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15th March 2013

Submitted via e-mail: baselcommittee@bis.org

Re: Revision to the Basel Securitisation Framework – Consultative Document

Dear Sir, Madam,

We appreciate the opportunity to comment on the proposals (Proposals) set out in the consultative document "Revisions to the Basel Securitisation Framework" published by the Basel Committee on Banking Supervision (Committee) on 18 December 2012 and explained in part in the technical papers entitled "Working Paper No. 22 – Foundations of the Proposed Modified Supervisory Formula Approach" and "Working Paper No 23 – The Proposed Revised Ratings-Based Approach" published by the Committee in January 2013.

We agree with the Committee's objectives to make capital requirements more prudent and risk-sensitive, to mitigate mechanistic reliance on external credit ratings and to reduce current cliff effects in capital requirements. More broadly, we acknowledge that regulators face a difficult task in striking the right balance between securing a healthy structured finance market that helps fund the real economy and maintaining financial stability by ensuring banks and insurers are sufficiently capitalised.

In reviewing the Committee's Proposals we have compared global structured finance losses with the proposed capital charges and conclude that the proposed calculation methods result in capital charges that are materially higher than actual realised and expected credit losses. The calibration appears to be focused on the worst performing sectors during the crisis and may not fully take account of other developments in bank and credit rating agency regulation.

The aim to reduce cliff effects will primarily be achieved by increasing the level of capital that would need to be held against 'AAAsf' securities in the first place. The approach does not seem to take into account that post-crisis transactions benefit from stronger collateral and greater credit protection, partly driven by the revision of rating criteria since the crisis.

Furthermore, in aiming to more closely align the standardised approach and the internal ratings-based approach, the revised proposals arguably create a more rather than less complex system, with more choice for banks and local regulators under both new systems (hierarchy A and hierarchy B) which results in potential for regulatory arbitrage.

Finally, if the proposals are adopted in their current form, the securitisation market could see a materially reduced investor base, which may render the financing technique uneconomical as a funding source for the wider economy.

We released a special report today titled 'Capital Requirement Proposals Diverge from Structured Finance Performance'. The report reflects the above conclusions in more detail and sets out the analysis we carried out that support its conclusions. The report and this letter together form our comment on the Proposals. I attach a copy of the report to this letter. It can also be found on our website at www.fitchratings.com.

We hope that the analysis and comments as presented in the special report are of assistance to the Committee. We would be pleased to discuss any of these comments in further detail, or to provide any other assistance or data that would help facilitate your review and analysis.

Sincerely,

Marjan van der Weijden

Head of European Structured Finance

Attachment: Special Report 'Capital Requirement Proposals Diverge from Structured Finance Performance', dated 15th March 2013

Capital Requirement Proposals Diverge from Structured Finance Performance

Basel III Challenges Securitisation as a Funding Source

Special Report

Basel III Capital Proposals Conservative Relative to Performance

Conservative Calibration: Basel III capital proposals under the revised securitisation framework are conservative compared to realised and expected losses. While Fitch Ratings acknowledges the great challenges that a consistent calibration of capital requirements across asset classes, structures and jurisdictions brings with it, the proposals diverge from the fundamentals of actual structured finance (SF) performance.

Model-Based Foundation: The new proposals are derived from models the results of which do not correspond to historical observations from any currently active SF market segment. This is similar to the draft rules of Solvency II that, if implemented, would require insurers investing in SF securities to provision for capital that is higher than consistency with historical performance suggests.

Senior Tranches Worst Affected: Under the revised ratings-based approach, the proposed capital charges are similar to the loss experience of the worst performing SF sector (US RMBS); this includes the poorly performing subprime market (see Figure 1). The proposals ignore significantly improved credit protection, which partly stems from revisions to rating criteria for the worst-hit markets since the onset of the financial crisis in 2008.

Disincentive to Invest: The capital proposal means the incentive for both bank and insurance investors to hold structured notes is reduced. This means the SF market could see a smaller investor base, which would restrict its availability as a funding source for the wider economy.

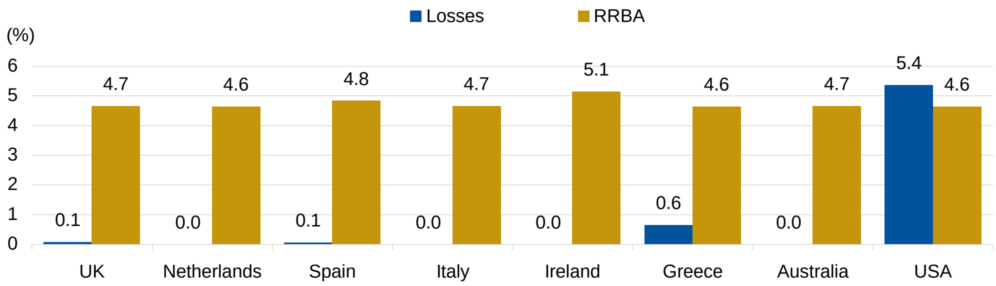
Difficult Balance to Strike: Regulators acknowledge that securitisation has a crucial part to play in funding real economic activity, particularly small and medium sized corporates. To promote stable and sustainable capital markets, banks and insurers need to maintain sufficient capital. Fitch recognises that striking the right balance is by no means easy and regulators continue to examine the impact that increased capital charges would have on longer term finance availability.

Liquidity Rules Mildly Positive: Certain RMBS have now been made eligible to count towards the Basel III liquidity coverage ratio as high-quality liquid assets. This would encourage banks to invest in those securities that are eligible. However, this comes with strict limitations. Currently, UK and Australian prime are the only large RMBS sectors likely to comply.

Figure 1

Fitch-Rated RMBS Losses vs. Proposed Capital Charges

Realised plus expected losses, senior tranches only



Source: Fitch, based on original ratings

Related Research

Global Structured Finance Losses (October 2012)

Solvency II and Securitisation (October 2012)

Basel III: Return and Deleveraging Pressures (May 2012)

A Guide to Global Structured Finance Regulatory Initiatives and their Potential Impact (April 2011)

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Dodd-Frank, Basel III and Solvency II Are Driving Forces

Since the start of the global financial crisis in 2008, regulators across the globe have focused on the central role of SF in the accumulation of risk and the subsequent triggering of the financial market crisis. Worse-than-expected performance and resulting severe rating actions in isolated SF sectors — such as US RMBS and certain CDOs — explain this focus. This underperformance led to a freeze of the entire SF market at the height of the crisis, imposing significant mark-to-market losses across investment portfolios.

Fitch has previously published a comprehensive overview of SF regulatory initiatives (*A Guide to Global Structured Finance Regulatory Initiatives and their Potential Impact*, 5 April 2011). The present report provides an update on some key regulatory developments affecting the SF market since that report was published.

Recent developments around securitisations stem from Basel III, the Dodd-Frank Act and Solvency II.

Key regulatory initiatives include the revised global capital standards known as Basel III, some provisions in the Dodd-Frank Act in the US and the draft capital standards for insurance companies, known as Solvency II. Local regulators across the world have also progressed with their own bank regulations, many of them implementing specific treatments for securitisations. The Basel Committee for Banking Supervision (BCBS), for example, regularly publishes progress reports on the implementation of global capital standards[1]. One of the most prominent developments in this area is the launch of a consultation on new bank capital requirements for holding securitisations.

Basel: Substantial Changes to Securitisation Framework

The BCBS published a revised proposal to its capital treatment of securitisations Revisions to the Basel Securitisation Framework in December 2012, with a period for comments expiring on 15 March 2013.

The BCBS was faced with the formidable task of aligning capital requirements across a diverse set of SF securities. These range from granular shorter-term transactions — such as ABCP and consumer ABS — to longer-term non-granular transactions, such as CMBS. They need to take account of various jurisdictions, each with its own specific legal and regulatory environment, a vast array of SF structures and varying degrees of available qualitative and quantitative information. Understandably, in its quest to marry these challenges with the disappointing performance of some SF sectors during the credit crisis, the BCBS has taken a conservative stance.

Fitch believes the proposed calculation methods are diverging from the actual experience of credit losses on transactions that are still outstanding. The calibration appears to be focused on the worst performing sectors during the crisis and may not fully take account of other developments in bank and credit rating agency regulation. Also, the complexity of the overall approach would increase under both proposed alternative selection procedures and with it, the potential for arbitrage.

New hierarchies add complexity.

However, different views on the effective regulation of SF have been expressed; notably, the Australian Prudential Authority (APRA) recently indicated that a healthy securitisation market could be maintained to the benefit of the whole financial system by directly regulating the purpose of the market (funding only), the shape of financial structures (simple, with only two tranches) and the rating process (ratings only for senior notes). This would address the main lessons from the financial crisis: agency risk, liquidity risk, and business model risk.

Related Criteria

Global Structured Finance Rating Criteria (June 2012)

[1] 'Progress report on Basel III implementation' October 2012

Numerous Changes, Difficult to Reconcile

Despite previous market criticism of the increasing complexity of bank capital rules, the new proposal simplifies some, but complicates other parts of the Basel III securitisation framework. While the existing framework is centred around a clear distinction between the internal ratings based approach (IRB) and the standardised approach (SA), the new proposal provides a choice between two alternative hierarchical selection procedures (Alternatives A and B), each of which would combine the two approaches. However, each of the alternative Hierarchies contains certain optional choices for banks and local regulators and therefore adds a new layer of complexity to the rules. As discussed below, some proposed calculation methods also increase the degree of mathematical complexity.

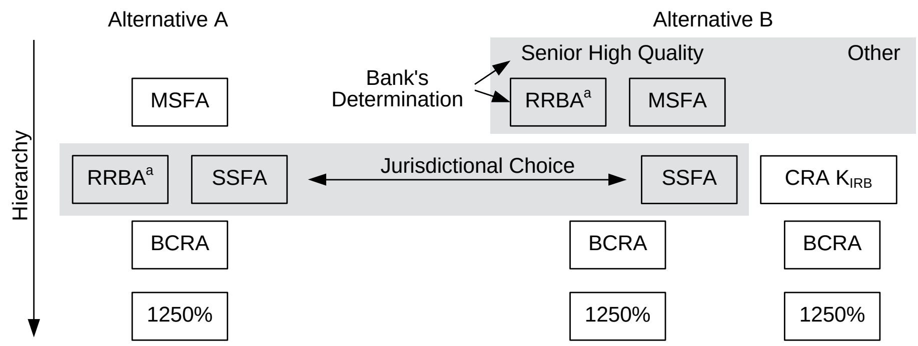
The selection of which hierarchy to follow is dependent upon the extent of information available. The calculation is more complex in cases where more information is available. The proposal would effectively modify all existing calculations of capital charges and therefore would require a complex new recalibration of the systems and algorithms which determine capital charges on the part of bank investors.

It substitutes the supervisory formula approach (SFA) with both a modified supervisory formula approach (MSFA) and a simplified supervisory formula approach (SSFA). Where the use of ratings is allowed, it substitutes the ratings-based approach (RBA) with the revised ratings-based approach (RRBA). In addition, it introduces a concentration ratio approach (CRA K_{IRB}) and a backstop concentration ratio approach (BCRA), to be applied in cases where information on the underlying exposures is very limited. Finally, if none of the above can be applied, the bank is charged a risk-weight of 1250%. Figure 2 provides an overview of the hierarchies under the two alternatives.

All existing approaches have been modified and have been made more conservative.

Figure 2

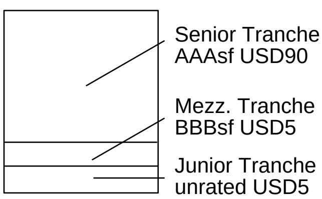
The Two Alternative Approaches in the Revised Securitisation Framework



[a] The Internal Assessment Approach (IAA) would be used under certain conditions in case of unrated securitisation exposures to an ABCP programme
Source: Fitch, BIS

Figure 3

Stylised RMBS



Source: Fitch

Higher Charges for Senior Tranches Across Methods

For illustration, Fitch has calculated sample capital charges for a simple stylised prime RMBS transaction with a total exposure notional of USD100. In this example, three tranches are backed by a granular pool of prime residential mortgages[2] (Figure 3). Capital charges have been calculated for each of the three tranches under all of the proposed Basel III calculation methods (the five bars to the left in Figure 4) and all current Basel II calculation methods (the three bars to the right). The new proposals result in a significantly higher capital requirement for securitised holdings. The greatest impact is on the senior tranche, which is generally the bulk of the capital structure and more likely to be sold to investors than junior positions.

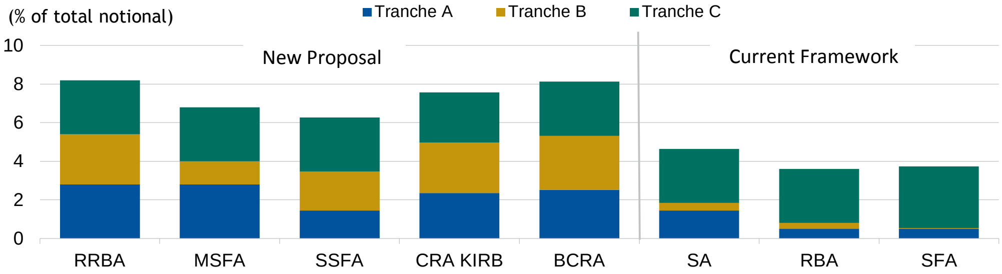
[2] For simplicity, all mortgages are small with PD=1.5%, LGD=20%, LTV=70%. Delinquencies are 1%.

The new proposal foresees a generic floor at USD1.44 (ie risk-weight of 20%, up from 7% under Basel II). However, in the example, charges now increase for the RRBA and MSFA to such an extent that they hit the overall cap of USD2.8, which corresponds to the capital charge that would apply to holding all underlying loan exposures on balance sheet[3]. The proposed capital treatment would thereby give no credit to the credit enhancement buffer (10% in this example) that protects senior noteholders before they suffer any losses.

Figure 4

Comparison of Capital Charges

Typical prime RMBS transaction; each tranche held by different bank; cap at SA approach



Source: Fitch

The overall charges for the entire securitisation across all noteholders increased to between USD6.3 and USD8.2 under the new proposals, from a maximum of USD4.6 under Basel II. In Fitch's sample transaction, there is little to no capital relief for holding only a portion of the risk, compared to having the entire pool of assets on balance sheet. These charges also appear high compared to the treatment of covered bonds under the EU's capital requirements directive (CRD). Assuming the covered bond issuer itself is rated 'A', the CRD's risk-weight of 20% for covered bonds would translate into a capital charge of USD1.6, which is close to the floor level for securitised notes (USD1.44).

Charges Approach Solvency II Draft Rules

Proposed charges are closer to those in the draft Solvency II rules.

While Basel's proposed charges appear to move towards the draft rules for insurers under Solvency II, a direct comparison is not easily performed, as Basel uses a credit-risk framework while Solvency II takes a market value approach. However, Basel's proposal implies a charge of 1.5% for senior notes rated 'AAAsf' and with a one-year maturity, which appears less harsh than the 7% charge on the market value under Solvency II (in current market conditions). Similarly, Solvency II's 35% charge on the market value of a five-year bond appears harsher than Basel's 4.6% on the notional.

Fitch commented extensively on the draft rules from April 2012 as they currently stand in the report titled *Solvency II and Securitisation*, 18 October 2012. Since this time, the European Commission has asked the European Insurance and Occupational Pensions Authority (EIOPA) to examine the degree of consistency between the Capital Requirements Directive for banks and Solvency II to avoid hazardous arbitrage; it has also requested EIOPA analyse the impact on long-term financing for the general economy. Feedback was requested by February 2013, although Fitch is unaware of any further developments.

The new Basel proposals introduce many detailed changes. In an effort to combine the IRB and the SA, the proposals introduce a whole waterfall of approaches, each one with individual characteristics. To avoid excessive complexity, the illustrations below are based only on the RRBA approach. Regardless of whether Alternative A or B is applied, the new framework and the options it provides to banks and national regulators appears to increase opportunities for gaming and arbitrage. This is mainly mitigated by an overall increase in capital charges across the board, except for the most vulnerable junior tranches.

[3] Assumes the standardised approach. For most prime RMBS the application of the IRB approach, if possible, would result in a reduced cap, and thereby render it binding even more often.

It is the stated aim of the Basel Committee to reduce the existing sensitivity of charges for senior notes. It achieves this mostly by imposing strict limitations (in Fitch's example, a floor at USD1.44 and a cap at USD2.8) and to a lesser degree via the calibration of the approaches. In many cases, the charges are driven by the floor and the cap, so the benefit of the more abundant and complex calculation methods available may appear limited, given the relative differentiation they provide.

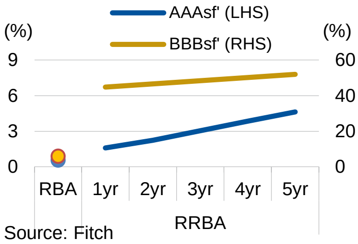
Ratings-Based Approaches: Increased Conservatism

The existing RBA approach has been revised to reduce arbitrage opportunities between the SA and IRB approaches, and also to reduce the cliff effect which resulted from rating downgrades (particularly senior tranches). Under the existing approach, a multi-notch downgrade from 'AAAsf' to 'BBBsf' — which was observed in many US RMBS and CDO transactions during the crisis of 2008/9 — would multiply capital charges by a factor of 8.6. Under the proposed RRBA, this factor would reduce to 3.5. The proposals seem to achieve a reduction in the cliff effect by pushing up the extent of capital that would need to be held against 'AAAsf' rated charges in the first place. However, this would appear to be considerably at odds with expectations for SF losses generally.

Figure 5

Maturity Impact

Ratings-based approaches



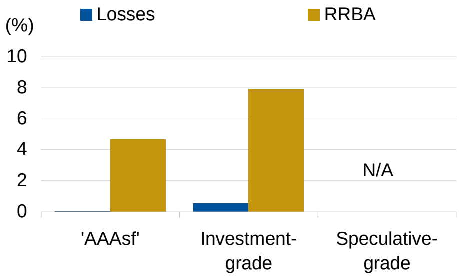
Source: Fitch

As an extension to the existing approach, the RRBA also introduces maturity as an input, which adds another conservative component to the capital determination (Figure 5). In Fitch's opinion, the topic of maturity warrants a more detailed analysis to appropriately align it with rating agency practices. For example, whilst it is true that the longer exposure period of longer-term assets is taken into account in Fitch's asset stress assumptions, Fitch's SF cash flow modelling also stresses the default timing of underlying assets. This has the effect of reducing the impact of differing transaction lengths at higher rating levels.

Figure 6

Losses vs. Capital Charges

EMEA RMBS: Senior tranches only

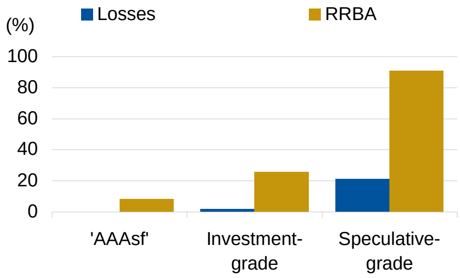


Source: Fitch, based on original ratings

Figure 7

Losses vs. Capital Charges

EMEA RMBS: Senior and non-senior tranches



Source: Fitch, based on original ratings

Prime performance significantly better than suggested by capital charges

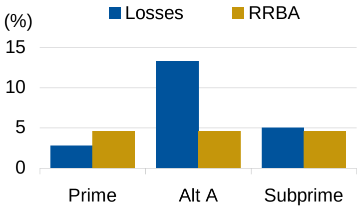
To illustrate the extent of the difference between observed losses and Basel's capital charges, Fitch compared losses on EMEA RMBS to the capital charges resulting from the RRBA. Figures 6 and 7 compare total realised and expected future losses on EMEA RMBS transactions to the related RRBA capital charges – total losses represent only a fraction of the capital charges that would be imposed under the proposed securitisation framework[4].

Figure 1 on page 1 illustrates that the proposed charges for RMBS transactions are only comparable with the US experience, where losses have been skewed by the severe underperformance of subprime and Alt-A bonds. RMBS transactions have not experienced comparable loss levels in any other jurisdiction; losses on US prime bonds are also significantly lower than for subprime and Alt-A bonds (Figure 8)[5].

Figure 8

US Comparison

US RMBS, Senior tranches only



Source: Fitch, based on original ratings

[4] Assuming senior tranches are 'high-quality' with five years maturity (only Fitch-rated transactions). Total losses include incurred and expected losses.

[5] Calculations include all Fitch-rated RMBS bonds issued between 2000 and 2011 and reference their original ratings. Bonds originally rated 'AAAsf' to 'AA−sf' are considered 'high quality'. Capital charges assume the maximum maturity of 5 years for all bonds due to the long term of the underlying mortgages. No cap was applied.

For RRBA, significant changes to rating criteria appear not to have been addressed.

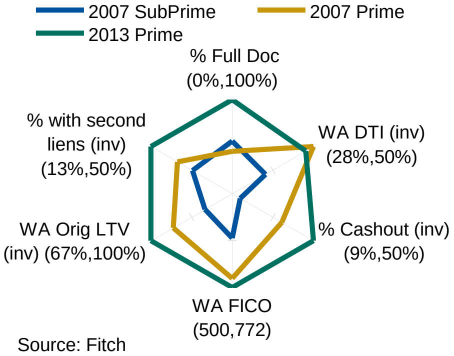
Criteria Changes Ignored

Since the onset of the credit crisis, Fitch has substantially revised its criteria for rating US RMBS, in light of the issues that developed in the sector (as have the other credit rating agencies). Figure 10 shows that the loss assumptions for the same underlying portfolio have increased substantially. For example, if a prime pool from 2007 had been analysed in 2007 using Fitch's current criteria, then 'AAAsf' losses would increase to 33% (from the 2.6% at the time). Even if such a portfolio were analysed in today's conditions, after the substantial house price declines that have already been experienced, 'AAAsf' losses under the new criteria would amount to 16%.

Owing to significant credit tightening in the market since the crisis, the credit characteristics of a typical prime pool in 2013 have improved substantially since 2007 (Figure 9), resulting in lower 'AAAsf' loss assumptions for new transactions, eg 5.9% (as shown in Figure 10). However, this still remains more than double the losses that were previously assumed for a lower-quality pool at the peak of the market.

Figure 9

Comparison of US Residential Mortgage Pools

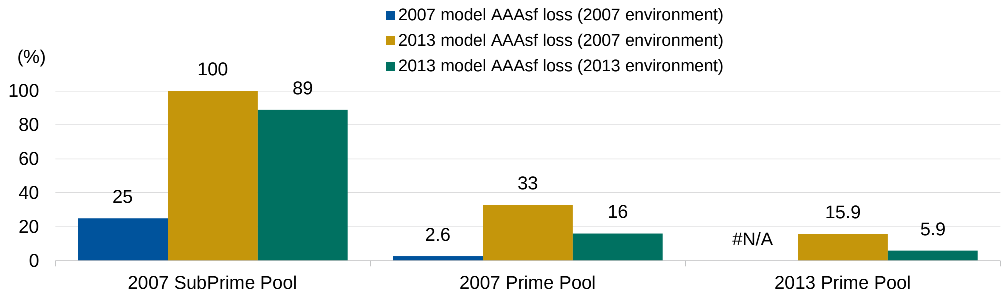


Source: Fitch

The proposed capital charges are therefore not only conservative compared to the actual performance of the asset class overall during the crisis, they also ignore today's much stronger credit profile of securitised tranches with the same rating. It should be noted, however, that the RRBA cannot be applied in the US as the Dodd-Frank Act prohibits the use of ratings in regulation.

Figure 10

Fitch Model Losses for US Residential Mortgage Pools
Comparing different pools and model versions



Source: Fitch

One aspect of the Basel III proposal that may easily be overlooked is the more conservative treatment of structures with early amortisation provisions. This appears to specifically target credit card master trusts which normally include a seller share exposed to credit losses on newly-generated receivables from re-drawn credit card facilities after an early amortisation event has been triggered. Under Basel II, originators may claim some capital relief on such structures; the new proposal discards this option.

This could substantially increase capital charges for originators of credit card ABS. However, the impact may be limited, as credit card master trusts have historically been mainly set up for funding purposes (rather than for favourable capital treatment). Fitch understands that other revolving structures – such as RMBS master trusts or SME CLOs with revolving periods – would not be affected by this change.

MSFA and SFA maintain model-based approaches with more conservative calibrations.

Other Issues

New Supervisory Formulae (MSFA, SSFA)

Fitch has previously commented on the high degree of complexity and drawbacks of the SFA formula, which currently has to be applied whenever a securitised tranche is not publically rated (see *Basel II Supervisory Formula – The Meaning Behind the Maths*, 14 October 2009). The new proposal takes the basis of this formula and creates two new versions: an even more complex one (MSFA) with a significantly more conservative calibration; and a less complex one (SSFA) which introduces a conservative floor based on the proportion of delinquent assets in the pool. As our example in Figure 3 shows, it is by no means clear that the simpler formula results in more conservative charges.

Both methods achieve the intended aim of less capital sensitivity for senior tranches, which reduces vulnerability to cliff risks in case of severe downgrades. The downside of this approach is that capital charges become less risk-sensitive, which appears to run counter to the initial motivation for the introduction of the Basel II rules.

CRA as a Substitute for SFA

CRA_{KIRB} and BCRA ignore available credit protection.

The CRA_{KIRB} is proposed as a substitute for the SFA formula in the case of non-senior or non-'high quality' tranches under alternative hierarchy B. While the formula is indeed very simple once the capital charge on the underlying assets under the IRB approach (K_{IRB}) is known, it still requires the calculation of IRB parameters for all underlying exposures. This can be challenging, especially as investors may not always receive sufficiently detailed information on the assets to do so (eg for consumer ABS) or may not have a sufficiently extensive data history to calibrate parameters (eg for CMBS) to apply this approach. In this case, the simplistic BCRA – which is also used as a regular fallback solution for the other alternatives – applies.

Both the CRA_{KIRB} and the BCRA ignore any loss protection available to the tranche. The BCRA is extremely simple in that it essentially multiplies the capital charges for the underlying pool under the standardised approach (K_{SA}) with the maximum exposure of the investor and a conservative calibration factor of 2. Therefore, where the BCRA is applied, it would produce similar capital charges for tranches backed by similar pools that nevertheless had substantially differing degrees of credit protection available to them. The BCBS considers reducing the calibration factor to 1 in case of senior, non-high quality tranches. This would still leave non-senior tranches with a very conservative treatment, but would more appropriately reflect the importance of seniority.

Room for inconsistencies and arbitrage remains.

The stated aim of the review of the securitisation framework is a significant increase in overall capital charges and the flattening of charges across the seniority spectrum. In focusing on these aims, the new proposed framework has some other potentially unintended and undesirable consequences. Mathematical and operational complexity would be increased further, while capital charges would be divorced from the actual performance of the overall SF sector, as evidenced by actual expected losses across SF asset classes. The extent of credit protection available to a tranche is ignored in the determination of capital charges in some instances. Finally, both hierarchy approaches leave room for inconsistencies and opportunities for arbitrage, assuming that the regulation does not discourage any substantive bank investment in SF securities if implemented.

Limited Impact Through Basel's LCR

One key innovation of Basel III was the introduction of the liquidity coverage ratio (LCR). This ratio requires the calculation of the amount of available high-quality liquid assets (HQLA) that a bank holds and sets it in relation to conservatively measured potential net cash outflows of the bank over the next 30 days. The standard requires this ratio to remain above 100%, except in specific times of liquidity stress.

The initial definition of HQLA foresaw the division of assets into a Level 1 bucket with best quality assets (eg cash, highly-rated government bonds, debt from the strongest multinational agencies) and a Level 2 bucket containing slightly weaker securities (eg repo-able highly rated corporate and covered bonds and certain government guaranteed debt). Assets in the Level 2 bucket are subject to haircuts and are only recognised to a maximum of 40% of the overall HQLA measure. SF securities were hitherto not mentioned as eligible HQLA for the purposes of the LCR.

Certain RMBS now included in LCR as Level 2B high-quality liquid assets.

A January 2013 amendment widened the definition of HQLA to include a further sub-bucket, Level 2B, which now includes certain lower-rated – but still investment grade – corporate bonds, certain widely traded equities and certain highly-rated RMBS. These assets would be haircut to various degrees and subject to an overall limit of 15% of the total measure of HQLA.

There are however numerous restrictions that are likely to limit the use of RMBS as HQLA. The approval of the local supervisor is required for inclusion; in addition: assets are haircut by 25%; are accepted to a maximum of 15% of overall HQLA; must be rated 'AAsf' or higher; must be traded in large, deep and active repo or cash markets; should be repo-able with the central bank; must have a track record as a reliable source of liquidity that is determined by the maximum historic price decline; must be unencumbered; and can only be backed by residential mortgages written by a third-party bank with full recourse to the borrower and an average LTV no higher than 80%.

List of limitations restrict practical applicability.

These rules — if implemented by local law as described by the Basel standards — would not allow the vast majority of the most active RMBS markets to be included: the US would not meet the criteria due to most states having a lack of borrower recourse, the Netherlands would fail due to the prevalence of high-LTV lending, and markets in the periphery of Europe would not meet the rating restrictions and further, lack an established secondary market. The only large RMBS markets to potentially fall inside the definition are the prime UK and Australian RMBS markets.

The LCR has an additional implication for securitisations in general. Structured transactions are often supported by asset swaps and liquidity facilities, which are normally provided by banks. The cost of these instruments may well rise as the banks which provide them will have to account for potential cash outflows and, according to the LCR, will have to cover them by additional HQLA. If this resulted in further shrinkage in the pool of eligible counterparties providing such facilities, it could have implications for the principles that support Fitch's SF counterparty criteria.

Other Global SF Regulatory Initiatives Progressing Slowly

The US securitisation market has seen the clarification of several proposed rules in the past year, notably the notion of a 'qualified mortgage' under the retention rules and the exemption from registration with the Commodities and Futures Trading Commission (CFTC). However, the impetus behind regulation has slowed. Uncertainty remains around many provisions — primarily those contained in the Dodd-Frank Act — leaving market participants hesitant, even if a fairly regular flow of new transactions has returned in CMBS, ABS and CLOs.

Capital regulation is only one regulatory initiative (albeit an important one) among many developments around SF.

The SF sector is also affected by more general regulation that may unintentionally ensnare SF. The most prominent is the Foreign Account Tax Compliance Act (FATCA) — which impacts mainly global financial institutions in its dealings with SF, among others — and the Volcker rule, which imposes restrictions on banks in their dealings with hedge funds and other trading institutions and could also do so, depending on the interpretation of 'covered funds', with respect to SF vehicles. Fitch expects to comment on regulatory initiatives other than Basel III in more detail in a further special report in due course.

If implemented, the proposed capital rules would dominate any other regulatory and market initiatives.

At a broader level, in November 2012 the Financial Stability Board (FSB) published a consultation on its plans to strengthen regulation of shadow banking. It identified securitisation as one area in which policies are needed to mitigate potential systemic risks, alongside money market funds and other securities and lending entities. The consultation found that local regulators should facilitate ‘the recovery of sound securitisation activities’ but also proposes restrictions that could increase costs and thereby hamper a recovery in the securitisation market. The FSB expects to publish final recommendations in September 2013.

Overall, global regulatory initiatives do not provide a consistent picture as regards their intended impact on the global securitisation market. On balance, the proposals from Basel and Solvency II to sharply increase capital charges overwhelm any benefits from widening standards for central bank repo-ability and the inclusion of certain RMBS into the liquidity coverage ratio.