

February 5, 2016

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

Dear Basel Committee members:

**Re: CBA¹ Comments on the BCBS consultative document:
“Capital treatment for “simple, transparent and comparable” securitisations”**

We welcome the opportunity to review the Basel Committee on Banking Supervision’s (BCBS) consultative document, “Capital treatment for “simple, transparent and comparable” securitisations.” We appreciate the efforts the BCBS has made to develop the simple, transparent and comparable (STC) securitizations framework for purposes of allowing more favorable capital treatment to qualifying securitizations, and we agree with the rationale presented to support the treatment. In short, we believe the proposed alternative capital treatment may increase participation in the securitization markets; however, we do not believe the proposed level of the alternative capital treatment for STC qualifying transactions will provide sufficient incentive to justify the administrative time and cost burden of determining and evidencing STC compliance.

In response to the consultative document, we have provided our comments on some key issues below, and offer more detailed commentary and answers to the four questions posed in the consultative document in the attached appendix.

Alternative Capital Treatment

In order for the STC framework to help reinvigorate securitization markets, particularly in Canada, it must provide sufficient incentives relative to the cost, and potential liability related to the proposed issuer attestation, of compliance. Unless there is a compelling economic incentive for issuers relative to such cost and potential liability, we question whether the STC framework will have any meaningful impact on the Canadian market, or elsewhere. This is especially true

¹ The Canadian Bankers Association works on behalf of 60 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 280,000 employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada’s economy. The Association also promotes financial literacy to help Canadians make informed financial decisions and works with banks and law enforcement to help protect customers against financial crime and promote fraud awareness. www.cba.ca.

for non-capital regulated issuers for whom it will need to be demonstrated that STC compliance will lead to sufficient pricing concessions by investors to justify the costs of STC compliance. As Canadian ABS transactions have largely involved traditional, high quality assets and straightforward structures that investors understand and investors have generally been happy with the level of disclosure of information, we are doubtful that Canadian investors will be willing to make a sufficient pricing concession in return for STC compliance to incentivize non-capital regulated issuers to pursue STC compliance. We do not believe that for capital regulated issuers, the capital treatment for retained securitization exposures, as currently proposed, and potential pricing concession will be sufficient to pursue STC compliance. This position is exacerbated by the fact that, for broadly distributed term ABS transactions in Canada, the majority of investors are non-capital regulated entities that will receive no capital benefit from investing in an STC compliant transaction, which further brings into question the prospect for a pricing concession.

Consequently, we are of the view that if pricing concessions are doubtful, the favourable capital treatment available to STC compliant transactions, and any other non-capital related benefits (e.g. favourable Liquidity Coverage Ratio (LCR) treatment or Leverage Ratio CCF treatment), must provide a sufficient incentive to capital regulated entities in order for the STC framework to have any impact in Canada.

For Canada, we believe that the capital treatment for STC compliant transactions must be more favourable than what is currently proposed. In addition, we believe the potential impact of the STC framework in Canada would be increased by providing a more meaningful reduction in capital for STC compliant transactions, a reasonable set of STC criteria, along with alternative capital treatment for ABCP liquidity facilities (as discussed below), and other non-capital related benefits (e.g. LCR or Leverage Ratio treatment). Without these changes, we are concerned that the STC framework will not have any meaningful impact on securitization markets in Canada.

Based on the foregoing, and the fact that during the financial crisis high-quality securitization assets in Canada did not suffer significant, if any, losses, and that the simple securitization structures backed by those assets performed well from a credit perspective, we are of the view that the current level of capital required under the current securitization framework is sufficient and appropriate for STC qualifying securitizations. We believe the 7% risk weight floor for senior positions should be carried forward to the new securitization framework for STC compliant transactions in order for the STC framework to have the material impact we believe the BCBS is looking to attain. The 7% risk weight floor could be translated to a p-parameter of ~0.5.

Compliance and Supervision

A second area of concern for us is the proposed compliance and supervision regime for the STC framework.

Compliance

We do not agree with the approach that the BCBS has taken to determining compliance with the STC criteria for alternative capital treatment. Instead of requiring issuers (i.e. originators and sponsors) to make a legally binding attestation in the offering documents, we believe that issuers should provide sufficient disclosure for investors to make their own assessment as to whether a transaction meets the STC requirements for alternative capital treatment.

Issuers could make a general statement of intent such as, *“This structure was developed with the intent to meet the STC criteria as set out by the national supervisor/regulator”*, and include a disclaimer that investors are expected to make their own assessment as to whether they will treat the investment as STC compliant for purposes of applying capital. An issuer would also be required to provide the STC prescribed information, which should be sufficient for an investor to make a determination as to STC compliance. An issuer, though, would not be required to make a formal attestation or representation that a transaction is STC compliant since that would expose the issuer to specific liability in connection with such attestation.

For all issuers, but in particular non-capital regulated issuers, we feel an attestation requirement (coupled with no appreciable pricing concession as discussed above) will be a significant disincentive to seeking STC compliance. In addition, for non-capital regulated issuers, trying to make an attestation of compliance with STC criteria within the Basel III capital framework that they are neither subject to nor familiar with, would be a challenging, and arguably unfair, exercise.

For capital regulated issuers in Canada, their structures are already considered to be the “benchmark” ABS structures in the market. As a result, and for the other reasons discussed above, we feel it is unlikely that STC compliance will lead to a meaningful reduction in spreads or increase in demand. For these issuers, the potential additional liability associated with a formal attestation would provide a further disincentive to pursuing STC compliance.

Despite not having a formal attestation from an issuer, investors would still have available to them, and issuers would be subject to, all normal disclosure requirements and related liabilities under applicable securities laws, which we believe provide sufficient protection to investors. As we do not believe the Canadian ABS market is sufficiently large or active to support a third-party organization to assess STC compliance, we believe that investors are the appropriate party for determining whether an investment is STC compliant. This is the normal assessment process that an investor goes through in respect of any investment it may make. Our view is that each party, whether as an originator, investor, liquidity provider or other role (for those that are subject to the Basel securitization framework) should use the information available to them to determine the appropriate amount of capital required for a securitization. However, it is worth noting that many of the July 2015 STC Criteria would be very difficult and costly for an investor to verify. Examples include Payment Status (A3) and Consistency of Underwriting (A3).

The consultation paper is not clear on how compliance will be determined for cross-border transactions. To the extent there are differences in STC eligibility among different jurisdictions, will the issuer and investors be expected to confirm that the criteria from both jurisdictions have been satisfied?

Supervision

We note the proposed requirement that any issuer (i.e. originator/sponsor) of an STC qualifying securitization transaction, and the transaction itself, must be subject to oversight by a regulatory authority, and that the issuer must be subject to legal liability or regulatory action with respect to material misrepresentations or omissions regarding satisfaction of the STC criteria. On this latter point, please see our comments above regarding the need for a formal attestation from issuers. In order for the STC framework to be available to non-capital regulated issuers, we expect that the intended required regulatory oversight in respect of an issuer and an ABS transaction is the

securities regulator of the market or markets of the ABS offering, and not a regulator of banks or other financial institutions (e.g. the Office of the Superintendent of Financial Institutions (“OSFI”) in Canada, although a bank as issuer would be subject to regulatory oversight by both).

We note that many issuers (for example, captive auto finance companies) are not regulated by OSFI-like regulators, and we would not want to see these non-regulated issuers and their transactions precluded from the STC framework. Besides eliminating a significant number of issuers in Canada, we are also concerned that the exclusion of these issuers could create a two-tiered market and potentially result in higher pricing and less liquidity for these issuers’ transactions.

Regulatory oversight of both issuers and investors seeking to apply the alternative capital treatment of the STC framework will, of course, be provided by the applicable regulator of financial institutions, such as OSFI in Canada. In these instances, the party seeking the alternative capital treatment will be required to demonstrate STC compliance, and we would suggest this be under a similar governance framework as currently applied for Basel II and III compliance requirements.

Additional Criteria

While we provide feedback on the expanded set of seventeen proposed STC criteria in the attached appendix, we also make the following general observations. We are in favour of the Basel Committee’s efforts to provide clarification and interpretative guidance on the STC criteria, but we generally believe that the additional criteria and additional considerations or requirements added to certain criteria are not helpful as they do not assist in the differentiation of STC securitization structures. In addition, we believe that the additional criteria and requirements further burdens the assessment process and limits the number of transactions that will qualify for STC treatment. We believe that the application of the STC criteria should be principles-based and not overly prescriptive.

We believe the July 2015 STC criteria are sufficiently rigorous to differentiate between “low-risk” and “high-risk” securitizations, and some would argue that even the July 2015 STC criteria are too limiting for the framework to have meaningful impact. To the extent that there are concepts that are already addressed in the December 2014 Securitization Framework², we believe that it is confusing to define those differently in the STC criteria perspective. For example, the concept of granularity for senior and non-senior wholesale exposures that feeds into the calculation of the p-parameter in the new Securitization Framework is different than the granularity concept in the STC criteria. Credit quality was also addressed sufficiently in the securitization framework.

We would propose eliminating the new additional criteria and requirements from the STC framework.

² December 11, 2014, “Revisions to the securitization framework”, Basel Committee on Banking Supervision final rules. <http://www.bis.org/press/p141211.htm>

Scope of the STC framework for capital purposes

In Canada, the asset-backed commercial paper (ABCP) securitization market is a significant part of the overall securitization market and arguably the most active part of the market. For this reason, we request that the BCBS develop an STC framework for ABCP programs, or add ABCP programs to the proposed STC framework as outlined below.

In this regard, we think a distinction needs to be drawn between the roles of ABCP conduit sponsors and ABCP conduit investors. In the Canadian market, banks are the sponsors of ABCP conduits, and are primarily concerned with the capital treatment of the liquidity facilities they extend to their sponsored ABCP conduits and/or asset pools within the conduits. While we would like to see the development of an STC framework that will result in favourable capital treatment for both ABCP investors and the bank-sponsors that provide liquidity to the ABCP conduits, at a minimum, we strongly advocate making the proposed STC framework and the alternative capital treatment available to bank sponsors / liquidity providers. As the majority of ABCP investors are not regulated financial institutions, the benefit or impact of the STC framework for ABCP investors will be more limited than it is for the bank sponsors / liquidity providers.

Given the nature of the ABCP structures, there is a difference between the information available to the conduit sponsors as liquidity facility providers and the information available to ABCP investors. As a result, when developing STC criteria for the ABCP conduits, there may need to be differences in the criteria that apply to liquidity providers and those for ABCP investors. Addressing the current STC criteria in respect of liquidity facility providers, we believe that the Canadian ABCP conduits largely meet the proposed STC requirements for purposes of applying them to sponsors / liquidity providers. Each specific transaction in the ABCP conduit would be homogenous, with largely straightforward structures and high quality, “plain vanilla” assets. The assets and structures for the transactions included in the conduit are almost identical to those used in term ABS transactions that would be subject to the STC criteria. The bank sponsor/liquidity providers would also obtain a significant amount of information from the seller on each transaction (although it may not be in the form prescribed in the STC criteria).

In our view, the STC criteria being developed for ABCP should recognize the nature of their liquidity facilities, or alternatively, the current STC criteria could be extended to cover ABCP liquidity facilities. As the capital required to be held by the liquidity provider will impact the pricing charged to clients, the difference in capital treatment between term ABS and ABCP liquidity facilities appears to have the unintended consequence of creating a mismatch in capital and pricing for transactions with similar (and in some cases identical) assets and structures, solely as a result of the funding source used (ABCP versus term ABS market). It is our opinion that, more than any other category of ABCP securitization exposure, the activity of providing liquidity facilities to self-sponsored conduits should be eligible for the STC framework and the related alternative capital treatment, and we recommend that the STC framework be broadened to include it.

We believe that the goal should be to not only increase investor demand, but also to provide sufficient capital and liquidity relief for sponsors and investors so that there are incentives to expand securitization issuance and improve stability in the securitization markets.

Conclusion

In considering the proposed STC framework and alternative capital treatment, for the reasons stated above, we do not believe that the capital relief of the proposed alternative capital treatment is sufficient to incentivize issuers to access the STC framework. In order to have an impact on the revitalization of the securitization markets globally, we recommend that the capital requirements for STC securitizations should be set at the current framework levels (i.e. 7%), combined with other non-capital related benefits such the consideration of more favourable treatment for the LCR and leverage ratio.

We thank you for taking our comments into consideration and look forward to future discussions on these issues.

Sincerely,

A handwritten signature in black ink, appearing to read "Darren Hamel", with a long horizontal flourish extending to the right.

Enclosures

cc: Catherine Girouard, Director, Bank Capital, OSFI Regulatory Sector
Ian Gibb, Capital Specialist, Bank Capital, OSFI Regulatory Sector
Mary Thomas, Senior Analyst, Capital Division

CBA comments on Basel Committee consultative document: *Capital treatment for simple, transparent and comparable securitisations*

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1. INTRODUCTION (page 1)	
2. INCORPORATING THE BCBS-IOSCO JULY 2015 STC CRITERIA INTO THE CAPITAL FRAMEWORK (pages 1 - 2)	
Background on the STC criteria (page 1)	
Rationale for introducing STC criteria into the capital framework (page 2)	
Question 1: 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?	
We agree generally with the rationale for introducing STC criteria into the capital framework applicable to securitizations, as the “one size fits all” approach to the regulation and capital treatment of securitizations set out in the Revised Securitisation Framework is unduly harsh and fails to recognize that not all securitizations involve the same degree of risk or complexity. Indeed, the majority of securitization transactions in Canada involve traditional asset classes and straightforward structures – the so-called less risky underlying assets and lower structural risk securitization transactions referred to in the consultative document. We are pleased that the STC criteria are meant to recognize these differences and provide capital relief for the “less risky” securitization transactions and that the Basel Committee recognizes that the STC criteria will have a negligible impact on securitization markets, let alone reviving them, unless the STC criteria are incorporated into the Revised Securitization Framework and provide a tangible capital benefit to participants (i.e. significant capital relief but not onerous compliance costs). While we think that the rationale for STC criteria should be thoughtful and accurately stated, achieving the desired impact is equally important. On this front, our initial response is that the proposed alternative capital treatment for securitization transactions complying with the STC criteria is still too conservative and may not provide sufficient incentives or benefits to justify the cost of complying with the STC criteria. For the STC framework to have a material impact on securitization markets, we recommend that the capital requirements for STC securitizations should be set at the current framework levels (i.e. 7%), and other non-capital related benefits such the consideration of more favourable treatment for the LCR and leverage ratio.	

CBA Members' Comments and Requests for Clarification**Scope of the STC framework for capital purposes (page 3)**

We appreciate the Basel Committee's consideration of issuing STC criteria for short-term securitizations. Transactions funded in the Term-ABS market and the bank-sponsored asset-backed commercial paper (ABCP) market in Canada performed well during the financial crisis, but suffered from the stigma of the non-bank sponsored ABCP market in addition to international securitization challenges. With the goal to not only increase investor demand, but also to provide capital and liquidity relief for sponsors and investors, we request that the Basel Committee develop an STC framework for ABCP programs or at minimum extend the proposed STC framework to apply to bank conduit sponsors and liquidity providers who, in such capacity, will have sufficient information to evaluate STC compliance under the proposed framework. Extending, or developing, an STC framework for ABCP programs would contribute to stabilizing and expanding the securitization market, especially in Canada where the ABCP market is a significant part of the overall securitization market.

ABCP programs are a significant source of working capital for the Canadian economy, in particular consumer finance, providing relatively low-cost funding and funding diversification for issuers. Accordingly, we strongly believe that the STC criteria, and associated benefits, including capital relief, should be tailored to and applied to ABCP programs as well. This position is based on the fact that many ABCP programs are backed by the same asset types as the Term ABS transactions that we expect to be STC compliant. In addition, these ABCP transactions are also structured similarly to their Term ABS counterparts. Finally, with respect to bank conduit sponsors and liquidity providers as described above, these banks will have available to them the full breadth of information related to the individual transactions and assets within the conduit, in fact more information than ABS investors are ever likely to receive, and are therefore well positioned to make an STC assessment.

Although we believe the proposed STC framework could be applied to bank conduit sponsors as described above, for purposes of extending STC benefits to ABCP investors, we believe it would be beneficial to create a set of criteria specific to ABCP programs to account for differences between ABS transactions and ABCP programs as they apply to investors, for instance the anonymity of sellers under ABCP programs and multiple transactions within a conduit. In addition, the development of an STC framework for ABCP programs would prevent a potential mismatch in the market whereby less risky assets and less risky structures funded in the term ABS market receive a more favourable capital treatment than if they were funded in an ABCP program. We believe the recently developed Short-Term Securitized Products Amendments contained within National Instrument ("NI") 45-106) would be a helpful basis for developing an STC framework applicable to ABCP programs in Canada. These rules prescribe forms of disclosure for the Information Memoranda ("IM") issued by ABCP conduits in Canada as well as the on-going monthly disclosure requirements for each conduit, which we believe creates the appropriate amount of transparency and comparability of the transactions in the conduits. In fact, by prescribing form requirements for both the IM and monthly reports, this facilitates the comparison of the ABCP programs amongst the conduits, including between different bank sponsors.

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Also, we believe that commercial mortgage-backed securities (CMBS) should be considered homogeneous despite the variability of the underlying commercial real estate properties.

Definition of STC securitisation for regulatory capital purposes (page 3)

Question 2: Do respondents agree that, for the purpose of alternative capital treatment, additional criteria are required? What are respondents' views regarding the additional criteria presented in Annex 1?

We believe the broader, principled approach to the criteria set out in prior consultative documents, including the July 2015 STC criteria, was a benefit and would lead to the greatest potential for the STC criteria to have the desired revitalizing impact on securitization markets. As a result, we are disappointed that the Basel Committee has seemingly taken a step backwards by adding additional prescriptive criteria, which we believe will undermine the impact of the STC criteria. As well, as described below, certain of the criteria seem to have been developed without consideration of the other proposed requirements for STC compliance, creating duplication and arguably inconsistency (see comments on D17 below).

- **Credit Risk of Underlying Exposures (D15):** An example of the development of criteria without consideration of other STC requirements appears to us to be the new criterion D15. While we recognize that the assessment of the credit risk of the underlying assets is an important aspect to assessing low risk securitizations and determining appropriate capital treatment of the related securitization exposures, asset quality was already addressed in the 2014 Securitization Framework. The D15's requirement that the risk weight of the underlying assets must be calculated using the Standardized Approach will be a significant disincentive for non-regulated originators / sponsors who are not subject to a capital requirements. These originators / sponsors are unlikely to have the familiarity and expertise necessary to use the Standardized Approach to make the required assessment, and yet it is proposed that these originators and sponsors be required to formally attest to STC compliance of their transactions if they want their transactions to benefit from such compliance. In our opinion, this will just further limit the impact of the STC framework by limiting the number of originators / sponsors that will seek STC compliance. This is one of the reasons we would propose eliminating the issuer attestation. In our view this criterion should be deleted as we feel the asset criteria set out in Part A of the framework are sufficient to address credit quality concerns.
- **Granularity (D16):** The granularity test set out in criterion D16 may effectively limit qualifying asset classes to consumer securitizations such as auto assets and residential mortgages. We feel this is an unnecessary, or at the least too restrictive, criterion as an obligor concentration level above 1% does not necessarily materially increase risk and can be addressed through adequate structuring and credit enhancement. A

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1% limit may effectively preclude certain low-risk securitizations (e.g. trade receivables, auto fleet, equipment finance and dealer floor plan deals) from being able to meet the STC criteria to qualify for better capital treatment. If a granularity criterion is to be included, we believe it should be sized through consultation and should be higher than 1%; we note that fleet leases and CMBS transactions can have concentrations of up to 10%. In addition, the 1% requirement does not take into consideration any credit enhancement included in the structure, which is usually added to address concentration risk. We recommend that the Basel Committee consider revising the percentage of single obligor exposure to a higher absolute level that is sized through consultation or varies by asset class, or deleting this additional criterion altogether as there is already a granularity concept within the new Securitization Framework that is different from the D16 criterion. We would also recommend that there be flexibility for a single obligor exposure to exceed this concentration and a transaction still be STC compliant as long as the credit enhancement or advance rates are adjusted to sufficiently address this higher concentration risk.

- **Relationship between the originator and the servicer of the securitised assets (D17):** We believe that D17 is unnecessary. While most securitization transactions are serviced by a servicer that either is the originator or is related to the originator, we do not see why this should be a criterion for STC qualification, especially in light of the exception for residential mortgages (although this exception may be limited by the ambiguous “must be a jurisdiction where it is common practice to employ a third party servicer”). If a third-party servicer is permitted for residential mortgages, it should be permitted for other asset classes and the principle for this is the same as that underlying residential mortgages (e.g. it may be that a specialist servicer provides for a safer, better serviced transaction). Having a different servicer and originator should not be presumed to undermine the low risk of a transaction. We believe the additional requirement under criterion A2 adequately addresses the issue (A2 requires originators to have at least five years of experience and originators, or a related party, are generally the servicer of their securitized assets), as does C13 which sets out specific servicer requirements and qualifications which if met begs the question why D17 is required at all. As with D15, we would recommend deleting this criterion.

In addition, several of the July 2015 STC Criteria were potentially unworkable or required additional guidance (see Annex 1). We seek Basel Committee's clarification whether two sets of STC criteria will be maintained (i.e. the BCBS-IOSCO July 2015 STC criteria vs. STC criteria for regulatory capital purposes). We recommend that Basel Committee consider, for simplicity purpose, adopting one set of STC criteria (i.e. the final version of this consultative document), which, in our view, should not include the three additional criteria proposed by the Basel Committee.

Please see the detailed comments below relating to each criterion in the Appendix, including the additional criteria.

3. CONSIDERATIONS AROUND THE STC CRITERIA (pages 4 – 5)**(i) Enhancements to the criteria for regulatory capital purposes (page 4)**

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Generally, we are supportive of the Basel Committee providing guidance on the application of the STC criteria. Where a principled approach is taken, guidance on how the criteria are to be interpreted and applied is helpful and provides greater certainty to end-users in assessing whether a transaction meets the STC requirements and qualifies for alternative capital treatment. However, we are disappointed that the additional language goes beyond providing guidance and, in a number of instances, adds additional requirements. It is contradictory for the Basel Committee to make the point that it has not modified the wording of the individual criteria when it has instead added additional requirements as a supplement to the criteria. We feel these additional requirements make the STC criteria unnecessarily onerous to comply with and will limit the asset classes and transactions that will be able to meet the STC requirements, with the consequent result that the STC framework and alternative capital treatment will fail to have its intended impact.

Please refer to our comments on Annex 1 for specific examples.

(ii) Determining compliance (pages 4 - 5)**Issuer & Investors**

We do not agree that the issuer (i.e. originator/sponsor) should attest that the securitization is compliant with STC criteria. Instead of requiring issuers to make a legally binding attestation in the offering documents, we believe that issuers could provide a general statement of intent and be required to provide sufficient disclosure to allow investors to make their own assessment as to whether a security purchased out of a securitization transaction meets the STC requirements for alternative capital treatment. As noted in the consultative document, each party should be responsible for its own determination of STC compliance and the capital treatment they apply and should not be relying on someone else's assessment as part of that process.

As noted above, we believe issuers could make a general statement of intent like, *"This structure was developed with the intent to meet the STC criteria as set out by the national supervisor"*, and include a disclaimer that investors are expected to make their own assessment of the suitability of their investment and STC compliance. Issuers would also be required to provide sufficient information to investors, both initially and on an on-going basis to allow the investor to make the STC compliance determination. While issuers would not have specific liability through a formal attestation, issuers would be subject to, and investors would have available to them, all normal disclosure requirements and related remedies / liabilities in connection with the ABS offering. Arguably, this should satisfy the Basel Committee's requirement for issuer liability.

We believe the goal should be an approach that is the most practical and least burdensome. The additional administrative costs to participants (e.g. internal processes and personnel to assess and document STC compliance) should not be underestimated, and the goal should be to reduce these costs as much as possible as the success of the STC framework will be dependent upon the benefit of the alternative capital

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treatment being sufficient to justify the additional costs of compliance. We note that issuers already have legal liability for disclosure in offering documents. We believe the formal attestation requirement and related liability will be a significant disincentive for issuers, particularly non-capital regulated issuers, to access the STC framework.

Supervisors

We suggest that national supervisor take a pragmatic approach to implementing the STC criteria so that attempted compliance does not unnecessarily cause a long lead time for investors to certify / satisfy themselves as to STC compliance. We are concerned with how attempting to comply with the STC requirements will impact the timing of the transactions as delays could lead to lost market opportunities for issuers and would again be a disincentive to access the STC framework. How long will it take investors to get comfortable on STC compliance (if at all) and what delays will that cause from a marketing and pricing perspective? One suggestion would be for supervisors to consider introducing a standardized report to be produced by originator / sponsors. This report would include information in respect of each STC criterion, together with relevant information and metrics to enable streamlined third-party / investor review. This would not, however, be a formal attestation or representation; instead, it would just be a means of providing prescribed information to investors for purposes of making their own independent determination.

Would the BCBS clarify their expectation for multijurisdictional issuances:

- Which criteria would apply: (1) the issuer's home market or (2) the investor's home market or (3) both?
- What if there are differences in STC criteria between the home markets?
- Would issuer be expected to attest to every jurisdiction where the transaction is offered?
- Would investors be expected to be familiar / knowledgeable about every jurisdiction?

Third-party or multiple assessments

We do not believe the Canadian ABS market is large enough to justify or support a third-party decision maker. We believe that any third-party involvement in the assessment process would add significant cost and also have the potential to create conflicts with other regulators, such as a regulator of capital requirements.

CBA Members' Comments and Requests for Clarification**(iii) Role of supervisors in the determination of STC compliance (page 5)**

Our interpretation of what is proposed in the consultative document is that existing capital supervisors (for example, OSFI), in carrying out their ordinary regulatory oversight, would look at the capital treatment regulated issuers (i.e. originators/sponsors) and investors apply to their respective securitization exposures. Where the alternative capital treatment has been applied, the respective party would have to justify this application to the supervisor, just as it would for any capital position it has taken in respect of an exposure. We believe this is the appropriate approach to supervisory oversight of the alternative capital treatment for regulated participants, but make note of the additional assessment and documentation burden on the parties applying the alternative capital treatment and the cost benefit analysis that these parties will need to apply to determine if the benefits justify the costs. In terms of issuers (originators / sponsors), both regulated and unregulated for capital purposes, we believe that securities regulators should oversee the compliance with issuer obligations in respect of STC compliance, such as the proposed attestation requirements to the extent the Basel Committee proceeds with that proposal. We believe this is what the Basel Committee intends by its requirement for regulatory oversight of issuers and STC compliant transactions.

As noted above, we do not believe that originators/sponsors should make a written attestation of STC compliance in the offering document, but rather state that the transaction has been structured with the intent of meeting the STC criteria, and be required to provide investors with the information that would be required to make their own determination of STC compliance.

Question 3: What are respondents' views on the compliance mechanism and the supervision of compliance presented in this consultative document?

We believe that both the proposed written attestation requirement and legal liability for misrepresentations requirement are too onerous, and will significantly limit the number of originators / sponsors accessing the STC framework. We believe investors should make their own determination of STC compliance and should not be relying on the assessment made by originators in an offering document. This is no different than any other investment that a regulated firm buys. As the investors who invest in ABS transactions are sophisticated, they are well equipped to be able to make determination of whether a transaction meets STC criteria and not require issuer attestation. As that analysis will require additional resources and processes, the benefit needs to be large enough to justify the added compliance costs for the investors. We believe the need for issuer legal liability is already adequately provided for under existing securities laws disclosure requirements and related liabilities.

We reiterate our comment above, with respect to the proposed requirement for regulatory oversight of issuers and STC compliant transactions, that the applicable regulatory body should be the local securities regulator in order to ensure that non-capital regulated issuers are not precluded

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from accessing the STC framework. In certain countries such as Canada, the exclusion of non-capital regulated issuers would materially limit the potential impact of the STC framework. In addition, such an exclusion would potentially create a two-tier market. Again, we recognize that certain issuers will be subject to both regulation by the securities authorities and the local regulator of capital requirements for financial institutions, which is already the case and should be no different for the STC framework.

We recommend that the Basel Committee clarify the reference to “regulatory body” and define it broadly enough that it does not restrict non-bank issuers from this designation (e.g. automotive finance companies, equipment finance, etc.). Also, we believe that the Basel Committee should consider clarifying that the regulatory authority oversight should be at the parent level, if applicable, of the entity originating the securitization. There may be instances where the originating entity/seller itself may not be the regulated entity, but it is consolidated into a parent entity, which is the regulated entity.

4. PROPOSED REVISIONS TO THE DECEMBER 2014 FRAMEWORK TO INCORPORATE THE STC CRITERIA (pages 6 - 9)**Introduction (page 6)**

As the introduction speaks to a cost benefit analysis, it is worth noting that despite the alternative capital treatment providing some benefit, it will also entail a significant amount of resources to determine and evidence STC compliance and the applicable capital treatment. The question is whether or not this burden will outweigh the benefits from the improved capital treatment or better pricing/distribution of the STC compliant securities.

Alternative treatment of exposures in STC securitisations (pages 6 - 9)

We are supportive of the STC initiative and the differentiated capital treatment for “low-risk” and “high-risk” securitizations; however, we repeat our question of whether the proposed alternative capital treatment for STC qualifying transactions will be sufficient to justify the burden of determining and evidencing compliance. We also note that by excluding ABCP from the current proposed STC framework, a substantial part of the securitization market in Canada will not be within the scope of this initiative. Please refer to our comments on Annex 1 and 2 for comments on the specific proposed capital revisions.

CBA Members' Comments and Requests for Clarification

Question 4: What are respondents' views on the alternative capital requirements for STC securitisation presented in this consultative document?

As stated above, we do not feel that the proposed alternative capital treatment provide a sufficient benefit to justify the costs of STC compliance. Relative to the amount of work required to assess STC compliance, the capital savings from the alternative capital treatment are limited, and is likely to have limited impact on reviving the term ABS market in Canada. As a result, we feel the impact of the STC and alternative capital framework will not have the desired impact on securitization markets unless there is more material capital benefit, coupled with more preferential liquidity treatment. The broadly distributed term ABS market, in particular, will not be significantly impacted unless there is significantly more capital and non-capital incentives for originators. For the ABCP market, if criteria are developed that result in meaningful capital benefits for the liquidity providers, we think this would have a tangible benefit on the securitization markets in Canada. However, as ABCP is excluded from the current criteria, the benefits from proposed STC criteria and alternative capital treatment is mostly going to be realized in the small segment of the market in which there are private transactions funded on-balance sheet by one or a few regulated financial institutions. As this is only one small segment of the market, there is likely not going to be a meaningful impact on securitization markets as a whole unless the changes in scope we noted above are made.

5. QIS (pages 9 – 10)

As a general comment the STC Criteria are too prescriptive and will severely limit the ability and desire of originators to meet these requirements. Examples include: not allowing mixed currencies even though simple currency hedging is contemplated and permitted under criterion B8, mixed collateral (e.g. equipment loans and leases, which are often included together in the same transaction), the requirement for an originator to demonstrate that origination is not subject to materially non deteriorating underwriting standards, and granularity of the pool being limited to 1%.

6. MONITORING PERIOD (page 10)

We agree that consistency across jurisdictions is important to ensure a level competitive playing field, but also to permit multi-jurisdictional ABS distributions and consistent treatment for investors. To maximize impact of the STC framework on securitization markets, investors and issuers need confidence and certainty that STC requirements are consistent across jurisdictions and that such securitizations will receive consistent capital treatment. In terms of issuers, the time and cost of STC qualification will only be exacerbated if there are different requirements in different jurisdictions. For example, a Canadian ABS issuer that wants to complete an STC compliant ABS transaction that will issue in both

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Canada and the United States will incur increased costs and time if the requirements are not consistent across jurisdictions or it may lead to the issuer foregoing the benefits of STC qualification in one of the jurisdictions, which may lead to investor confusion and less demand/liquidity for the securities. As a result, we would advocate that it is preferable that the STC criteria not be too prescriptive, but rather take a more principled approach. Criteria that are too prescriptive will likely lead to jurisdictional specific guidance, which, in turn, will make consistency across jurisdictions more difficult.

Our understanding is that the Basel Committee's intent is to proceed with the revised securitization framework in January 2018 and, depending on the timing of the implementation of the STC criteria and alternative capital treatment, this will either be part of the securitization framework or added subsequently through amendment. We would expect that any jurisdiction choosing to adopt the STC framework and the alternative capital treatment will either match the Basel Committee's timeline or adopt it subsequently as it puts in place the necessary compliance regime. We recognize that it is not a requirement for jurisdictions to implement the STC framework, nor is it a requirement for participants to try to qualify for STC treatment. Hence, we believe that the implementation and oversight of STC will not require any grandfathering - it will just apply and be available once the requisite local laws and / or regulations to regulate STC compliance are enacted. All things being equal, it would be highly preferable for the alternative capital treatment to be put in place at the same time as the revised securitization framework so as to avoid volatility in capital treatment (i.e. going up and then down as the new framework is implemented and then subsequently going down as the alternative capital treatment is incorporated).

Would the Basel Committee please advise if there is an expectation of additional Pillar 3 disclosure requirement for STC exposures?

7. NEXT STEPS (pages 10 – 11)

We agree that the timing of implementation of this consultative document should be coordinated with that of the December 2014 revised securitization framework. Simultaneous implementation would avoid any cliff effect that could arise in the period when the 2014 framework is implemented without favorable capital treatment for STC securitizations.

ANNEX 1 – EXPANDED SET OF STC CRITERIA FOR REGULATORY CAPITAL PURPOSES (pages 12 – 24)**A. Asset risk (pages 12 – 13)****1. Nature of the assets**

CBA Members' Comments and Requests for Clarification

The additional guidance provided by the Basel Committee is helpful and fits into the principled approach of this criterion and confirms what participants would have intuitively expected this criterion to require. However, we note that clarity will need to be provided on several issues, either at a Basel level with the new criteria or by local supervisors. We are generally supportive of the STC criteria requiring securitized assets to be homogeneous, but we request further clarification on several issues:

- In Canada, there are legal differences between provinces, particularly between the Civil Law system used in Quebec versus the Common Law system used in the rest of Canada. We believe assets originated within Canada should be considered to be under a homogeneous legal system despite certain provincial differences. We note that the securitization transactions have structural features to account for these legal differences.
- We believe that the terms of homogeneity should not be too restrictive; for instance, if adequately hedged, why could you not have receivables in multiple currencies, especially in light of Criterion 8, which implies that multiple currencies would be acceptable ("currency profiles of assets") provided hedged properly and disclosed. Cross-border securitizations with mixed domiciled receivables are not uncommon and could potentially be excluded due to this criterion, and these assets are typically subject to the same credit standards as they are originated by a single originator.
- We would appreciate example guidance for other asset classes. We are uncertain about the use of "mix of new and used cars..." If a transaction had all new cars or all used cars, why would that not be homogenous? How does the level monthly payments influence homogeneity? We believe that a mix of semi-monthly, bi-monthly and monthly payments should be allowed. Similarly, what is the expectation for the application of mix payments for credit cards?
- Would also note that there is a degree of heterogeneity in assets in all transactions – what is the envisioned threshold? This can be clarified through further examples and clarity on the types of assets that qualify.
- Certain types of assets will typically include a mix of loans and leases (for example equipment finance deals); that should not, in itself preclude the determination of homogeneity.
- If ABCP programs are included, how will this be viewed? At the conduit level, or the individual transaction level?
- We believe further consideration should be given to CMBS as we believe an argument can be made that the underlying assets in CMBS transactions should be considered homogenous despite the variability of commercial real estate properties.

CBA Members' Comments and Requests for Clarification**2. Asset performance history**

Generally, this is a reasonable criterion, and we believe already complied with by originators/sponsors that generally provide the performance history of their full managed pool of assets over a period of time – generally five years. This, however, is one example where the layering on of additional requirements is, in our opinion, unnecessary and has the effect of significantly limiting the potential impact of the STC framework by imposing specific prescriptive requirements in place of the original principled approach.

This criterion was originally drafted not to include specific time requirements, thus allowing new market entrants and new asset classes to potentially comply with STC requirements. The requirement that there must now be a minimum of performance history of five years will limit the opportunity for new asset classes and originators/sponsors to qualify for STC compliance. The original criterion and Additional Consideration worked well together, allowing different factors to be considered in meeting the criterion but this is unnecessarily overridden by the new additional requirement. We do note that other areas of the Revised Securitization Framework may require equivalent prescribed time periods of data, but we still feel prescribed time periods within the STC framework may be unnecessarily limiting (e.g. a minimum time period will preclude new asset classes and issuers from accessing the STC framework). We suggest the Basel Committee consider building in exceptions to issuers and securitizations where appropriate mitigants or dynamic enhancements are provided. We also recommend that the Basel Committee consider allowing history from other jurisdictions depending on the nature of history.

In light of the new additional requirement, the inclusion of the Additional Consideration and the underlying rationale (which suggests using paragraphs 472 to 473 of the AIRB to help assess an appropriate length of time) are made redundant as the minimum length of time is now prescribed. If the Basel Committee retains the new additional requirement, we would recommend revising the criterion as a whole to eliminate confusion and contradiction.

Review of asset performance history by the investor will only be useful if there are standard disclosure requirements to allow for comparison of similar underlying assets across securitizations or within the originator/sponsor's managed portfolio. Moreover, performance data should cover both defaults and losses if the intention is to align with AIRB requirements. If this is the intention, clarity is required as to other risk quantification requirements that are related to the referenced paragraphs.

As asset performance information to determine PD and LGD for the underlying assets would be needed for IRBA under the Revised Securitization Framework, it is expected that the originator/sponsor should have this information for the securitized assets or similar assets from the originator/sponsor.

What is meant by “verifiable” loss performance data and how does the Basel Committee expect this requirement to be met? What is meant by the data and basis for claiming similarity to credit claims or receivables being securitized should be clearly disclosed to all market participants.

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Should this not be all transaction participants? Many transactions are done privately, so this data should not be broadly available to everyone in those instances.

If ABCP transactions are included, query how this would work for these deals and how the liquidity and/or program wide credit enhancement would be factored in.

3. Payment status

This criterion is reasonable in principle but raises a number of compliance issues. How are differences in defining whether an obligor is delinquent or defaulted across different originators/sponsors, transactions or asset classes to be dealt with? Are these items determined solely on the basis of how they are defined within the securitization transaction itself? Greater clarity on this point would be helpful.

Generally, any asset that is in default or has an insolvent obligor is ineligible for securitization transactions. However, this category of assets may be contributed to, or become part of, a securitization but receive no, or de minimis, value. With respect to delinquent accounts, there is a significant difference in risk between early stage and late stage delinquencies. This criterion should be clarified to exclude those accounts that are greater than 30 days delinquent so as to not exclude very early stage delinquencies which have very high cure rates.

The additional criteria create more uncertainty as to what is required to comply with this criterion and potentially significantly increases the administrative cost of compliance. For example, the additional guidance imposes a "to the best knowledge" obligation on the originator/sponsor. Is this meant to impose a duty on an originator/sponsor at the time of the transfer of the underlying assets to take a positive action to determine if each obligor meets the prescribed criteria, in particular whether an obligor is listed on a credit registry of some sort? If this is the case, it may impose a significant burden on the originator/sponsor that will discourage participation in the STC framework.

With respect to credit-impaired borrowers, consideration should be given to rely on the underwriting requirements of the originator, and not have a prescriptive definition. Under (a) of the credit compliance checks, we question whether originators track this information for a 3-year prior period such that this step can be done. To the extent that this is not a universal underwriting standard, this may act as a deterrent from use of the STC framework by originators due to the lack of availability of this information or the expense in obtaining the information. For (c) is this intended to be external credit scores only? What about non-retail obligations where the obligor is not externally rated? Is an internal score of the obligor sufficient in these instances?

We would also note that the requirement for a minimum of one payment is not currently codified as an eligibility criteria in many deals, and we are unclear how much of a benefit this requirement will result in. Regardless of whether this requirement was in place, the transactions that we

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would envision being STC compliant should not have a material portion of assets that go delinquent immediately after being underwritten, so this criterion would not be a relevant determining factor of STC compliance.

4. Consistency of underwriting

This criterion is, in principle, reasonable, including the new additional requirement, although we believe that a materiality standard should be applied to changes to an underwriting standard that are reportable. We also question how this criterion will be applied to revolving pools such as credit cards.

5. Asset selection and transfer

Although we are generally supportive of this criterion, we also recognize that it should not be applied in an absolute manner. While random selection of assets within applied eligibility criteria should be followed for the great majority of an asset pool, it should also be permitted to select eligible assets that result in the desired size and economics of the transaction. In addition, a certain degree of non-random selection may be needed to comply with certain concentration limits in the transaction documents. For the legal opinion, we assume that the requirement is met if the opinion is provided to the issuer as is the norm in securitization transactions. We assume the intent is not to require delivery of the opinion to investors (currently, the legal true sale opinion is generally not provided directly to investors). If this is not the case, this criterion also has the potential to limit the impact of the STC framework as issuers may have difficulty finding legal counsel willing to provide opinions to persons beyond what is currently the norm.

As assets are selected at a certain point in time prior to closing (pool cut-off date), it is possible that the asset could become delinquent between the pool cut-off date and the closing date. Securitization transactions generally account for this by having that asset repurchased by the issuer on the first settlement date. The transfer of delinquent loans should not in itself disqualify transactions from STC eligibility, especially if there are structural features within the transaction to deal with certain concerns.

6. Initial and ongoing data

This is a reasonable criterion and we are supportive of the goal of transparency in securitization transactions. We note that this criterion is generally consistent with current practice in Canada and the US initially; however, all of the on-going data described in this criterion may not be

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available to investors on an on-going basis. We believe that in implementing this criterion, regulators should tailor the criterion to current practices and legal requirements thereby achieving the purpose of the criterion, while limiting the administrative and cost burden on originators/sponsors.

For third-party assurance, there may be issues with making the results of the report available directly to investors, as audit firms may be unwilling to provide this service if the disclosure is required to be made publicly available. Subject to consultation with our auditors, we request clarification that this could be included as part of the Agreed Upon Procedures/Comfort Letter already produced and delivered to the underwriters and the issuer and not be disclosed in the offering document. Furthermore, it may be unreasonable and costly to expect an independent third party to provide a level of assurance that the credit claims or receivables meet all elements of the eligibility requirements, as these may include requirements for the accounts to meet uniform and non-deteriorating underwriting standards, which would be difficult for a third party to verify.

B. Structural risk (pages 18 – 21)**7. Redemption cash flows**

We recommend that "liabilities subject to refinancing risk" should not include RMBS and/or CMBS that are backed by residential and commercial mortgages, where there is a longer amortization term than mortgage term and the amount outstanding at the end of the mortgage term (balloon balance) must be refinanced at maturity. As proposed, we are concerned that two sizable asset classes in Canada, residential and commercial mortgages, may not meet the STC criteria given the characteristics of the Canadian mortgage market. These asset classes have a significant impact on these securitization markets, so if they are to be excluded from the STC framework, this would again have a limiting effect on the impact of the STC framework in Canada..

8. Currency and interest rate asset and liability mismatch

We are in agreement in principle with the original criterion but are concerned that the new additional requirement will once again serve to discourage participants from utilizing the STC framework. Demonstrating an appropriate hedge in accordance with the original criterion does not impose an unreasonable burden on originators/sponsors, but providing on-going sensitivity analysis on the effectiveness of the hedge under different stress scenarios is, in our opinion, unnecessarily burdensome, and overly prescriptive.

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Most investors, as part of their current due diligence practice, already conduct sensitivity analysis using information obtained from issuers to satisfy internal risk requirements. We feel the banks can come up with more pragmatic approaches to achieve the principle.

In addition, there is a statement that non-derivative risk mitigation measures must be fully funded and available at all times which we believe may be problematic as, in certain cases, excess spread can be used as a mitigant. For example in credit card transactions, there may not be an interest rate hedge, but rather one could rely on excess spread if there is an interest rate mismatch between the assets and liabilities. Another example is with respect to ABCP transactions (which we realize aren't currently included in the proposed STC framework, but serve the purpose of this point) where the ABCP-CDOR basis risk is often addressed through excess spread. Excess spread is realized over time and hence is not fully funded and available at all times. We'd suggest that the added words at the end are problematic, and the interpretative guidance should clarify that the fully funded risk mitigation measures would exclude excess spread.

9. Payment priorities and observability

This criterion, in general, is reasonable. In fact, we believe that many of the requirements of this criterion are already the norm in Canada and the US. Further clarity regarding the requirement to provide investors with a liability cash flow model or information on the cash flow provisions is required though. Is the intent that the cash flow model is to be provided directly by issuers to investors, or is the information that is to be made available by third parties to issuers? This is not a current practice in Canada and further clarity is required to determine feasibility of implementation.

For the payment priorities and the statement that junior liabilities do not have a payment preference over senior liabilities, can the Basel Committee confirm that IIPP¹ structures are consistent with this in addition to IPIP² structures? In IIPP structures, interest on the senior notes is paid first, then interest on the junior notes, then principal on the senior, then principal on the junior. In these structures, interest is paid on the junior notes before principal is paid on the senior notes. IPIP structures have interest and then principal on the senior paid, before going to interest and then principal on the junior structures.

With regards to the third paragraph, the relevant information for investors with regards to policies and procedures for debt forgiveness, forbearance, payment holidays, restructuring and other asset performance remedies, is made available to investors in the appropriate offering document(s). For disclosure of these amounts on an on-going basis, we suggest including a materiality qualifier. There may be certain of these actions that occur on an on-going basis for a tiny portion of the portfolio in connection with normal servicing activities. This activity should not

¹ Bond interest payment waterfall categories - interest on all classes is always paid before principal on all classes ("IIPP");

² Bond interest payment waterfall categories - principal on a senior class is paid before interest on a subordinate class ("IPIP")

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warrant special disclosure.

It is our understanding that the requirement to have amortization events or triggers based on the deterioration in the credit quality of the underlying exposures, implies the deterioration in the performance metrics and not specifically the "credit quality" or credit score of the underlying assets. Also, there is not typically a provision to acquire new exposures of similar credit quality; however, the ratings of the notes could be impacted if there is an overall deterioration in the credit quality of the underlying pool.

Following the occurrence of a performance-related trigger, an event of default or an acceleration event, we agree that there should not be provisions requiring the immediate liquidation of the underlying assets at market value. However, for greater certainty, we do not believe there should be restrictions on rights to liquidate the assets to satisfy the liabilities of the SPE to investors if transactions have been structured to provide that right upon default.

10. Voting and enforcement rights

We are supportive of this criterion and agree that on the insolvency of an originator/sponsor, the securitized assets should be isolated from the originator/sponsor consistent with the true sale and bankruptcy remoteness of qualifying securitizations.

11. Documentation disclosure and legal review

We are generally supportive of this criterion and believe that, with respect to the initial offering documentation, it is currently being practiced in Canada and the US through the public and private securities offering regimes. The provision of draft transaction documents in broadly distributed public and private transactions is not practiced, and we question why draft transaction documents would need to be provided prior to pricing. The offering documents (prospectuses and offering memoranda) are legally required to disclose all material information which in practice has included a summary of the material terms of the underlying transaction documents. We have a concern that if investors are provided with all of the underlying draft documents, this could adversely impact the timeline of a proposed transaction. We would not want to see the timing of securitization transactions slowed down to allow distribution of draft transaction documents, the material terms of which are already described or summarized in the applicable offering documents. This could lead to pricing risk and potential missed business opportunities for securitization transactions due to market movement – transactions are timed to capitalize on favourable market conditions and unnecessary delays could result in adverse pricing consequences.

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On the other hand, in certain private placements with one or a small group of investors, there is no offering memorandum produced. In these situations, the investors are often engaged throughout the structuring process and receive drafts of the underlying documentation. As a result, they do not receive a prospectus style offering memorandum as this would not add any value and if this requirement was codified, it would just add unnecessary additional costs to the process. Our recommendation is that this criterion should be modified to require the disclosure of draft of the underlying documents or an initial offering document to investors, not both.

In addition, we believe that the definition of "sufficient draft underlying documentation" as defined in footnote 25 should be reduced or eliminated as it pertains to pre-pricing or closing. We believe the offering documents described in footnote 24 are sufficient pre-pricing or closing. The list of documents within footnote 25 is overly excessive and beyond what a typical investor would require for their due diligence. In addition, we note that it is not current practice to provide the legal opinions directly to investors in broadly distributed public and private term ABS transactions as per our comments in respect of A5 above.

We ask that the Basel Committee also consider and clarify documentation requirements for private transactions where no initial offering material is prepared. This is not a concern for broadly distributed private placements where offering memoranda are prepared and distributed; however, for bi-lateral private transactions, we do not believe that this level of disclosure is required in an offering document. In these situations, the investor is usually actively engaged throughout the structuring and diligence process, so as long as they obtain all of the necessary information during that process to get comfortable (including with the STC criteria), there shouldn't be a prescribed requirement to produce a prospectus style offering document.

12. Alignment of interest

We are generally supportive of this criterion as drafted, and are pleased that no specific percentage or amount is specified to satisfy this criterion. We are concerned that this criterion may eliminate CMBS from being eligible for STC and alternative capital treatment as most of the originators/sponsors under these transactions typically do not retain any exposure or risk and a requirement to do so could be a material disincentive.

C. Fiduciary and servicer risk (pages 21 – 22)

CBA Members' Comments and Requests for Clarification**13. Fiduciary and contractual responsibilities**

We have two concerns with this criterion:

- As it pertains to servicers, it now seems redundant to the combined impact of the new additional requirement under criterion A2 (requiring minimum originator/sponsor track record of 5 years) and the new criterion under D17, which requires, for the most part, the originator/sponsor (or a related party) to be the servicer. Presumably, criterion C13 was included in order to allow some scope as to who could act as servicer in an STC transaction in order to not be overly restrictive. Unfortunately, with the inclusion of the aforementioned two new requirements, the Basel Committee has become more prescriptive and in our opinion, too restrictive. Our preference would be to remove the aforementioned new criteria to allow for a broader application of the STC criteria, but if that doesn't happen, the portion of C13 dealing with servicer requirements becomes unnecessary and should be deleted to avoid confusion.
- Our second concern with C13 relates to fiduciary obligations to act. Firstly, we question the requirement for this criterion at all based on the discussion above regarding servicers, and based on the general legal requirement for a fiduciary to act in the best interests of the client. On this latter point, we are not sure why a criterion is needed to restate what is already the law. To the extent that the criterion is retained, it would be preferable in our opinion to add a clarifying concept of "fiduciaries or their agents" rather than just fiduciaries as we have a concern that the trustees that are integral to securitization transactions in Canada will be reluctant to take on additional responsibility and consequently reluctant to act on future transactions, or again limit the number of issuers that may seek to access the STC framework. We believe, as is the current practice, allowing fiduciaries to delegate to agents that will be more inclined to take immediate and decisive action based on developments under securitization transactions would be an improvement to this criterion and will not negatively impact investors. We do note that C13 does not rule out agents and it is conceivable that a fiduciary that properly delegates its authority may still satisfy C13.

14. Transparency to investors

This is a reasonable criterion and we note that its requirements are largely consistent with current practice in Canada and the US.

One minor detailed comment relates to one of the monthly disclosure requirements. We generally don't get information from issuers on a monthly basis about restructured amounts under debt forgiveness and payment holidays. We are unsure whether issuers would be able to provide this information on a monthly basis, but if they are, we believe that this disclosure requirement should have a materiality qualifier attached to it.

CBA Members' Comments and Requests for Clarification**D. Additional criteria for capital purposes (pages 23 – 24)****15. Credit risk of underlying exposures**

The proposed additional requirement to calculate Standardised RWs for the underlying securitized assets that will be used as a RW cut off for qualifying STC securitizations will be a further disincentive for the industry to seek to meet the STC standard. A few specific comments:

- The revised Standardised Approach relies on limited and incomplete information and hence does not provide adequate differentiation of risk and could potentially disqualify STC application to true low risk assets. Again this will result in the unintended consequence of muting risk sensitivity and defeating the objective of incorporating the STC framework into the capital framework.
- As per latest draft, the Standardised treatment will require more granular information (financial ratios, asset characteristics etc. by different asset types) for the underlying assets. Collection of this data will be a significant burden for most issuers, including banks, as the data may not be readily available and calculation of standardized capital will require new system investments.
- The potential for inconsistent underwriting practices across jurisdictions should not be a reason for requiring this additional constraint. As recommended in the CBA response to the *“Capital floors: the design of a framework based on standardized approaches”*, the Committee should instead consider removing the national discretions provided at the local jurisdiction levels to improve comparability of the RWs across the industry.
- We expect this criterion to be a significant disincentive for non-regulated originators / sponsors that do not have capital requirements as they will lack the expertise and knowledge to apply the Standardized Approach for purposes of this criterion, further diminishing the impact of the STC framework.
- To the extent that this criterion is retained, we suggest that, for transactions subject to IRBA, KIRB be used against the thresholds rather than capital under the Standardised Approach:
 - Under IRBA, the PDs and LGDs assigned to the underlying assets will be governed under the minimum AIRB requirements, requiring robust development, independent validation and monitoring activities. Given that riskiness of the underlying assets would be adequately captured under the determination of PDs and LGDs used in the KIRB calculation, KIRB is a better measurement than the Standardised Approach.

CBA Members' Comments and Requests for Clarification

- Note, that for transactions that satisfy the STC criteria, investors are in a better position to assess the disclosed performance on the underlying assets. This will effectively reduce a layer of uncertainty in the risk assessment and justify lower capital requirements.
- For higher risk underlying assets, it is expected that PDs and/or LGDs will be higher and reflected in the KIRB.
- Thresholds do not seem to agree with the current Standardized approach. As an example, to the extent that CMBS transactions are able to qualify for the STC framework, how can the underlying exposures for commercial mortgages be subject to less than 50% RW, when the default standardized RW for them is 100%?

It also should be noted, as the Committee is fully aware, that the proposed revisions to the Standardised Approach and use as a floor on AIRB capital remains a great concern for the industry in respect of risk insensitivity due to incomplete information provided by the limited measures that can misrepresent the true underlying risk, additional burden on data collection and reporting, and expected variation in implementation across jurisdictions that will be adding limited value in the assessment of differentiated risk. The industry has recommended that the floor based on the Standardised Approach should not be established until there is a clearer line of sight as to the potential changes to capital under the final rules. We suggest similar considerations for non-Securitisations in respect of the floor impact on low risk assets to apply to Securitizations if the Committee's final decision is to implement such a test based on the Standardised Approach.

16. Granularity of the pool

We recognize the goal of requiring a certain level of granularity in STC compliant securitization transactions, and while we are not opposed to specifying an obligor concentration limit to achieve this goal, we feel that 1% may be too restrictive and would prefer to see it increased to a level determined by consultation and that may vary by asset class. This criterion, as currently drafted, will effectively limit the application of the STC framework and alternative capital treatment to retail assets, as the criterion will be problematic for wholesale exposures. For example, the concentration to a single dealer in a dealer floor plan, or to an obligor in an equipment finance, trade receivable or fleet lease transaction may exceed 1%. We believe that this threshold should be higher for wholesale transactions. In addition, the 1% appears to ignore credit worthiness of the obligor (e.g. is it worse to have 1.1% exposure to a very high-quality obligor, or to have 0.9% exposure to a much lower quality obligor?) We note that this criterion would effectively preclude CMBS from being eligible for the STC framework.

There appears to be inconsistency in the granularity concept used here and the one in the December 2014 revised securitization framework, where the wholesale parameters are divided up into "granular (N>25)" and "non-granular (N< 25)", which effectively translates into 4% threshold. The 1% requirement is significantly lower than the 4% threshold.

CBA Members' Comments and Requests for Clarification

Beyond determining the appropriate single asset exposure limit, we also note that, in certain transactions, there may be an excess concentration concept whereby the amount of receivables owed by an obligor beyond a specified threshold level is not eligible to be funded against or may be added to the required amount of credit enhancement. This mitigates the risk of the excess concentration and should be factored into this criterion as permissible. If those obligors are very high-quality, it is better to include them, but not fund against (or enhance for) the excess concentration of [x]% than to exclude that obligor from the pool altogether – the later approach likely being worse from a diversity and credit quality of the pool perspective.

17. Relationship between the originator and the servicer of the securitised assets

This new criterion seems unnecessary and overly restrictive, especially in light of the new additional requirement under criterion A2 and the servicer requirements under C13. While most securitization transactions are serviced by a servicer that either is the originator or is related to the originator, we do not see why this should be a criterion for STC qualification, especially in light of the exception for residential mortgages (although this exception may be limited by the ambiguous “*must be a jurisdiction where it is common practice to employ a third party servicer*”). If a third-party servicer is permitted for residential mortgages, it should be permitted for other asset classes and the principle for this is the same as that underlying residential mortgages, it may be that a specialist servicer makes for a safer, better serviced transaction. In addition, the quality of the servicer is addressed by criterion C13. While we believe this criterion D17 should be deleted as being unnecessarily restrictive, to the extent it is retained in combination with the new additional requirement under A2, the servicer portion of C13 should be deleted to avoid redundancy and confusion.

In addition, it is our view that this criterion aims to align originators' interest with investors following the securitization, which is the objective of criterion B12 as well. B12 alone would serve the purpose of requiring skin in the game and avoiding an originate-to-distribute model.

We would also propose that the Basel Committee make it clear that this test applies at the inception of a transaction. Transactions include replacement servicer rights and enforcement of those rights should not, in itself, change the capital treatment.

**ANNEX 2 – STANDARDS TEST ADDED TO THE DECEMBER 2014 SECURITISATION FRAMEWORK ON TREATMENT OF STC
SECURITISATIONS (pages 25 – 27)**

Scope and identification of STC securitisations for the purposes of the alternative capital treatment (page 25)

CBA Members' Comments and Requests for Clarification

We ask that the Basel Committee expand the scope of the proposed STC framework to include bank sponsored ABCP programs and the related bank provided liquidity facilities, and/or develop a parallel STC framework applicable, and tailored, to ABCP programs.

Compliance with the STC criteria and the additional criteria for capital purposes and oversight (page 25)

For comments on the originator/sponsor attestation and the role of the investor, please see comments above under “*Section 3 – Considerations Around the STC Criteria*”. Subject to our comments above, particularly the increased costs resulting from seeking to meet the STC requirements and applying the alternative capital treatment, we are generally in agreement with the proposed determination and supervision methodology.

We also agree that in order to receive STC treatment, a transaction must be STC compliant at all times; however, the requirement around dynamic checks of revolving asset pools needs to be revised to provide for a reasonable timeline for checking (e.g. possibly once a month based on the investor report or potentially annually as per below). Anything greater than this will be unreasonable and excessively burdensome, especially if it requires a reassessment of capital requirements. Minor shifts in the underlying pool quality and composition are expected for dynamic pools but there are prescribed underwriting standards including portfolio composition limits (e.g. asset types, quality, concentration) and other governance measures that serve to ensure no material changes to the asset pool. Hence, we view the risk of material changes to an asset pool to be low with the result that a standard minimum time for review is appropriate, whether that be monthly or annually can be discussed. An annual timeframe for capital assessment would be consistent with practice under the current Securitization framework and general framework for non-Securitization exposures.

We would also appreciate confirmation that, as per the second sentence of paragraph 112, it is the Basel Committee’s intention to apply the STC framework and alternative capital treatment to liquidity facilities in respect of securitization transactions.

Alternative capital treatment for STC securitisations meeting the additional criteria for capital purposes (page 26)

The proposed scalar of 0.6 to 0.8 to moderate the “p” parameter in the Revised Securitization capital formula will still result in capital levels for high-quality assets that are excessive relative to the inherent risks given the non-neutrality framework. Given the example presented below that reflects a simple structure with low risk underlying assets and assuming all of the STC criteria are met, the capital is estimated to reduce from 2.9% (Revised Framework) to 0.9% (Revised Framework + STC) versus 0.56% under Current Framework.

CBA Members' Comments and Requests for Clarification

Example Transaction	Authorization (in 000s)	KIRB	Attachment Point	Current Capital	Revised Capital (Dec 14)	STC Capital (Nov 15)	Revised/Current Multiplier	STC/Current Multiplier
	50,446	7.00%	13.00%	0.56%	2.88%	0.92%	5.15	1.65

We propose that the Basel Committee consider establishing a slightly amended formula for high-quality assets/low risk assets by lowering the “p” parameter and setting a lower floor. Based on our analysis, reverting back to floor of 7% would be more commensurate with the lower risks.