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

Amsterdam, 15 March 2013

Dear Sir,

We are an independent credit data analytics company based in Amsterdam, the Netherlands. We strongly support any regulatory initiative to reduce reliance on credit rating agencies (CRA) and at the same time encourage investors to do more in-depth analysis and the originators to provide more and better information.

The key to a comprehensive analysis by investors is full and equal information disclosure equivalent to the information received by CRA. As long as CRA receive non-public information from originators, investors cannot ignore the rating and rely on their own analysis and any attempts to reduce the reliance on external ratings will be futile. The disclosure of standardized loan level data has made a big step in the direction of equal disclosure, but current market practice continuous to let CRA gain valuable qualitative insight from due diligence meetings and historical data access such as vintage loan performance data. Therefore, we believe that originators should be incentivized to share the same information provide to CRA with investors.

Please find below our answers to your questions.

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?

We believe that investors should be incentivized to calculate their own collateral PD (and LGD) estimates in line with the principles underlying the IRB approach for other asset classes. Such incentive requires for the investor to gain an advantage by conducting a

detailed analysis including achieving a reduced risk weight. Only where the information is missing or the investor does not have the internal resources to conduct a full analysis, a more conservative revised RBA should apply.

That means that the MSFA should lead to lower capital requirements compared to the RBA or alternative approaches and should not differ too much from the KIRB requirements of the originators before it was securitized.

We think that distinguishing based on "high quality" should be related to high quality of information on the structure and the underlying pool assets. The availability of cash flow models, loan level data tapes based on standardized templates, vintage default and loss data, back testing reports on used PD, LGD and EAD models and explanation on underwriting policies and workout policies. Please seek alignment with the standards of the ECB, the Bank of England, the Reserve Bank of Australia and other relevant central banks and agencies.

We believe it is more difficult for an investor to do a high quality assessment of AAA-rated tranche in comparison to a BB-rated tranches due to the difficulty to assess asset correlations properly. Further, we believe that the value of securitization should be perceived as a possibility for a bank to diversify both its liquidity funding **and** its capital funding. Therefore, we do not favor alternative B, but rather recommend to be more prescriptive on the disclosure requirements in order to be able to use MSFA.

Regarding Question 2 and 3 please see our reply to Question 1.

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

We applaud the underlying principle of the revised securitisation framework that investors should be conducting their own risk analysis of the underlying collateral portfolio including determining their own PD (and LGD) for each loan. We are concerned that in practice investors won't be given sufficient information to conduct such analysis, having to fall back on the revised RBA or even blunter approaches that would in effect strongly discourage investments in ABS. Therefore there should be a clear benefit to investors and thus indirectly an incentive to originators to provide better information whether selling senior or junior tranches or both.

Question 5: The Committee recognises that in some instances and in some jurisdictions, the requirement for two external ratings could be difficult to implement or could 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.

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

We recommend to introducing the concept of LGD for a tranche like it is used for loans in the AIRB approach. This has many advantages. It automatically takes into account the thickness of the tranche and doesn't penalize banks too much once a senior tranche is downgraded.

The Committee has recognized the need to improve the treatment of senior tranches with low ratings. A tranche LGD would be the appropriate tool to distinguish senior from mezzanine tranches with the PD. The LGD for non-senior tranches can be derived from the PD of the neighboring more senior tranche. For senior tranches a fixed LGD could be prescribed as in the Foundation IRB approach consistent with a desired confidence interval in the capital calculation.

The introduction of the tranche LGD would be simpler and more consistent with the IRB approach. The Committee should consider using a higher asset correlation number than in the Large Corporate IRB formula (for instance, comparable to Financials) because AAA tranches are more sensitive to systematic risk than AAA rated corporates.

Moreover, we are concerned about the double impact of maturity in the RBA as the rating of the tranche is already based on the maturity of the transaction.

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?

As long as the information for due diligence is sufficient it should be open for all granular asset classes.

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?

Post crisis, many academic studies have demonstrated that senior securitization tranches are much more sensitive to systemic risk than corporate borrowers of comparable rating. This is especially true for defaults and losses of residential and commercial mortgages that are strongly correlated with house or property prices. Other retail asset classes like credit cards or granular SME or leasing portfolios have often shown much lower implied asset correlations compared to large corporate loans or mortgages. Hence, we are concerned that a "one size fits all" approach for asset correlation may not be sufficiently accurate.

It is important that the investing bank can verify the PD's and LGD's of the underlying pool based on model back testing reports of the originator. The other possibility is that the investing banks receives long term loan level data based upon the investor can do its own model parameterization in order to assess PD and LGD's of the underlying pool.

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)?

We would be in favor if everybody will be incentivized to assess LGD's. Probably the foundation LGD's are conservative enough but we have no evidence that this is applicable for all asset classes.

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?

Question 11: Is the SSFA properly formulated or should other risk drivers, such as maturity, be incorporated?

Question 12: Has the BCRA been appropriately calibrated and formulated?
Question 13: What factors should the Committee consider in weighing whether the F parameter should be set at 2 for senior as well as non-senior tranches to avoid arbitrage opportunities?
Question 14: How prevalent and material are securitisation exposures backed by mixed pools?
Question 15: Is the proposed treatment for mixed pools appropriate, or should another approach be employed?

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

We found the maturity factor very conservative. Once calculating the M the committee should make a distinction between the maturity of replenished transactions and static transaction. In most cases a replenished transaction is a new issuance at any moment new assets comes in meeting the initial criteria. Therefore the M should be based on the portfolio (the risk horizon) and not on the weighted average maturity of the tranche.

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 riskweight floor.

We also believe that due to uncertainty around model risk and systematic risk, the risk weight of highly rated senior ABS tranches should be floored. As we see similar uncertainty about systematic risk in other asset classes such as unsecured bank debt, covered bonds and most sovereign debt, we think a RWA floor for highly rated debt is an appropriate prudent measure in general.

We see no convincing arguments why such RWA floor should be different for high quality senior ABS compared to covered bonds, bank or sovereign debt. Especially so, as we consider ABS the easier asset class to assess compared to the balance sheet of a bank.

Of course, such an RWA floor will probably be achieved by alternative means like a bank wide leverage ratio.

We hope that our comments are useful for your further debate. In case you need any further clarifications, don’t hesitate to contact us.

Best regards,

Open Source Investor Services B.V.

Jeroen Batema | Dr. Burkhard Heppe