Saudi Banks Comments on BCBS Consultative Document regarding Revisions to the Basel Securitization Framework

Bank # 1:

Question 1*: *The Committee seeks input as to whether the proposed treatment of derivatives other than credit derivatives achieves an appropriate balance between risk sensitivity and simplicity, and welcomes respondents' views on how to improve upon the proposed treatment.

Bank Comment: We agree with the proposed standard of not requiring banks to incorporate an add-on, such as potential future exposure, when calculating K_{IRB} for derivatives contracts other than credit derivatives. We believe the proposed standard balances between risk sensitivity and simplicity.

Question 2:* *While the formulation of the Internal Ratings-Based Approach is much simpler than the Modified Supervisory Formula Approach (MSFA), the Committee recognizes that there may be opportunities to make further simplifications by, for example, eliminating one or more of the four variables proposed to calculate "p", while achieving a degree of risk sensitivity similar to that of the MSFA. The Committee is interested in respondents' views on ways to simplify the parameterization of "p".

Bank Comment: We believe that completing the QIS, having parallel runs and analyzing the capital charge under the Internal Ratings-Based Approach would determine the appropriateness of the calibration of "p".

Question 3: If respondents favored a pro rata calculation of the maximum capital requirement, the Committee would welcome arguments that justify that a pro rata cap would result in appropriately conservative capital requirements.

Bank Comment: We believe that only through having parallel runs and analyzing the capital charge calculated using a pro rata cap could determine the appropriateness of this method.

Bank # 2

Bank has neither any significant exposure to securitized papers nor has it originated securitization of any of its portfolio. Nonetheless, the proposals represent substantial improvement in the framework for capital charge calculations for securitization.

The bank agrees with the shortcomings of the current securitization framework. These included i) mechanistic reliance on external ratings, ii) too low risk weights for highly-rated securitization exposures, too high risk weights for low rated senior securitization exposures and cliff effects in capital requirements and the need to make changes in the new framework.

Bank agrees with the approach of:

i. Relating capital charge to risk;
ii. Calibrating capital requirements to reasonably conservative standards taking into account the model risk of determining the risks of specific exposures;
iii. Ensuring consistency with the underlying framework in terms of economic models and assumptions and that the capital requirements for the underlying pool are assumed to be appropriate;
iv. Framework to be consistent with the information available with different banks who may be originator, investor or sponsors;
v. Capital charges calculated and assigned to a securitization's exposures to be relatively easy to understand and intuitive;
vi. Banks should use methods that are fit for purpose, and should not be able to choose methods or change methods for a particular situation merely with the aim of reducing regulatory capital requirements.
vii. Banks, with securitization exposures to similar risks, and having the same quantity and quality information on the underlying assets, should be subject to similar capital requirements.

<u>Question Raised by the BCBS</u>

As regards the three questions posed in the document, bank view is that the proposed approaches achieve an appropriate balance between risk sensitivity and simplicity. Bank favors the approach of the document to have pro-rata cap on the maximum capital requirements. The proposed QIS exercise should enable a final view on these issues.