

2017.10.05

**FRENCH BANKING FEDERATION RESPONSE TO BASEL COMMITTEE ON
BANKING SUPERVISION d413 CONSULTATIVE DOCUMENT ON CAPITAL
TREATMENT FOR SIMPLE, TRANSPARENT & COMPARABLE SHORT-TERM
SECURISATIONS**

1. General comments

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorised as banks and doing business in France, i.e. more than 390 commercial, cooperative and mutual banks. FBF member banks have more than 38,000 permanent branches in France. They employ 370,000 people in France and around the world, and service 48 million customers.

The FBF welcomes the opportunity to share its comments on the BCBS's consultative document on the capital treatment for simple, transparent and comparable short-term securitisations.

The FBF reiterates its support for a stable and resilient global financial system, while facilitating economic growth. To this end, while supporting the Committee's initiative to complete the revised regulatory capital treatment of Simple Transparent & Comparable (STC) term securitisation (BCBS 374) in order to assist the financial industry in its development of STC securitisation structures, we believe that the proposed consultative document for Simple Transparent & Comparable (STC) short-term securitisations (BCBS 413) raises some concerns.

Summary of key comments:

- ✓ Whilst we understand the BCBS's concerns about inappropriate maturity transformation based on the performance of some ABCP structures during the financial crisis; permanently excluding ABCP from the STC regime would create an unnecessary burden for banks and the business they finance given that the global liquidity standards have been specifically designed to assist in mitigating the maturity transformation risk that ABCP programmes highlighted in the wake of the global financial crisis.
- ✓ Whilst we think some of the additional guidance in relation to the criteria is helpful, subject to our more detailed comments below, we prefer a principles-based approach, rather than the addition of even more prescriptive criteria and requirements.
- ✓ Moreover, the additional requirements and guidance included in the consultative document will make it difficult for some existing ABCP conduits in some countries to comply with the proposed framework. We believe the proposed STC framework for short-term securitisations should take into consideration existing ABCP structures and requirements and seek to incrementally improve these structures rather than create a framework that fails to consider

existing practices. We believe that existing programmes should have a period of grandfathering of two years in order that their structures and legal architecture, where meeting the underlying principles of the STC framework, may benefit from the preferred capital treatment while being brought into full compliance with the proposed STC criteria over a period of time. This will enhance the potential success of the STC framework by limiting the potential loss of existing ABCP transactions due to the higher capital cost incurred by non-compliant transactions potentially making those transactions uneconomical to carry on.

Please find below our main comments and our detailed feedback to the BCBS consultative document.

2. Definition of short term STC criteria for regulatory capital purposes

1. Do respondents agree with the insertion of the additional guidance and requirements in Annex 1, which enables the short-term STC criteria to be adapted for regulatory capital purposes?

Are there any other guidance and requirements for capital purposes which respondents would consider necessary to support the development of STC short-term securitisations?

FBF answer: We fully support the amendments added in order to reflect some specific aspects of ABCP programmes.

Nevertheless, some precisions are needed:

- Criterion A2: The asset performance history of 5 years for retail exposures and 7 years for non-retail exposures is too long and would be difficult to obtain (eg in case of change of IT system of data base. We suggest a period of 5 years, except for trade receivables and other short term receivables for which the historical period shall be of 3 years.
- Criterion A5: Even if we support the additional requirement of a third-party legal opinion, it overly complicates the process. In certain cases opinions are qualified (e.g., insufficient case law) and the sponsor will have to take a view.
- Criterion A6: The requirement to provide data on '*cashflow generated by the underlying assets, including balance of newly acquired receivables as well as scheduled, prepaid and due principal and interest, and on the outstanding liabilities*' is not logical and we do not understand its rationale when the liquidity line is fully supported and matches ABCP maturities (that are in essence different from the underlying assets). Again, in a fully supported structure, investors are at risk on the sponsor bank which is the provider of the liquidity line. Moreover, this request would be impracticable for multiseller conduits that can fund more than 100 programs for the bank clients.
- Criterion D19: The 1% threshold applied to the aggregated outstanding exposure value of all exposures in the programme could be increased to 2%, without additional risk and would be easier to manage (especially in situations when certain programmes are terminated, resulting in mechanical increases in concentrations).

3. Satisfying the short-term STC capital criteria

2. What are respondents' views on the baseline and alternative approaches being considered by the Committee?

FBF answer: The FBF supports alternative approach n°2. To qualify for STC capital treatment, compliance with the transaction-level short-term STC capital criteria alone would suffice.

As the Basel Committee hints at in the explaining text of this alternative, this approach is more risk-sensitive than the baseline approach from a credit risk perspective. It provides more flexibility for sponsors and incentivises them to make efforts on converting isolated transactions into STC. If sponsors had to convert all of their transactions into STC so that they are able to benefit from capital reductions, this effort would be possible only if the number of non STC compliant transactions is sufficiently low.

3. What are respondents' views regarding the requirement that support required by Criterion B7 has to be provided by a single entity and the consequences of a subsequent replacement of this entity?

FBF answer: We agree with criterion B7, which implies that the notes and the exposures (e.g. liquidity facilities & credit enhancements) should be provided by a single sponsoring group in order to have some flexibility in the organisation of the Sponsor group.

4. [Determining compliance with the short-term STC capital criteria](#)

4. What are the respondents views on the options being considered by the Committee for determining STC compliance?

FBF answer: We support the BCBS' first proposal for the assessment of compliance, that only investors should assess the notes issued by the STC conduit.

Sponsors should assess whether other risk exposures to the conduit to which they are exposed, such as liquidity lines, are STC capital criteria compliant.

5. [Capital treatment](#)

5. Do respondents have any comments on or concerns over the proposed capital treatment?

FBF answer: The capital treatment for STC short-term securitisations should be more incentivized with further reduced risk weights. Operational requirements to meet STC criteria are very onerous. It is necessary and critical to introduce a better balance between additional operational constraints and responsibilities, and improved capital charges, especially for short term transactions.