Deutsche Bank

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Basel Committee on Banking Supervision
Bank for International Settlements
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Deutsche Bank's response to the Basel Committee on Banking Supervision (BCBS) Consultative document on capital treatment for "simple, transparent and comparable (STC)" securitisations

Dear Sir or Madam,

Deutsche Bank (DB) welcomes the opportunity to comment on the consultative document on *capital treatment for "simple, transparent and comparable" securitisations.*

We appreciate the work that the BCBS has undertaken to ensure that efforts to establish a definition of qualifying securitisation are global, in line with global securitisation markets.

DB is supportive of the joint IIF/GFMA response on this consultative document, and would like to emphasise that synthetics securitisations should be considered for STC treatment.

Most bank lending assets, in particular corporate exposures, do not lend themselves to "cash" securitisations. Many exposures are in the form of revolving commitments with fluctuating amounts of draw-downs, or gradually drawn down term loans:

- Corporate exposures are usually larger and less numerous than retail exposures, so that a portfolio will often cover several jurisdictions, governing laws and currencies. This would cause too much complexity in a cash transaction;

- Corporate loans are accompanied by complex documents that vary by jurisdiction and borrower, and because of the revolving nature of commitment facilities, are not easily transferable or manageable by special-purpose entities like securitisation vehicles; and

- Banks are in position to manage cash fluctuations for their clients whom expect their banks to keep, own and service their lending commitments.

The high quality and solid historical performance of bank relationship lending portfolios results in banks needing to hedge only a first loss tranche of the securitised portfolio's potential losses. Besides the reduction in risk, the key prudential consideration for a bank is how its residual tranche exposures will be treated for capital purposes. If securitisation surcharges on the residual tranches, as proposed by BCBS d303, are too high, and the regulatory capital linked to the portfolio exposure is not reduced enough by the first loss hedging synthetic transaction, it will not make economic sense to hedge this corporate lending portfolio.

The price paid to the investor for its protection needs to be commensurate with the amount of credit risk transferred, which in turn should be reflected in the appropriate amount of capital relief. For resulting capital requirements to reflect the risk management achieved by first loss portfolio tranche hedging, these synthetic hedge transactions have become simple, transparent and comparable and should be hence treated as such in the proposed Basel capital regulations for securitisations.

Synthetic securitisations that hedge SME loans, comprise lending commitments, letters of credit, loans and trade finance exposures to large and middle market corporate borrowers should be considered for STC treatment.

The following criteria being considered by the BCBS do not work for effective risk management and would indeed deem synthetic securitisations an ineligible for STC treatment:

- A requirement to have *granular portfolios* (1% single obligor limit) prevents hedging of large concentrations of exposures to companies that need to have large lending commitments from each bank. Banks have the capital to absorb multiple borrower defaults but, for prudent risk management practice, need to adhere to single obligor exposure concentration limits;
- Banks should be allowed to hedge claims that were *previously non-performing but are now deemed as performing* by the originating bank's credit process. If a company has emerged from bankruptcy, such company should be allowed to borrow from banks. Such loans should not be stigmatised in a simple, transparent and comparable securitisation; and
- If it is required that *at least one payment has been made on an underlying asset at the time of inclusion in the portfolio*, exposures to newly originated commitments would not be reducible thereby creating a disincentive for banks to make large lending commitments to needy borrowers.

Should synthetic securitisations be excluded from the STC framework, they will incur considerably higher capital requirements from 2019, when the Basel revised capital requirements for securitistions will come into force. We would recommend that the BCBS should consider the impact the increased capital requirements could have on the quantum of bank lending to corporate borrowers globally.

Please do not hesitate to let us know if you have questions about any of the points or if there are any issues related to this topic which you would wish to discuss further.

Yours sincerely,

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