FIRSTRAND

4 Merchant Place
Cnr Fredman Drive and Rivonia Road Sandton 2196
PO Box 650149 Benmore 2010 South Africa
T +27 11 282 1808 F +27 11 282 8088
www.firstrand.co.za

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Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Sir

FIRSTRAND BANK LIMITED'S COMMENTS ON CONSULTATIVE PAPER: RECOGNISING THE COST OF CREDIT PROTECTION PURCHASED

With reference to the consultative paper issued in the above regard, we wish to comment as follows:

Historically, FirstRand Bank Limited has retained first and second loss tranches with a view that expected losses are covered by these tranches, together with any excess spread. Mezzanine and senior tranches that are expected to account for the unexpected losses in the loss distribution are sold to capital market investors. FirstRand is of the opinion that it would be unusual for a bank in South Africa to purchase credit protection against any retained securitisation notes given the prohibitively high costs protection providers would demand.

We believe that the 150 percent materiality threshold proposed in the said consultative paper may be too low for South African securitisation exposures, given the sovereign rating cap. The 150 percent materiality threshold may thus capture many more tranches in South Africa than would otherwise be the case (tranches rated at or below BB+ on an international rating scale attract risk weights greater than 150 percent yet would map to BBB/BBB- on a national rating scale). International commentary has suggested that the 150 percent materiality threshold proposed is rather arbitrary, and recommendations are that a thorough and transparent study be conducted to ascertain the appropriate risk weight level given the experience of arbitrage transactions.

Subsequent to the above, it would be appreciated if you could confirm whether a number of transactions that is intended to transfer unexpected losses have been inadvertently captured by the proposal.

FirstRand believes that the proposed updates to the securitisation credit capital framework (if implemented as is) would lead to significant increases in risk weights thus pushing many previously

lower risk tranches above the materiality threshold and thus further increasing the capital requirements. In addition, significant supervisory discretion may overburden the regulator with having to analyse numerous credit mitigation trades, together with oversight regarding appropriate discount rates for determining the present value of credit spread premia, be it using a "risk free" or "risky" discount rate.

International lobby groups have proposed that it would be more appropriate to identify and transparently disallow arbitrage transactions at inception. FirstRand agrees with this view.

South Africa has a relatively small credit and securitisation market relative to Europe and the United States, which we believe affords the regulator the opportunity to better scrutinise proposed transactions before they are brought to market.

With regards to question one of the said consultative paper in respect of additional exemptions for certain types of transaction, FirstRand is comfortable with the proposal to exempt exposures with guarantees extended by governmental entities or those extended to trade finance transactions.

We believe that the spread income on an underlying loan or portfolio has an important role to play in gauging the amount of excess spread available to cover losses prior to the first loss tranche sustaining a loss. Accordingly, FirstRand is comfortable with the proposal set out in option 1 under section 1.2 of the technical guidance in respect of recognising spread income.

In conclusion, we wish to express our appreciation for the opportunity afforded to us to comment on the said consultative paper. Please do not hesitate to contact us, should you require any further information or clarity on the issues raised by us, in this regard.

Yours sincerely

YVETTE SINGH
PUBLIC POLICY AND REGULATORY AFFAIRS EXECUTIVE