April 11, 2014

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

Re: Consultative Document: Basel III: The Net Stable Funding Ratio

Dear Sir or Madam:

The Structured Finance Industry Group ("SFIG")[1] appreciates the opportunity to provide comments to the Basel Committee on Banking Supervision (the "Committee") on the consultative document, "Basel III: The Net Stable Funding Ratio" (the "Consultative Document"), released on January 12, 2014. The Consultative Document presents the net stable funding ratio ("NSFR").[2]

The recent financial crisis exposed the need to improve resilience in the liquidity risk profiles of banking organizations. To address this need, the Committee has developed two different standards. First, the Committee developed the liquidity coverage ratio ("LCR") requirement to promote the short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid assets to survive a significant stress scenario lasting for 30 days. The Committee published international LCR standards in 2010 as part of the Basel III reform package and revised those standards in January 2013 (as revised, the "Basel LCR").[3] Second,

1 SFIG is a member-based, trade industry advocacy group focused on improving and strengthening the broader structured finance and securitization market. SFIG provides an inclusive network for securitization professionals to collaborate and, as industry leaders, drive necessary changes, be advocates for the securitization community, share best practices and innovative ideas, and educate industry members through conferences and other programs. Members of SFIG represent all sectors of the securitization market including issuers, investors, financial intermediaries, law firms, accounting firms, technology firms, rating agencies, servicers, and trustees. Further information can be found at www.sfindustry.org.

2 See http://www.gpo.gov/fdsys/pkg/FR-2013-11-29/pdf/2013-27082.pdf.

3 *See* BASEL COMMITTEE ON BANKING SUPERVISION, BASEL III: INTERNATIONAL FRAMEWORK FOR LIQUIDITY RISK MEASUREMENT, STANDARDS AND MONITORING (December 2010), http://www.bis.org/publ/bcbs188.pdf; BASEL COMMITTEE ON BANKING SUPERVISION, BASEL III: THE

the Committee has proposed the net stable funding ratio requirement (the "Proposed NSFR Requirement") as a tool to reduce funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress. The Proposed NSFR Requirement is set forth in the Consultative Document. Under the Proposed NSFR Requirement, banks will be required to maintain an amount of available stable funding over a prospective one-year period (the "numerator") equal to its amount of required stable funding (the "denominator").

SFIG supports the Committee's efforts to improve the banking sector's ability to absorb shocks from financial and economic stress. However, SFIG believes that NSFR regulations should recognize that traditional securitization activities are (i) an essential source of core funding to the real economy and (ii) an important part of a bank's liquidity management strategy. With the adjustments we propose, the Committee could sufficiently recognize these realities while still meeting its stated goals and objectives for enhanced liquidity standards.

First, with respect to the denominator, the amount of required stable funding ("RSF") is measured based on the broad characteristics of the liquidity risk profile of a bank's assets and off-balance sheet exposures. In determining assets:

- Certain high credit-quality asset-backed securities ("ABS"), although not currently afforded treatment as high quality liquid assets ("HQLA") under the Basel LCR, should qualify for HQLA treatment under both the LCR and the NSFR because they demonstrate liquidity characteristics consistent with those of other assets that qualify for HQLA treatment.

- The Committee should give national supervisors more flexibility to implement HQLA requirements for purposes of both the LCR and the NSFR in a manner consistent with the Basel LCR and that also takes into consideration the unique characteristics of the jurisdictions they regulate.

- The Committee should recognize that the NSFR addresses different timeframes and stress scenarios than the LCR and, as a result, (a) the 30-day pricing volatility test should be removed from the criteria for determining HQLA treatment for private-label RMBS, covered bonds and ABS and (b) lower RSF factors should be assigned to GSE MBS, private-label RMBS, covered bonds and ABS regardless of whether they are afforded HQLA treatment under the LCR.

- The Committee should assign a 0% RSF factor to asset-backed commercial paper held by a bank that is fully supported by a credit or liquidity facility provided by another bank.

- The Committee should not treat a securitization exposure issued by a financial institution as a loan to a financial institution if such securitization either (a) qualifies for HQLA treatment or (b) meets the definition of a "traditional securitization."

LIQUIDITY COVERAGE RATIO AND LIQUIDITY RISK MONITORING TOOLS (January 2013), http://www.bis.org/publ/bcbs238.pdf.

We provide more detailed comments to the RSF factors assigned to assets in Part I of this comment letter.

Second, with respect to the numerator, the Available Stable Funding ("ASF"):

- So long as an on-balance sheet securitization meets the definition of "traditional securitization" under the applicable jurisdiction's regulatory capital rules, it should be treated the same as an off-balance sheet securitization: the liabilities associated with such securitizations should not be assigned an ASF factor and the assets collateralizing such securitization should not be assigned an RSF factor.

- The assets and liabilities of asset-backed commercial paper conduits that are consolidated on the balance sheet of a sponsor bank should not be treated as assets and liabilities of the bank for purposes of the NSFR. Stable funding should be required only for the liquidity and credit facilities provided by the sponsor bank that support the asset-backed commercial paper of such conduits using the 5% RSF factor that applies to other off-balance sheet commitments under the NSFR.

- Rather than assuming that a bank will exercise a clean-up call option in connection with a securitization of its assets at the earliest possible date, the Committee should require the bank to reasonably evaluate whether it will exercise the clean-up call.

We provide more detailed comments to the proposed numerator in Part II of this letter.

I. The Denominator: Assets

A. High Quality Liquid Assets

In December 2013, the Committee set forth international LCR standards in the Basel LCR and, in January 2014, the Committee released guidance expanding upon the general HQLA qualification guidelines set forth in the Basel LCR (the "Basel LCR Guidance").[4] In both the Basel LCR and the Basel LCR Guidance, the Committee recognizes that national authorities in each jurisdiction must make their own determination as to what categories of assets qualify as HQLA based on the market liquidity characteristics of asset classes and individual assets in their jurisdiction. However, SFIG is concerned that the international standards set forth by the Committee (1) do not provide appropriate HQLA treatment for high credit quality asset-backed securities ("ABS") exposures, (2) do not provide national supervisors with sufficient flexibility to address jurisdictional differences when applying HQLA standards generally consistent with those set forth in the Basel LCR and the Basel LCR Guidance, (3) do not address the significant differences in timeframes and stress scenarios that the LCR and NSFR address, (4) overstate the RSF factor assigned to fully-supported asset-backed commercial paper and (5) improperly treat certain securitizations issued by financial institutions as loans to financial institutions.

4 BASEL COMMITTEE ON BANKING SUPERVISION, GUIDANCE FOR SUPERVISORS ON MARKET-BASED INDICATORS OF LIQUIDITY (January 2014), http://www.bis.org/publ/bcbs273.pdf

In determining assets for purposes of the Proposed NSFR Requirement, the Committee has used the same definitions of HQLA as used in the Basel LCR, except that, for purposes of the Proposed NSFR Requirement, HQLA is determined without regard to Basel LCR's operational requirements and without regard to the Basel LCR's caps on Level 2A and Level 2B assets.

Under the Basel LCR, the Committee has prescribed a small universe of assets that qualify as HQLA eligible for inclusion by a bank in calculating the numerator of its LCR requirement and, by extension, the denominator of its NSFR requirement. In considering what types of assets should qualify as HQLA, the Committee should not unnecessarily discriminate amongst various types of corporate assets that meet objective standards of creditworthiness and market liquidity. Given the importance of banks as investors in corporate securities, whether a liquid market will exist for corporate securities will depend, in some respects, upon whether the Committee and the national supervisors permit such securities to be treated as HQLA. The Committee should also recognize certain high quality securitization products as important long-term financing instruments that support the real economy. Banks are significant investors in these securities and any decrease in the willingness of banks to invest in these securities could have a significant adverse affect on the availability and cost of securitization financing.

Also, in evaluating HQLA standards, it is important that the Committee strike the right balance between ensuring that, to the extent practical, prudential liquidity requirements are harmonized across different regions and jurisdictions and ensuring that national supervisors have flexibility to address the specific characteristics of their jurisdictions. It is also important that the Committee take note of the different objectives of the LCR and NSFR requirements.

1. *HQLA Treatment for Asset-Backed Securities*

Asset-backed securities ("ABS") are not afforded HQLA status under the Basel LCR and, therefore, are not afforded HQLA status under the Proposed NSFR Requirement.[5] However, SFIG believes that certain high quality ABS should be included as Level 2B liquid assets for purposes of both the Basel LCR and the Proposed NSFR Requirement so long as their liquidity characteristics mirror those of corporate debt securities qualifying for Level 2B liquid asset treatment. More specifically, we propose that the Committee afford Level 2B treatment to ABS that meet the following criteria:[6]

(1) is a security registered for offer and sale under the Securities Act of 1933 (the "Act") or, if exempt from such registration, is eligible for resale in reliance on Rule 144A under the Act;

5 ABS consists of securitization transactions backed by financial assets other than residential mortgage loans.

6 On January 31, 2014, SFIG and the Securities Industry and Financial Markets Association ("SIFMA") submitted a comment letter on the proposed liquidity coverage ratio ("LCR") regulations issued by the Office of the Comptroller of the Currency (the "OCC"), the Board of Governors of the Federal Reserve System (the "Board") and the Federal Deposit Insurance Corporation (the "FDIC") entitled "*Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards and Monitoring*". In that letter, SFIG and SIFMA advocated for Level 2B treatment in the LCR calculation for certain ABS in a manner consistent with the proposal contained herein.

(2) is a senior security that has a risk-weight of 20 percent or less under the applicable jurisdiction's standardized approach risk-based capital rules;

(3) constitutes a "traditional securitization" under the applicable jurisdiction's regulatory capital rules;

(4) is backed by an asset pool that was not originated or otherwise owned by the bank or any of its affiliates prior to the relevant securitization transaction; and

(5) is sponsored by an entity whose obligations have a proven track record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions, demonstrated by (A) the market price of the ABS or equivalent securities of the sponsor declining by no more than 20 percent during a 30 calendar-day period of significant stress, and (B) the market haircut demanded by counterparties to secured lending and secured financing transactions that are collateralized by the ABS or equivalent securities of the sponsor increasing no more than 20 percentage points during a 30 calendar-day period of significant stress.[7]

We believe that ABS that meet these criteria should be afforded Level 2B treatment for three reasons.

First, these types of ABS demonstrate a high degree of liquidity consistent with the liquidity characteristics described by the Committee in the Basel LCR and the Basel LCR Guidance as characteristics supporting HQLA treatment. Further, these types of ABS demonstrate liquidity characteristics consistent with the market for corporate debt securities that qualify for inclusion in Level 2B liquid assets. In fact, as demonstrated by price movements illustrated in the table below, publicly traded ABS rated "AAA" in select asset classes have historically performed on par with (or better than) investment grade publicly traded corporate debt securities. Further, Appendix A illustrates ABS spread performance as compared to investment grade publicly traded corporate debt securities.

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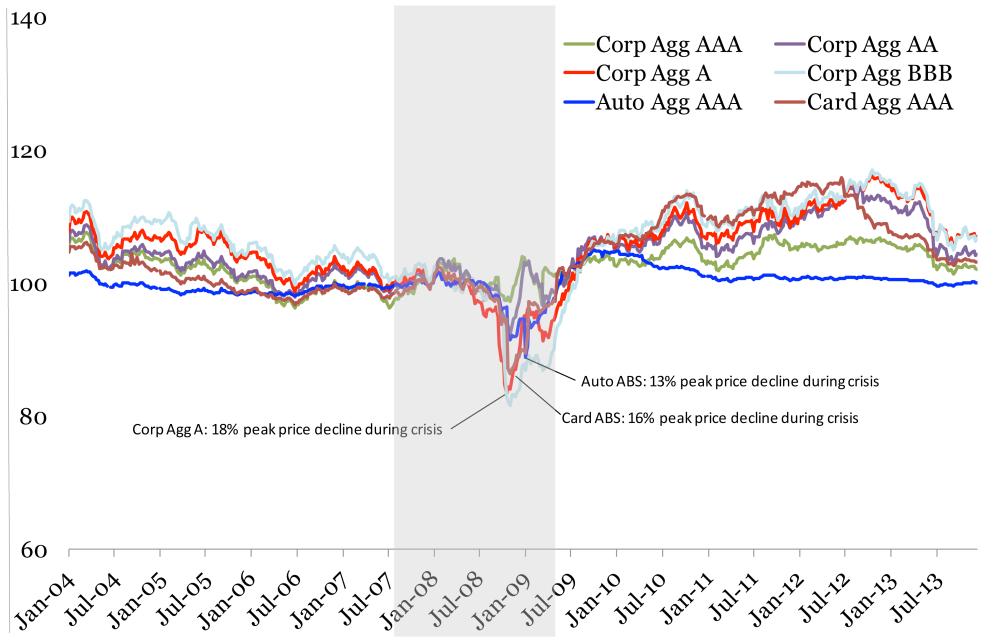
7 Our comments to the Proposed U.S. LCR included this subpart (5) in the criteria required for ABS to qualify for Level 2B treatment under the LCR. We believe that a 30-day price volatility test is appropriate in the context of the LCR, which is designed to ensure that a bank has sufficient high quality liquid assets to survive a significant stress scenario lasting for 30 days. However, the NSFR is designed to reduce funding risk over a longer horizon. Recognizing the greater period of time afforded to address the issues targeted by the Proposed NSFR Requirement, the Committee should remove the 30-day price volatility test for purposes of the NSFR so long as ABS meets the other criteria. Our proposal to remove the 30-day price volatility test for purposes of the NSFR requirement is described further in Section I.A.1.(c) of this letter.

HISTORICAL BOND PRICES[8]

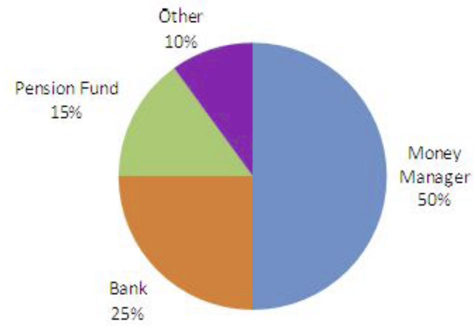


Second, to qualify as HQLA under our proposal, an ABS must be a "traditional securitization" exposure under the applicable jurisdiction's regulatory capital rules. To constitute a traditional securitization, typically (i) all or a portion of the credit risk of the exposures underlying the ABS must be transferred to a third party and (ii) performance of the ABS must depend on the performance of the exposures underlying the ABS. As a result, neither a regulated financial company nor its affiliates that originate the securitized assets or act as depositors or issuers in the relevant securitization should be treated as being obligated with respect to such securities for purposes of the LCR requirement.

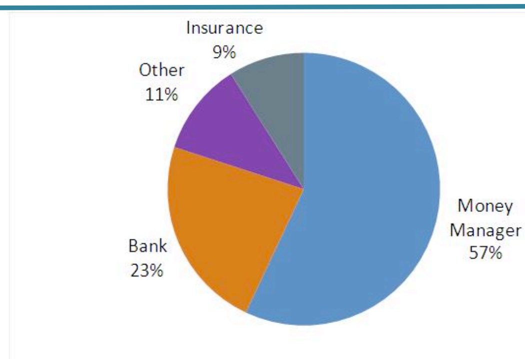
Third, affording Level 2B treatment to these types of ABS will promote the financing of financial asset pools that are essential to the economy and, as a result, will promote economic activity and job creation. As demonstrated in the charts below, the ABS market is supported by a broad base of investors and banks play a significant role. Any increase in the willingness of banks to invest in these securities could increase the amount and decrease the cost of securitization financing available to bank customers. Conversely, failure to give banks "liquidity credit" in the LCR calculation for their purchases of ABS could reduce the appetite of banks for investment in the ABS market. In developing the definition of HQLA for purposes of the LCR and the NSFR, the Committee should be careful not to undermine existing markets or to preclude new markets for high quality liquid assets from developing.

8 Source: Barclays' Indices.

Auto ABS Investor Composition by Type – U.S. Transactions[9]



Credit Card ABS Investor Composition by Type – U.S. Transactions[10]



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9 Source: Credit Suisse proprietary investor database (as of December 31, 2013).

10 Source: Credit Suisse proprietary investor database (as of December 31, 2013).

2. *More Flexibility for National Supervisors*

The Committee should guide national supervisors to apply HQLA standards in a manner generally consistent with standards set forth in the Basel LCR and the Basel LCR Guidance, but with flexibility to take jurisdictional differences into account. More specifically, in the United States, SFIG believes that jurisdictional characteristics of certain types of assets warrant flexible application of the Basel HQLA standards to such assets by United States supervisors. Previously, in comments on the proposed liquidity coverage ratio regulations issued by the Office of the Comptroller of the Currency (the "OCC"), the Board of Governors of the Federal Reserve System (the "Board") and the Federal Deposit Insurance Corporation (the "FDIC" and, together with the OCC and the Board, collectively, the "U.S. Agencies") entitled "*Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards and Monitoring*", SFIG requested more favorable HQLA treatment in the United States for (a) mortgage-backed securities ("MBS") issued by Federal Home Loan Mortgage Corporation ("Freddie Mac") or the Federal National Mortgage Association ("Fannie Mae"), (b) certain private label residential mortgage-backed securities ("RMBS"), and (c) certain high quality covered bonds.

(a) *Unique Assets*

The Committee should give national supervisors flexibility to address assets that are unique to their jurisdictions. For example, in the United States, mortgage-backed securities issued by Fannie Mae and Freddie Mac ("GSE MBS") are among the highest quality and most liquid assets and comprise one of the world's largest debt markets. Over $4 trillion of GSE MBS are currently outstanding[11] and, in 2013, the average trading volume of GSE MBS was almost $230 billion per day with pricing nearly perfectly correlated to U.S. Treasury securities.[12] Because GSE MBS are among the highest quality and most liquid assets, SFIG believes that they should be included in a bank's HQLA (and, for LCR purposes, without any limitations of a cap or haircut).

In our comment letter regarding the Proposed U.S. LCR, we proposed that Level 1 treatment be afforded to GSE MBS at least for so long as Fannie Mae and Freddie Mac are operating under the conservatorship or receivership of the Federal Housing Finance Authority pursuant to section 1367(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 or are otherwise effectively guaranteed by the U.S. Government. Here, SFIG proposes that the Committee adopt the final NSFR with guidance that clarifies that the U.S. Agencies have the flexibility to grant this request in applying HQLA standards. We also propose that the Committee modify its Basel LCR Guidance to clarify that the U.S. Agencies have the flexibility to grant this request or our alternative proposal that, if Level 1 treatment is not granted, GSE MBS be afforded Level 2A treatment but be excluded from the 40% cap generally applied to Level 2 assets.

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11 Source: http://www.sifma.org/uploadedFiles/Research/Statistics/StatisticsFiles/SF-US-Agency-MBS-SIFMA.xls?n=44617.

12 Source: http://www.sifma.org/uploadedFiles/Research/Statistics/StatisticsFiles/SF-US-SF-Trading-Volume-SIFMA.xls?n=28157.

(b) *Specific Market Characteristics*

The Committee should give national supervisors more flexibility to address the specific characteristics of the markets they regulate. For example, the Basel LCR provides Level 2B treatment for certain qualifying private-label RMBS under which all of the underlying mortgage loans have full recourse back to the obligor's assets. However, SFIG believes that the Committee should be more flexible in its criteria for Level 2B treatment for RMBS to permit national supervisors to implement the HQLA standard in a manner that recognizes alternative standards of creditworthiness applicable in the markets they regulate.

In the United States, twelve states prohibit mortgage loans with recourse to the obligor.[13] As a result, most U.S. RMBS would not be backed solely by mortgage loans with full recourse to the underlying obligor's assets. However, the fact that a mortgage does not include the potential for an additional unsecured claim against the underlying obligor does not necessarily mean that the mortgage is not a high credit quality asset. Alternative standards are used in the United States to determine the creditworthiness of the underlying mortgage. For example, in implementing the federal Truth in Lending Act ("TILA") under the Dodd-Frank Act, the Consumer Financial Protection Bureau has provided a definition of "Qualified Mortgage" designed to help ensure that borrowers are offered and receive residential loans on terms that reasonably reflect their financial capacity to meet the payment obligations associated with such loans.[14] As a result, the definition is being increasingly relied upon by regulators and market participants in the United States in identifying mortgages with high credit quality.[15] In addition, the Federal Deposit Insurance Corporation has provided assessment regulations that, among other things, define mortgages loans that would be designated "higher-risk consumer loans" or "nontraditional mortgage loans."

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13 U.S. states with non-recourse mortgage loan laws include: (1) Alaska; (2) Arizona; (3) California; (4) Connecticut; (5) Idaho; (6) Minnesota; (7) North Carolina; (8) North Dakota; (9) Oregon; (10) Texas; (11) Utah; and (12) Washington.

14 In order to fall within the Qualified Mortgage definition, loans must not have a negative amortization feature, an interest only period, a term longer than 30 years or, in most cases, a balloon payment. Additionally, loans are not eligible for purchase, guarantee or insurance by one of the GSEs, FHA, VA or USA and generally require a borrower debt-to-income ratio of 43% or less.

15 For example, in May 2013, the Federal Housing Finance Agency ("FHFA") announced that it was directing Fannie Mae and Freddie Mac to limit their future mortgage acquisitions to loans that meet the Qualified Mortgage standard and that are exempt from the "ability to repay" requirements under the Dodd-Frank Act. In addition, in re-proposing rules implementing the risk retention rules under the Dodd-Frank Act, the OCC, the Board and the FDIC explicitly recognized the high quality of Qualified Mortgages when they proposed an exemption for RMBS backed by Qualified Mortgages.

(c) *Forward Looking Definitions*

SFIG believes that the Committee should be more flexible in its HQLA requirements and encourage national supervisors to adopt forward-looking definitions of HQLA. Such forward looking definitions that are consistent with the Committee's HQLA standards would permit the ongoing development of markets for assets that may not currently warrant HQLA treatment in certain jurisdictions.

For example, the Basel LCR provides Level 2B treatment for certain qualifying covered bonds. However, covered bonds do not qualify for HQLA treatment under the Proposed U.S. LCR because the U.S. Agencies argue that the U.S. covered bond market is not sufficiently developed to warrant HQLA treatment. In our comments on the Proposed U.S. LCR, we requested that the U.S. Agencies adopt a forward-looking standard providing that covered bonds be afforded HQLA treatment only if they meet liquidity criteria consistent with those set forth for corporate debt securities. In other words, before any covered bond would qualify, the covered bond market must have developed in a manner sufficient for the covered bonds to have a proven track record as a reliable source of liquidity during stressed market conditions. SFIG also proposed that the U.S. Agencies adopt forward-looking HQLA definitions for private-label RMBS and ABS, in each case affording HQLA treatment to such assets when their relevant markets have developed to have a proven track record as a reliable source of liquidity during stressed market conditions.

3. *Certain Assets That Do Not Qualify as HQLA Under the LCR Should Nevertheless Be Assigned Favorable RSF Factors Under the NSFR*

In the Basel LCR Guidance, the Committee indicates that "[t]he liquidity value of an asset depends on the underlying stress scenario, the volume to be monetized and the timeframe considered." However, by utilizing the same definition of HQLA for purposes of both the LCR and the NSFR, the Committee has failed to recognize that the liquidity value of an asset may be different in the context of the underlying stress scenarios and timeframes considered by these two rules.

According to the Committee, the Basel LCR is intended to ensure that banks have adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30 calendar-day liquidity stress scenario. As a result, for purposes of the LCR, whether an asset qualifies as HQLA should depend on the likelihood that the particular asset could be easily and immediately converted into cash at little or no loss of value (1) within a 30-day period in (2) a liquidity stress scenario.

However, the NSFR is intended as a complement to the LCR and seeks to ensure that banks maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities over a longer time horizon of one year. Therefore, for purposes of the NSFR, whether an asset qualifies as HQLA should depend on the likelihood that the particular asset could be converted into cash at little or no loss of value over a one-year time horizon. We note that the Committee has not assumed stress conditions for purposes of the NSFR.

As a result, while all assets that qualify as HQLA for purposes of the LCR should certainly qualify as HQLA for purposes of the NSFR, the Committee should also recognize that additional assets that do not qualify under the LCR should nevertheless qualify as HQLA for purposes of the NSFR. More specifically, SFIG believes that the Committee should (1) remove the 30-day price volatility test from the criteria utilized to determine whether private-label RMBS, covered bonds or ABS qualify for Level 2B treatment under the Proposed NSFR Requirement and (2) assign lower RSF factors to GSE MBS, private-label RMBS, covered bonds and ABS regardless of whether they are afforded HQLA treatment under the LCR.

(a) *Remove Price Volatility Test for Purposes of NSFR*

In the Basel LCR, the Committee has included among the criteria for private-label RMBS and covered bonds to qualify as HQLA a requirement that such security is sponsored by an entity whose obligations have a proven track record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions, demonstrated by (A) the market price of the security or equivalent securities of the sponsor declining by no more than 20 percent during a 30 calendar-day period of significant stress, or (B) the market haircut demanded by counterparties to secured lending and secured funding transactions that are collateralized by the security or equivalent securities of the sponsor increasing by no more than 20 percentage points during a 30 calendar-day period of significant stress (the "30-day price volatility test"). For purposes of the LCR, we have also proposed that a 30-day price volatility test be applied to ABS that qualifies for HQLA treatment.

We agree that the 30-day price volatility test is appropriate in the context of the LCR, which is designed to ensure that a bank has sufficient high quality liquid assets to survive a significant stress scenario lasting for 30 days. However, the NSFR is designed to reduce funding risk over a longer horizon and, as a result, the NSFR should establish lower RSF factors for broader classes of assets. Recognizing the greater period of time afforded to address the issues targeted by the Proposed NSFR Requirement, the Committee should remove the 30-day price volatility test so long as a private-label RMBS, covered bond or ABS meets the other criteria set forth in the HQLA requirements.

(b) *Assign More Favorable RSF Factors to Certain High Quality Securitization Exposures*

Regardless of whether the Committee expands the definition of HQLA in the manner we've proposed in Part I.A.1 of this letter for purposes of the LCR, GSE MBS, private-label RMBS, covered bonds and ABS should be assigned lower RSF factors under the NSFR. More specifically, SFIG proposes that (A) the same 5% RSF factor that is assigned to sovereign or central bank securities be assigned to GSE MBS at least for so long as Fannie Mae and Freddie Mac are operating under the conservatorship or receivership of the Federal Housing Finance Authority pursuant to section 1367(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 or are otherwise effectively guaranteed by the U.S. Government and (B) a 50% RSF factor be assigned to private-label RMBS, covered bonds and ABS that meet the criteria set forth in Appendix B.

B. Assign 0% RSF Factor to Asset-Backed Commercial Paper That Is Fully Supported

Under the Proposed NSFR Requirement, asset-backed commercial paper ("ABCP") with a maturity of six months or less is assigned a 50% RSF factor, while unencumbered loans to banks with maturities of six months or less are assigned a 0% RSF factor. The 50% RSF factor assigned to ABCP materially overstates the net stable funding risk of ABCP that is fully supported by a credit or liquidity facility provided by a bank. Fully-supported ABCP programs are backed by liquidity facilities that cover 100% of the ABCP outstanding regardless of the quality of the underlying assets. In purchasing such ABCP, an investing bank would rely on the liquidity commitment from the liquidity provider bank in the same manner as it would rely on a direct obligation from that liquidity provider bank due in less than six months. As a result, there is no material difference in the net stable funding risk profile of ABCP that is fully supported by the liquidity provider bank, on the one hand, and an unencumbered loan to that liquidity provider bank, on the other hand. Therefore, SFIG proposes that ABCP with maturities of six months or less that is fully supported by a credit or liquidity facility provided by a bank should be assigned a 0% RSF factor.

C. Neither HQLA nor Traditional Securitizations Should Be Treated as Loans to Financial Institutions

For purposes of the Proposed NSFR Requirement, a securitization exposure purchased by a bank that was issued by a financial institution that either (a) qualifies for HQLA treatment or (b) meets the definition of a "traditional securitization" should not be assigned the same RSF factor assigned to a loan to the financial institution.

SFIG believes that any securitization exposure issued by a financial institution that meets the definition of HQLA should be assigned the RSF factor applicable to its HQLA category. For example, if a private label RMBS issued by a financial institution satisfies the criteria for Level 2B treatment set forth in Appendix B to this letter, it should be assigned the 50% RSF factor applicable to all Level 2B assets.

Further, to the extent that a securitization exposure issued by a financial institution does not qualify for HQLA treatment, it should be assigned the same RSF factor as a loan to an entity other than a financial institution, *provided* that the securitization meets the definition "traditional securitization" under the applicable jurisdiction's regulatory capital rules[16] and the issuing bank does not provide credit or liquidity support to the transaction.

Securitization transactions are structured such that the issued securities have maturities that are entirely (or almost entirely) dependent on the receipt of cash flows from underlying assets. If the issuing entity has no legal obligation to make a payment on a security due to the lack of sufficient cash flows from underlying assets, then it should not be assumed that the sponsoring bank make such payments when calculating its Required Stable Funding. This is true

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[16] For the U.S. Agencies' definition of "traditional securitization," see 12 C.F.R. Pt. 324, 55484 (September 10, 2013) and Appendix C to this letter.

irrespective of whether the sponsoring bank is required to consolidate the issuing entity onto its balance sheet.

One factor to consider in evaluating a sponsoring bank's obligation to repay a securitization exposure is whether the transaction meets the definition of "traditional securitization" under the applicable jurisdiction's regulatory capital rules. The fact that a transaction does not meet the definition of "traditional securitization" does not, in and of itself, necessitate the conclusion that the bank is responsible for repayment of the security. However, when the sponsoring bank has satisfied the criteria for a given transaction to be a "traditional securitization," it is clear that the sponsoring bank is not obliged to repay the security provided that the bank does not provide credit or liquidity support to the transaction. Therefore, a securitization exposure that meets the definition of "traditional securitization" should not be treated as a loan to the sponsoring bank.

II. The Numerator: Available Stable Funding

A. Treatment of On-Balance Sheet Securitizations

Under the Proposed NSFR Requirement, to the extent a bank treats the securitization of its assets as a liability for accounting purposes, such liabilities seem to be given a 100% ASF factor or a 50% ASF factor based on the effective maturities of the securitization. But, presumably, the Proposed NSFR Requirement would not treat off-balance sheet securitization liabilities of a bank securitizing its own assets as Available Stable Funding. SFIG believes that, so long as an on-balance sheet securitization meets the definition of "traditional securitization" under the applicable jurisdiction's regulatory capital rules, such securitization should not be treated as Available Stable Funding for the bank securitizing its assets, and the assets collateralizing such a securitization should not be assigned an RSF factor. Alternatively, recognizing that securitization provides stable funding for the securitized assets, another option is to match the RSF factor assigned to the securitization to the corresponding ASF factor, depending on the maturity of the securitization exposure.

Securitization transactions are structured such that the issued securities have maturities that are entirely (or almost entirely) dependent on the receipt of cash flows from underlying assets. If the issuing entity has no legal obligation to make a payment on a security due to lack of sufficient cash flows from underlying assets, then the sponsoring financial institution should not be required to assume that it will make such payments when calculating its Available Stable Funding.

One factor to consider in evaluating a sponsoring financial institution's obligation to repay a securitization exposure is whether the transaction meets the definition of "traditional securitization" under the applicable jurisdiction's regulatory capital rules. The fact that a transaction does not meet the definition of "traditional securitization" does not, in and of itself, necessitate the conclusion that the financial institution is responsible for repayment of the security. However, when the sponsoring financial institution has satisfied the criteria for a given transaction to be a "traditional securitization," it is clear that the sponsoring financial institution is not obligated to repay the security provided that the financial institution does not provide credit or liquidity support to the transaction.

B. Treatment of Bank-Consolidated ABCP Conduits

As a result of changes in accounting rules, many banks that sponsor asset-backed commercial paper conduits ("ABCP conduits") are required to consolidate the assets and liabilities of such ABCP conduits on their balance sheets. The consolidated assets of these ABCP conduits would be assigned an RSF factor under the NSFR. The ABCP issued by such ABCP conduits with maturities of less than six months, however, generally would not count as available stable funding.[17] Without modification the NSFR would therefore require a bank to maintain two sets of liabilities to fund such assets: shorter-term ABCP (consolidated on the bank's books but actually issued by an ABCP conduit) and the longer-term liabilities or other form of ASF borrowed by the bank not to fund the customer's assets but to meet NSFR requirements. We respectfully suggest that the accounting changes that required some banks to consolidate on their balance sheets the assets and liabilities of asset-backed commercial paper conduits are not an appropriate basis for establishing stable funding requirements for such transactions for purposes of the NSFR.

Our request only relates to ABCP conduits sponsored by banks and that are supported by liquidity facilities issued by banks that are sized to cover the outstanding face amount of the ABCP of the ABCP conduit. ABCP has for nearly 30 years been a vital source of low-cost working capital for businesses of all kinds both in the United States and globally, from industrial companies to finance and service companies to governmental entities. Assets funded through these vehicles include auto loans, commercial loans, trade receivables, credit card receivables, student loans and many other types of financial assets. ABCP financing of corporate America and the global economy remains substantial. For example, approximately $71 billion of automobile loans and leases, $11 billion of student loans, $23 billion of credit card charges, and $60 billion of trade receivables were financed by the U.S. ABCP market as of December 31, 2013.[18] The total outstanding amount of ABCP sold in the U.S. market stood at $228 billion as of March 31, 2014.[19] Asset-backed commercial paper conduits with liquidity support from financial institutions of the type described above have functioned well, even through the depths of the financial crisis. For purposes of the remainder this letter, we refer to only such asset-backed commercial paper conduits as "ABCP conduits" and "ABCP" is intended to include only commercial paper notes issued by such ABCP conduits.

The assets held by consolidated ABCP conduits will be funded by liabilities of such conduits that are not directly incurred by sponsor banks for as long as the commercial paper market continues to operate. The likelihood of a bank actually using its own assets through credit and liquidity facilities that it provides to such conduits to fund these underlying assets is no more (or less) than

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17 ABCP typically matures in less than six months. ABCP with maturities of six months or less would only constitute ASF if purchased by non-financial customers of the bank and the ASF factor applied to such ABCP would be 50%. Most ABCP is purchased by money market mutual funds and other financial entities and such ABCP would not constitute ASF unless it matured in more than six months.

18 Source: Moody's ABCP Query Product.

19 Source: Federal Reserve Statistical Release.

the likelihood that the same bank would fund such a facility provided to a conduit that is sponsored by a third party or that the bank does not otherwise consolidate. Required stable funding for such facilities therefore should be treated the same as off-balance sheet commitments under the NSFR: with a 5% RSF factor. Once drawn, like any other bank commitment to fund a loan or other asset, the resulting assets held directly by the bank would require the amount of stable funding applicable to such loans under the NSFR.

Many if not most of the assets funded by ABCP conduits are revolving or warehouse loans to special purpose entities using securitization structures. The size of these transactions can fluctuate significantly from time to time as the funding needs of bank customers change or term securitizations of the warehoused assets occur. Financing these assets with relatively shorter term ABCP is both a prudent funding strategy and liquidity risk management tool for the sponsoring bank.

Further, under the liquidity coverage ratio, banks that sponsor ABCP conduits are required to maintain unencumbered high quality liquid assets against any ABCP that matures within a given 30-day measurement period. To the extent that a credit or liquidity facility provided by a bank were drawn due to a disruption in the asset-backed commercial paper market or otherwise, these liquid assets, which would no longer be needed to support outstanding ABCP under the LCR, would be readily available to secure the stable funding necessary for the bank to fund the assets formerly funded by the ABCP conduit. Requiring stable funding for these assets prior to the time that they are in fact funded by the bank is unnecessary and burdensome and would make the operation of ABCP conduits uneconomical for many banks.

The following example illustrates this issue:

Assumptions:

1. ABCP conduit holds a single asset: a $100 million auto loan securitization exposure with a maturity of greater than one year, supported by a sponsor bank liquidity facility.

2. ABCP (liabilities) issued to fund the asset in a face amount of $100 million, with $35 million maturing in 30 days, $60 million maturing in 90 days, and $5 million maturing in 270 days, all issued to money market mutual funds.

Under the LCR, the bank would be required to maintain HQLA equal to 100% of ABCP maturing in 30 days ($35 million).

Under the NSFR, only the $5 million of ABCP maturing in 270 days would constitute available stable funding, which at an ASF Factor of 50% would equal $2.5 million. The auto loan asset would require stable funding at an RSF Factor of 85% for a total required stable funding amount of $85 million.

The sponsor bank will always hold unencumbered HQLA in an amount sufficient to cover the ABCP of the ABCP conduit maturing within thirty days that acts to defease the potential liability of the bank to fund its credit and liquidity facilities to repay such ABCP. In this example, if the

$35 million of ABCP maturing in 30-days could not be repaid from proceeds of newly issued ABCP due to a market disruption or otherwise, the bank would acquire $35 million of the ABCP conduit's securitization exposure through its liquidity facility. The $35 million of HQLA supporting such ABCP could then be used by the bank (if necessary) to obtain the resulting required stable funding. Requiring $85 million of stable funding for these assets while funded by the sponsored ABCP conduit is therefore unnecessary and excessive.

C. Permit Bank to Evaluate Whether it Would Exercise Clean-Up Call

When determining the maturity of an equity or liability instrument for purposes of the Proposed NSFR Requirement, investors are assumed to redeem a call option at the earliest possible date. For funding with options exercisable at the bank's discretion, banks are required to assume that they will be exercised at the earliest possible date unless the bank can demonstrate to its supervisor's satisfaction that the bank would not exercise this option under any circumstances.

In the case of a traditional securitization, an originating banking organization or servicer often has the option to exercise a clean-up call by repurchasing the remaining securitization exposures once the amount of the underlying asset exposures or outstanding securitization exposures falls below a specified level. Whether and when the originating banking organization or servicer will exercise its clean-up call option depends on a variety of factors, including, among other things, current market conditions and whether the transaction documents require the originator or servicer to repurchase the remaining securitization exposures at par value or at a premium.

Rather than assuming that a bank will exercise a clean-up call option in connection with a securitization of its assets at the earliest possible date, the Committee should require the bank to identify the securitizations that are likely to have a clean-up call option maturing over the next year and to reasonably evaluate whether the bank intends to exercise that clean-up call.

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We are grateful for the opportunity to provide these comments on the Proposed NSFR Requirement. Please do not hesitate to contact us if there are questions arising from our comments or any other aspect of the Proposed NSFR Requirement. Please contact Richard Johns, Executive Director of the Structured Finance Industry Group at (202) 524-6301 or via e-mail at Richard.Johns@SFIndustry.org.

Respectfully Submitted,

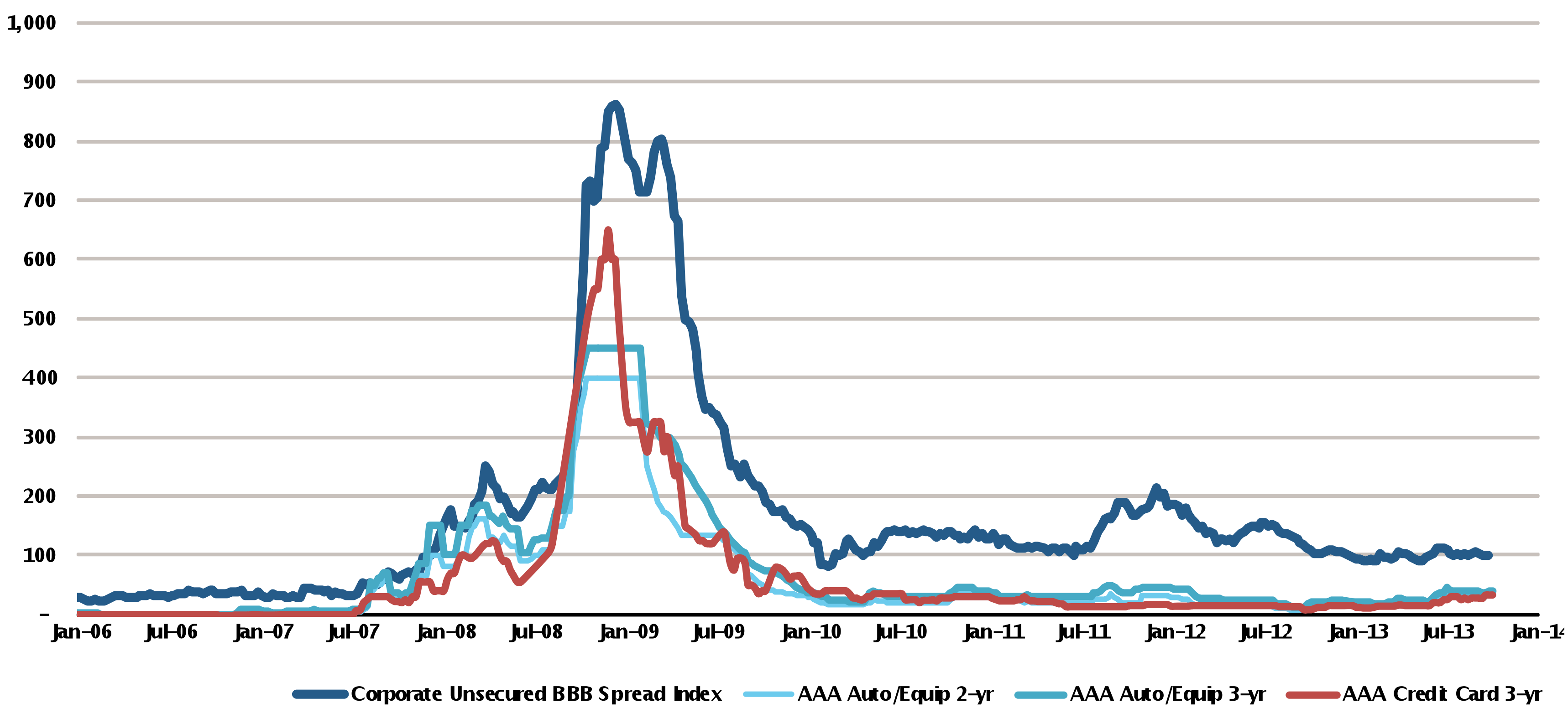
Richard Johns
Executive Director
Structured Finance Industry Group

APPENDIX A

LIQUIDITY CHARACTERISTICS OF ABS

ABS Spreads Demonstrating Resilience to Market / Event Risk

ABS Spreads vs. Credit Suisse Liquid U.S. Corporate Unsecured (LUCI) Index BBB (1-4 year)



Certain types of ABS performed better than certain investment grade corporate debt securities throughout the crisis.

APPENDIX B

HIGH-QUALITY SECURITIZATION EXPOSURES RECEIVING A 50% RSF FACTOR

ABS that meets the following criteria should receive a 50% RSF factor:

(1) is a security registered for offer and sale under the Securities Act of 1933 (the "Act") or, if exempt from such registration, is eligible for resale in reliance on Rule 144A under the Act;

(2) is a senior security that has a risk-weight of 20 percent or less under the applicable jurisdiction's standardized approach risk-based capital rules;

(3) constitutes a "traditional securitization" under the applicable jurisdiction's regulatory capital rules; and

(4) is backed by an asset pool that was not originated or otherwise owned by the bank or any of its affiliates prior to the relevant securitization transaction.

Private label RMBS that meets the following criteria should receive a 50% RSF factor:

(1) is a security registered for offer and sale under the Act or, if exempt from such registration, is eligible for resale in reliance on Rule 144A under the Act;

(2) is a senior security that has a risk-weight of 20 percent or less under the applicable jurisdiction's standardized approach risk-based capital rules; and

(3) the eligible primary underlying exposures consist solely of one-to-four family residential mortgage loans that are not higher-risk consumer loans or non traditional mortgage loans (as such terms are defined in Appendix C to Subpart A of 12 C.F.R. pt. 357[1]);

(4) constitutes a "traditional securitization" exposure under the applicable jurisdiction's regulatory capital rules;

Covered Bonds that meet the following criteria should receive a 50% RSF factor:

(a) is a security registered for offer and sale under the Act or, if exempt from such registration, is eligible for resale in reliance on Rule 144A of the Act;

(b) is a senior debt security issued by a regulated unaffiliated financial institution located in an OECD country;

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1 12 C.F.R. pt. 357, subpt. A, app. C, *available at* http://www.gpo.gov/fdsys/pkg/CFR-2012-title12-vol5/pdf/CFR-2012-title12-vol5-part327-subpartA-appC.pdf.

(c) is investment grade under the OCC's investment regulation; and

(d) the transaction documents with respect to which grant debtholders (or a trustee on their behalf) the right to sell the covered asset pool upon a payment default and such sale could not be stayed or otherwise delayed due to insolvency of the issuing entity under applicable law.

APPENDIX C[1]

AGENCIES' DEFINITION OF "TRADITIONAL SECURITIZATION"

Traditional securitization means a transaction in which:

(1) All or a portion of the credit risk of one or more underlying exposures is transferred to one or more third parties other than through the use of credit derivatives or guarantees;

(2) The credit risk associated with the underlying exposures has been separated into at least two tranches reflecting different levels of seniority;

(3) Performance of the securitization exposures depends upon the performance of the underlying exposures;

(4) All or substantially all of the underlying exposures are financial exposures (such as loans, commitments, credit derivatives, guarantees, receivables, asset-backed securities, mortgage-backed securities, other debt securities or equity securities);

(5) The underlying exposures are not owned by an operating company;

(6) The underlying exposures are not owned by a small business investment company defined in section 302 of the Small Business Investment Act;

(7) The underlying exposures are not owned by a firm an investment in which qualifies as a community development investment under section 24 (Eleventh) of the National Bank Act;

(8) The FDIC may determine that a transaction in which the underlying exposures are owned by an investment firm that exercises substantially unfettered control over the size and composition of its assets, liabilities, and off-balance sheet credit exposures is not a traditional securitization based on the transaction's leverage, risk profile or economic substance;

(9) The FDIC may deem a transaction that meets the definition of a traditional securitization, notwithstanding paragraph (5), (6), or (7) of this definition, to be a traditional securitization based on the transaction's leverage, risk profile, or economic substance; and

(10) The transaction is not:

(i) An investment fund;

(ii) A collective investment fund (as defined in 12 C.F.R. pt. 344.3 (state nonmember bank) and 12 C.F.R. pt. 390.203 (state savings association);

[1] 12 C.F.R. pt. 208, app. F; 12 C.F.R. pt. 225, app. G.

(iii) An employee benefit plan (as defined in paragraphs (4) and (32) of section 3 of ERISA), a “governmental plan” (as defined in 29 U.S.C. §1002(32)) that complies with the tax deferral qualification requirements provided in the Internal Revenue Code, or any similar employee benefit plan established under the laws of a foreign jurisdiction;

(iv) A synthetic exposure to the capital of a financial institution to the extent deducted from capital under § 324.22; or

(v) Registered with the SEC under the Investment Company Act of 1940 or foreign equivalents thereof.