

ASF RESPONSE TO BCBS CONSULTATION ON CAPITAL TREATMENT FOR “SIMPLE, TRANSPARENT AND COMPARABLE” SECURITISATIONS

As a unique representative body of all the French specialised credit institutions and financial institutions which represents 290 entities, ASF contributes to an appropriate recognition of the specialised financial activities like equipment and real estate leasing, factoring, consumer credit and auto loans and leases, mutual guarantee societies, investment and securitisation, which – with an outstanding of more than €215 billion in 2014 – accounts for about 20% of total amount of credits to the real economy in France.

We would like to thank you for giving us the opportunity to respond to the “capital treatment for “simple, transparent and comparable” securitisations” consultation.

In 2015, most new Asset-Backed Security (ABS) in Europe were backed by Auto, Consumer loans and Leases for which specialised credit institutions and financial institutions are key providers. Specialised credit institutions and financial institutions ABS are backed by assets that demonstrate positive contributions to the real economy as they all point towards increased investment in capital.¹

Q1. Do respondents agree with the rationale for introducing STC criteria into the capital framework? Are there any other aspects that the Committee should consider before introducing STC criteria into the capital framework that are not already reflected in the rationale above?

No comment

Q2. Do respondent agree that, for the purpose of alternative capital treatment, additional criteria are required? What are respondent's views regarding the additional criteria presented in Annex 1?

ABCP transactions should be included in the STC framework

We consider important to include Asset Backed Commercial Paper (ABCP) programmes in the scope of STC securitisation. These types of programmes constitute an important source of finance for specialised credit institutions and financial institutions. The use of ABCP contributes to the financing of SMEs and corporates through leasing and factoring, as well as of individuals through consumer credit, auto and equipment loans.

At European level, ABCP transactions market represents 80 Bn €. Due to both a regulated legal framework and investor's protective market practice, it has been growing for more than fifteen years in very safe conditions even during the financial crisis.

It must be emphasised that in an ABCP programme, the bank sponsor provides full liquidity support and takes risks arising from maturity transformation, not the investor.

Criteria for including ABCP programmes within the STC framework should be well balanced and not too restrictive, especially concerning the nature of underlying assets and their maturity (ex. For car industry in France, we consider that a limit on weighted average maturity under 3 years and a limit of loans maturity under 4 years would exclude up to 40% of the market from the STC framework). Unbalanced thresholds for including ABCP programmes in the STC framework would undoubtedly result in a significant increase in

¹ <http://www.sifma.org/research/statistics.aspx>

funding costs and less funding available for specialised credit institutions and financial institutions to fund loans to households and businesses.

The additional guidance concerning homogeneity criteria (nature of assets) should be further clarified

We agree that the securitisation has to be backed by a pool of underlying exposures that are homogeneous in terms of asset type. Yet, we believe that the homogeneity criteria should still be clarified. For instance:

- in order to arrange securitizations of Consumer Loans with sufficient amounts, ABS mixing the following asset types, that are all amortizable credits, should be possible: Personal Loans, Home Equipment Loans, and Auto Loans.
- It is important that the STC framework allows pools of leases and auto leases, and pools constituted of leases with different kinds of amortization profiles in order for the pool to achieve a sufficient size.
- It is also important that SME receivables are eligible as part of commercial loans pools to ensure that a wide range of funding to the smallest businesses can be achieved within the STC framework.

The additional guidance concerning the definition of credit-impaired borrowers (Payment status) implies a too restrictive assessment process

We agree that exposures that “to the best knowledge of the originator/sponsor”, are in default should be excluded, as well as credit-impaired debtors or guarantors.

Yet, we underline the fact that the main credit quality assessment process conducted by the originators takes place when the loan is granted. When the loan is ceased to a securitization vehicle, the credit quality assessment aims in general only at controlling common credit quality requirements, i.e. controlling:

- that the obligor is not in default,
- that the securitized loan has at least one installment paid,
- that loans have been originated within the normal process of activity.

The BCBS proposal implies a credit quality assessment process at the time of cession that seems difficult to implement from an operational perspective. Even if only required “to the best knowledge of the originator/sponsor”, it is not always possible at the time of cession to check that *(a) the obligor has not been the subject of an insolvency or debt restructuring process due to financial difficulties within three years prior to the date of origination; or that the obligor is not recorded on a public credit registry of persons with an adverse credit history, or on another credit registry, where a public one is not available in the jurisdiction; or that the obligor has not a credit assessment by an ECAI or a credit score indicating a significant risk of default.*

We agree with the fact that providing a clear definition of credit-impaired borrowers should facilitate compliance checks, but we believe that the proposed assessment process is too strictly defined, and not operationally feasible.

The additional criteria limiting the exposure to a single obligor (group) to 1% is too restrictive

We believe that the 1% threshold could be appropriate for retail transactions, but not for corporate transactions for which it is too low and not justified.

For instance, for wholesale securitisation of receivables from car and equipment dealers, the 1% threshold is set too low and would limit in a too large extent the access to the STC framework. Smaller firms would struggle to reach the scale needed to make STC securitisation economical if they must exclude their largest customers. In car and equipment

industry, a 1% threshold would make it difficult for significant dealer groups to obtain funding through ABS within STC framework.

The 1% threshold is too low especially if ABCP are to be eventually included in STC framework, since it does not correspond to the current multi-seller ABCP market. In trade receivables securitisation deals, the average exposure of significant debtors is usually closer to 5% to 10% (the concentration risk is mitigated by an appropriate level of overcollateralization). If this type of programmes were excluded from STC framework, it would have negative effects on the refinancing of smaller institutions granting loans and leases, and of European corporates selling their trade receivables.

In our view the threshold should be set at 5%.

Q3. What are respondents views on the compliance mechanism and the supervision of compliance presented in the consultative document?

The operational process to set up a securitization qualifying as STC needs to be clear, practical and predictable. Therefore, since the penalties for inaccurately describing a transaction as STS-compliant are extremely severe, we have a strong preference for a third party single body certifying STC so as to eliminate inconsistencies in interpretation of the STC criteria.

Q4. What are respondent's views on the alternative capital requirement for STC securitisation presented in this consultative document?

The proposed reduction of the floor risk weight from 15% to 10% / 12% for qualifying securitisations means in the IRB approach an increase of the floor compared to the current situation.

This sends the wrong signal and risks undermining the STC initiative.

In addition, the increase of the floor capital requirement seems not justified if intended to address model risks and structural risks, since these risks are already significantly reduced within the framework of STC securitisations.

An increase in the risk weighting to 10% / 12% is likely to result in increased financing costs for the industry, with a resultant effect on the real economy.

Thus, the floor risk weight should be set under 10% for securitisations qualifying STC.

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