RCI Banque
groupe RENAULT

Basel Committee for Banking Supervision
c/o Bank for International Settlements
Basel, Switzerland

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Submitted via email: baselcommittee@bis.org

RCI Banque response to the second Consultative Document on "Revisions to the securitisation framework" released by the Basel Committee on Banking Supervision on the 19th December 2013

RCI Banque welcomes the opportunity to comment on the proposals set out in the second consultative document "Revisions to the Basel Securitisation Framework" published by the Basel Committee on Banking Supervision ("BCBS" or "Committee") on 21 December 2013 (Consultative Document). RCI Banque is concerned by the evolution of the regulations in relation to auto loan and auto lease securitisations and notably the proposed "Revisions to the securitisation framework".

RCI Banque is the captive finance company of the Renault Nissan Alliance and finances the sales of Renault and Nissan brands in the 36 countries where it currently operates. The group offers a comprehensive range of financings and services to retail and corporate customers and brand dealers.

RCI Banque is a regular originator of securitisation transactions on its European auto loan portfolio via the "Cars Alliance" securitisation programme. Securitisation is an important funding tool for RCI Banque. Securitisation via the public European ABS markets and the private bank or conduit market represents, at the end of 2013, 15 % of the total funding of RCI Banque.

Based on placement experience on recent securitisation transactions, bank investors are significant investors in primary market distribution of European auto ABS. In our last securitisation priced in November 2013 (Cars Alliance Auto Loans Germany V 2013-1) bank investors represented 74 % of the investor base. For non-bank investors, the expectation that secondary market liquidity will be available from European banks is an essential part of their investment decision. If the cost for banks of holding high quality securitisation positions were to increase significantly, investor base for securitisation products would be reduced. Additionally, our conduit and private securitisations are financed wholly by banks. Conduit or private securitisations currently represent 8 % of RCI's financing. On average (conduit + term ABS), banks finance 85 to 90 % of RCI Banque securitisation.

RCI Banque would like to provide comments on the Second Consultative document published by the Committee on the following main points:

- General comment on the proposed methodology and the associated floors;
- The definition of "Tranche Maturity";
- Capital requirements for holding assets in the balance sheet vs holding securitisation notes.

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1. General Comment on the Floor

In standard auto loan securitisation, the senior tranche sold to investors represents around 88-92% of the liabilities of the securitisation SPV. The regulatory treatment of the senior tranche is very important for RCI Banque.
We note that the proposed floor for the External Ratings Based Approach ("ERBA") would result in a significant increase in the RWAs for the senior tranche as follows:

Standard auto loan ABS	Basel II	Basel III Proposal Maturity 1 year	Basel III Proposal Maturity 5year
AAA senior tranche	7%	15%	25%
Percentage of increase factor		+ 202%	+ 337%

RCI Banque believes that the proposed capital requirements (and the associated floors) for higher-quality securitisation exposures (15%-25%), especially for auto ABS, remain significantly higher than any historical loss in the underlying portfolio and constitutes an unnecessarily high risk weighting in relation to the capital requirements of the underlying asset pools. We expect the current RWA proposal to result in a decrease in investor interest for ABS that will lead to a reduction of funding available to automotive finance companies, and therefore to funding available to their customers. Since a large portion of cars are purchased through financing, this is likely to negatively impact automotive sales.
Continued access to the securitisation market is important for our funding strategy, our capacity to originate cost efficient credit to our customers and to support the business of the Renault Nissan Group. We believe that the proposed revision of RWAs on the Second Consultation is not commensurate with the high quality assets underlying our auto loan, auto lease and dealer floorplan securitisations.

2. The definition of "Tranche Maturity"

Definition of Tranche Maturity (Annex 1 Proposed Rules Text – IV. B. Clause 22/23)
*"For risk-based capital purposes, **tranche maturity (MT) is the tranche's remaining effective maturity in years measured as the Euro weighted-average maturity of the contractual cash flows of the tranche**. Alternatively, a bank may use final legal maturity of the tranche. In all cases, MT will have a floor of one year and a cap of five years."*
"The contractual payments must be unconditional and must not be dependent on the actual performance of the securitised assets. If such unconditional contractual payment dates are not available, the final legal maturity shall be used.
When determining the maturity of a securitisation exposure, banks should take into account the maximum period of time they are exposed to potential losses from the securitised assets. In cases where a bank provides a commitment, the bank should calculate the maturity of the securitisation exposure resulting from this commitment as the sum of the contractual maturity of the commitment and the longest maturity of the asset(s) to which the bank would be exposed after a draw has occurred.

If those assets are revolving, the longest contractually possible remaining maturity of the asset that might be added during the revolving period would apply, rather than the (longest) maturity of the assets currently in the pool."

In RCI securitisation transactions which incorporate revolving periods, auto loans or leases that have repaid are replaced with eligible additional auto loans or leases, as applicable. The "Tranche Maturity" as proposed (in the Second Consultation) states that 100% of the loans or leases at the last purchase date of the revolving period will be assumed to have the same contractual maturity as the longest maturity asset allowed under the eligibility criteria. In reality, such a situation is impossible. The existing securitised portfolio, that has been sold into the structure on the closing date and monthly replenishment dates thereafter, will have a variety of maturity dates all of which are shorter than the maximum allowable tenor of assets eligible to be added. The average maturity date of auto loans and leases we originate is 3.5 years and our typical transaction eligibility criteria provides for a maximum asset tenor between 72 and 84 months. On the closing date, some of the loans will be more seasoned than others, resulting in a weighted average remaining maturity of less than the maximum eligible tenor.

The accepted market definition of weighted average life ("WAL") of a tranche on a securitisation with a revolving period assumes that (a) the portfolio amortisation profile that occurs at the end of the revolving period will be approximately the same as that of the initial portfolio, (b) there are no delinquencies or defaults during the life of the transaction and the assets always pay on their contractual due date and (c) an expected level of prepayments based on historical performance of similar pools. Investors are comfortable that this is a conservative approach as it does not give any credit to the seasoning of the portfolio during the revolving period.
As an example, our recent German auto loan securitisation (Cars Alliance Auto Loans Germany V 2013-1, priced on the 27th November 2013) which includes a 1 year revolving period for the securitisation of standard loans and balloon loans has the following characteristics.

CARS V 2013-1 Transaction	Ratings	Expected WAM (11% CPR)	0% CPR contractual WAM (assuming the end of revolving period the pool has the same characteristics as the initial pool)	0% CPR contractual WAM (with worst case end of revolving period pool assumed[1])
Class A Notes	AAA(sf) / Aaa(sf)	2.34 years	2.60 years	6.7 years
Class B notes	A(high)(sf) / A2 (sf)	4.44 years	4.68 years	8 years

"WAM" = weighted average maturity of the tranche

For this transaction and taking into account the eligibility criteria, the RBA framework proposal will result in a RWA increase for the Class A Notes up to 25.00% from 7% (see below table).

[1] Worst case defined as applying the longest contractually possible remaining maturity of the asset that might be added during the revolving period to the entire portfolio, as per the Committee's current draft of the securitisation framework

CARS V 2013-1 Transaction	RBA current framework	External RBA with the expected WAL	External RBA with 0% CPR contractual WAL (assuming the end of revolving period the pool has the same characteristics as the initial pool)	External RBA with the 0% CPR contractual WAL (with worst case end of revolving period pool assumed)
Class A Notes	7%	18.35%	19.00%	25.00% (cap)
Class B notes	20%	174.60%	181.20%	190.00% (cap)

This would mean that the capital a bank is required to hold against short dated asset is almost the same than for long dated assets (≥ 5 year tenor). This does not sufficiently recognize the lower risks in shorter tenor asset pools. This example also clearly shows the significance of the tranche maturity definition in determining each tranche's final risk weightings. For our transaction Cars Alliance Auto Loans Germany V 2013, the proposed definition would result in a risk weighting under the ERBA for the Class A notes of 25 %. This risk weighting is 31.6% greater than it would be if the ERBA accepted the assumption that at the end of revolving period the pool has the same characteristics as the initial pool (19.00%). It is also 36.2% greater than it would be if the ERBA accepted (i) the assumption that at the end of the revolving period the pool has the same characteristics as the initial pool and (ii) used an expected CPR (based on historical data) rather than 0% CPR profile in modelling the transaction's maturity (18.35%).

We request that the Committee consider a modified approach for revolving transactions involving short dated assets (i.e. less or equal to 7 year contractual maturity). We would propose that if the transaction's revolving period replenishment criteria (i) are set such as to maintain a similar pool portfolio distribution as of closing and (ii) provide that the weighted average remaining term to maturity of the underlying portfolio must remain below a specified limit, then the framework should allow the portfolio profile (taking into account these replenishment criteria) at the end of the revolving period to be used to determine the tranche maturity. Similar provisions are already included in the replenishment criteria for some existing revolving transactions and are accepted by the credit rating agencies as an effective tool in preventing an extension in portfolio maturity over the revolving period. Illustratively, if the Committee were to accept this approach and such a clause were to be inserted into the Cars Alliance Auto Loans Germany V 2013-1 example, this would imply that the new Basel ERBA risk weight for the senior tranche would be 19.00%, rather than 25.00% under the current ERBA proposal. We further recommend that the Committee consider taking into account more realistic assumptions for the determination of the tranche maturity based on historical data of the underlying assets and constant prepayment rates. Each originator has significant historical data regarding the prepayment performance of given portfolios by asset class and jurisdiction. This data exists throughout financial and macroeconomic downturns/crises and is reliable. Assuming a 0% CPR on a portfolio is not supported by historical evidence and results in a too conservative WAM.

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3. Securitisation vs underlying portfolio RWA

Under Basel II IRBA methodology used by RCI Banque, auto loans granted to individual borrowers kept in balance sheet currently have RWA between 20% to 55% depending on the country of the assets. For Germany, our lowest risk portfolio, holding AAA rated notes backed by auto loans requires more capital (RWA 23 %) than holding the assets untranched in the balance sheet (RWA 21 %). We think this example illustrates the relevance of a more risk sensitive calibration for capital requirements on securitisations backed by high quality and granular assets, that would not discourage originators to securitise high quality portfolio and encourage them to securitise lower quality assets.

Typical tranching for Auto ABS	Pool %	RBA Current framework	External RBA 0% CPR (with worst case end of revolving period pool assumed)
Class A notes (AAA rated)	88%	7,00%	25%
Class B notes (A rated)	6%	20%	190%
Class C notes (NR)	6%	1250%	1250%
Average RWA for holding all the Class A and B notes		7,83%	35,53%
Average RWA for holding all the Class A, B and C notes		82%	108.4%
Average RWA for holding RCI car loans in Europe		20% to 55 %	20% to 55 %

We welcome your attention to these points and remain available to discuss these further at your convenience.

Best regards

Jean-Marc Saugier
EC Member
VP Finance & Group Treasurer