABCP related positions. The advantage of the IAA over the RRBA is that the competent authorities are asked for explicit approval of the IAA and therefore have greater and more direct control over this approach. In addition, the institution must track the performance of internal ratings over time to evaluate the performance of its internal assessment methodology and must make adjustments, as necessary, to that methodology when the performance of the exposures routinely diverges from that implied by the internal ratings.

The third approach would be the RRBA. Higher risk weights for revised RBA and revised IAA (compared to SFA) address model risk and provide incentives for banks to develop internal models that measure the quality of underlying assets. Since maturity is already included as a risk driver in ECAI ratings (and would remain part of the IAA requirements), the risk weight add-on for maturity is not required and leads to double counting of maturity in the risk weight tables for RRBA and RIAA.

The fourth approach (SSFA) is a more conservative option and would apply where less information or modelling approaches are available. This is consistent with the general Basel framework. However, regulators should agree on one SSFA parameterization that is used for both US & non-US to ensure a level playing field.

Finally, BCRA is used if no other approach is available. While this is a highly conservative approach it partially mitigates the cliff effects under the existing framework.

This hierarchy meets the core objectives of the proposal, ensures a level playing field and achieves better consistency with the general (non-securitisation) Basel framework.

Re-securitisations should be eligible for at least IAA & SFA. If capital charges are conservatively set for securitisations (e.g. as for the ones currently treated under SFA), then SFA will be a conservative approach for re-securitisations. This is ensured because banks will be required to look through to the last level of (non-securitized) assets under SFA. If this is not possible, the conservative fall back solutions of the securitisation framework ensure that the model risk associated with re-securitisations is sufficiently addressed within the KIRB calculations. Under IAA, regulators need to explicitly approve rating systems prior to use for regulatory capital calculations. This will allow regulators to limit the scope of approval if they question the appropriateness of the model for re-securitisations.

Question 5: The Committee recognises that in some instances and in some jurisdictions, the requirement for two external ratings may be difficult to implement and will impose additional costs on banks. The Committee requests feedback on the relative merits of reducing idiosyncratic, rating agencies' modelling risk with the costs of using two ratings and/or whether exceptions to this treatment should be permitted.

It is necessary to provide for grandfathering provisions and transition periods that help banks to adopt the new framework.



The requirement for two eligible credit ratings should be reconsidered. Alternatives for securitisations for which only one eligible rating is available must be considered as it is sometimes impossible to have two eligible credit ratings. Examples may include (i) waiver of the requirements outlined in paragraphs 90 to 108 and 565: e.g. it should be allowed that banks instruct rating agencies to provide the second rating and use such rating although it is unsolicited (paragraph 108) or unpublished (paragraph 565(b)) or (ii) allowing banks to use the single rating but require them to apply an assessment that is one notch lower.

Footnote 22 (on page 12) is not clear and should be clarified whether both ratings (the direct and the inferred) can be given by the same rating agency.

Question 6: Is the RBA appropriately calibrated and formulated? Should other risk drivers be incorporated?

The additional risk driver “maturity” mentioned on page 13 is already accounted for in most methodologies applied by the rating agencies.

Question 7: Is it appropriate to require that in order for the MSFA to be used the IRB approach should be applied for all underlying assets?

The requirement to have IRB parameter estimates available for all underlying exposures should be reconsidered (page 19). The proposed coverage ratio would to a large extent eliminate the use of MSFA and would reintroduce reliance on external ratings or lead to very punitive risk weights for many transactions using the alternative approaches in the hierarchy.

As outlined in the response to question 4, there are alternatives which would meet the Committee’s objectives.

Question 8: Is the MSFA appropriately calibrated and formulated? Does it incorporate the appropriate risk drivers? Is the calibration of tau and omega appropriate? If not, what evidence can respondents provide to support an alternative calibration?

The proposed MSFA leads to implausible results as outlined in our executive summary. The existing SFA achieves all core objectives of the proposal provided that the KIRB calculation is done properly. The focus should be on an adequate KIRB calculation. Changing the SFA formula by introducing non risk sensitive add-ons will not meet the Committee’s objectives. By not recognizing the benefit of credit enhancement, banks are incentivized from an RWA perspective to take on more risk by buying the entire pool without credit enhancement.

Question 9: Is it prudent to allow the use of the MSFA by banks making use of the foundation IRB approach (ie not calculating internal estimates of the underlying loans’ LGD)?

Yes, this would be consistent with the non-securitisation framework.

Question 10: Is the SSFA (particularly the constant term p) appropriately calibrated? Please provide justification and evidence, to the extent possible, for alternative appropriate levels of calibration?

The value p should be consistent with the US NPR to ensure a level playing field.

Question 12: Has the BCRA been appropriately calibrated and formulated?

Due to the very conservative calibration of the BCRA, this should only be a fall back solution (i.e. the entry thresholds for the other approaches have to be adjusted).



Question 14: How prevalent and material are securitisation exposures backed by mixed pools?

As noted above, it is critically important that the MSFA approach be allowed for mixed pools of SA and IRBA assets (see response to question 4 and 7).

Question 15: Is the proposed treatment for mixed pools appropriate, or should another approach be employed?

No. As noted above the MSFA approach should have the flexibility to accommodate mixed pools.

Question 16: Is the definition of maturity appropriate, in light of the Committee's objectives?

The parameter 'tranche maturity' is generally accounted for in most methodologies applied by the rating agencies. They would be double-accounted and we propose not to consider the 'tranche maturity'.

If, however, the Committee decides not to change the proposal, we have the following comments: Generally, it makes sense to use a definition of the maturity similarly to that currently used in the wholesale IRB framework. However, the calculation of the maturity based on the weighted-average maturity of the cash flows of the tranche should be used.

According to the second paragraph, it is required that "the contractual payments must be unconditional and must not be dependent from the actual performance of the securitised assets". In our view, this requirement can rarely be met and should be removed. In the next sentence, the wording of "unconditional contractual payment dates" is used. We understand that the requirement relates to the "contractual payment dates". This should be clarified.

When determining the maturity of a securitisation exposure, the maximum period of time a bank is exposed to potential losses from the securitised assets should be taken into account. According to the consultative document, the maturity for a total return swap would be based on the maturity of the protected position. We propose to distinguish between total return swaps with physical settlement and those with cash settlement. In the latter case, the maturity of this securitisation exposure should be the maturity of the instrument and not of the protected position.

Question 17: Is the proposed 20% risk-weight floor set at an appropriate level? Please provide justification and evidence, to the extent possible, for alternative levels for the risk weight floor.

This proposed risk weight floor is too high and should be different for SA and IRBA securitisations to set incentives for banks to develop and use IRBA rating systems.

As indicated below, the Risk Weight floor of 20% would be much higher than the risk weight that could be derived for corporate assets with similar risk characteristics. The introduction of a high risk weight floor reduces the risk sensitivity of the framework and similar to the overly conservative MSFA calibration will provide incentives for banks to take on more risk.

In the table below, we outline the risk weights that result from three different approaches (Corporate IRB framework, SFA and MSFA). The mezzanine note in the Auto Loan Securitisation example (see page 5) has a default probability of 0.10%. Under the MSFA, the Risk Weight for such a position is 883%. This is more than 10 times higher than the risk weight for a corporate position with the same PD and a worst case LGD assumption of 100%. As shown in the table below, the SFA already provides a conservatism add-on compared to the non-securitisation risk weights.

Tranche	PD*	LGD**	Risk Weight based on Corporate IRB framework (incl. EL component)	SFA	mSFA
Senior*	0.03%	10%	4%	7%	20%
Mezzanine**	0.10%	100%	80%	101%	883%

* PD and LGD based on Vasicek formula but floored at 0.03% and 10%, respectively.

** PD based on definition of KIRB. LGD assumed worst case for illustration.



Question 18: Should the risk-weight floor for short-term exposures be the same as for long-term exposures?

Please refer back to our answer to question 17.

Question 19: Are the proposed caps and their interactions with the proposed floor risk weight appropriate?

The cap is reasonable as the RWA post securitisation may not be higher than pre securitisation. The introduction of floors leads to reduced risk sensitivity of the framework and thereby provides incentives for banks to take on more risk.

Question 20: Are there other approaches that could provide a more risk-sensitive treatment while still being prudent and operationally straight-forward to implement?

The Committee proposes use of the carrying accounting value as exposure value whereas the CRR requires the sum of the carrying accounting value plus credit risk adjustments. However, under the CRR, these credit risk adjustments may be used to reduce the RWA for these securitisations.

The Committee does not support this offset as: i) the differentiation between credit related and non-credit related adjustment is complex and ii) this method would grant excessive capital benefit to write-downs and purchase price discounts. We disagree with this view based on the reasons below:

1. This capital offset does make sense as these write-downs have already reduced the regulatory capital of the bank.
2. Under the wholesale IRB framework, a similar concept is used. The expected loss must be deducted from capital, but this amount can be reduced by the write-downs.

Question 21: Are the assumptions used in developing and calibrating the approaches discussed above appropriate in view of the Committee's stated objectives? Please provide empirical justification for alternative assumptions to those noted above.

At this stage – without there being sufficient time for a thorough review of the technical paper – it is not possible to comment on the assumptions used by the Committee. However, we highlight that the fundamental principal of regulatory capital equivalence between positions of equivalent risk should be preserved, which does not appear to be the case under the proposed MSFA approach, and therefore a re-calibration should be considered.

Question 22: Is the proposed treatment of retail securitisations using the same approaches as for corporate securitisations appropriate? Would additional complexity (in the form of an additional formula to adjust the AVCs of retail underlying exposures) be justified to remove the double-counting effect of maturity effects?

The maturity is already reflected in the KIRB. Therefore, the double counting takes place for both retail and non-retail exposures. Removing the maturity add-on makes therefore sense for both retail and non-retail positions.

Question 23: How could concerns that securitised retail exposures have high default risk or high correlation be managed?

Please provide data supporting any modifications to the proposed approaches, particularly the MSFA and revised RBA, to account for differences in risk based on underlying exposure types.

The KIRB in SFA already captures high default risk. Estimates (as part of IRB requirements) have to be validated using historical data. KIRB uses conservative estimates for correlation that are consistent with the non-securitisation framework.



Other Proposed Changes and clarifications:

In addition to the answers to the above questions we have the following comments on the outstanding elements of the framework:

1) Early Amortisation Provisions

We disagree with the proposal of the Committee to preclude an originator or seller of assets into such a securitisation from applying the securitisation framework for the sold assets. This would be too punitive if a bank has, for example, only one senior tranche that incorporates an early amortisation provision.

2) Maximum capital charge (overall cap)

The Committee's proposal to retain under the IRB framework the provision that the capital charge is limited to the amount of capital the bank would hold if it held the underlying assets directly is highly appreciated. However, the draft European Capital Requirements Regulation (CRR) translates this provision differently. Under the CRR, the maximum capital charge is the sum of 8% of the risk-weighted exposure amounts plus the expected loss of these exposures. According to paragraph 610 of the Basel capital framework, the expected loss as well as the provisions must be included in the calculation of this overall cap. In order to achieve a level playing field, the Basel Committee should clarify this paragraph that provisions made for the underlying exposures can be included and therefore reduce the overall cap.

A similar limitation on the maximum capital charge under the SA securitisation framework is highly appreciated. However, we propose that this overall cap should also apply to investors that have sufficient information about the underlying assets. This proposal is further supported by the fact that investors must apply the MSFA if they fulfil the three mentioned requirements on page 8 (one of them is the 'information requirement').