



Comments

on

BCBS July 2017 consultative document

“Capital treatment for simple, transparent and comparable short-term securitisations”

Register of Interest Representatives

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General remarks

We welcome the Basel Committee on Banking Supervision’s intention to include asset-backed commercial paper (ABCP) among high-quality (STC) securitisations and to set lower capital requirements for such securitisation positions. Because of the special structure of these transactions, drafting separate criteria for them is appropriate. We also welcome it that the Basel Committee wishes to define separate criteria for ABCP transaction and programme level.

In the EU, two European Commission draft regulations also dealing with the identifying criteria and capital requirements for high-quality securitisations are currently under discussion. ABCP has already been taken into account in both. Now that the negotiations between the Council and the European Parliament have been brought to a successful conclusion, adoption of these regulations is imminent. To ensure an internationally consistent regulatory approach, the Basel Committee should take them as a guide.

Questions

Question 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 regulatory capital purposes which respondents would consider necessary to support the development of STC short-term securitisations?

1. Nature of assets

The additional guidance on homogeneity under Criterion A1 ‘Nature of assets’ will make it difficult for ABCP conduits featuring auto lease or mortgage transactions to satisfy this criterion, as these asset classes partially rely on refinancing or resale of the underlying assets to repay the ABCP.

2. Asset performance history

To take advantage of lower capital requirements for liquidity lines provided by sponsors for an ABCP transaction, the sponsor is to be required to demonstrate to investors an appropriately long performance history for the securitised exposures. For retail exposures, the minimum performance history is to be five years. In our view, this requirement is clearly excessive for this type of exposures; it should be reduced to three years.

18. Credit risk of underlying exposures

So that securitisation positions may be backed with less capital at transaction level, the credit risk of securitised exposures is to be limited. In the process, the risk weight for exposures to corporates under the Credit Risk Standardised Approach (CRSA) may not exceed 100%.

We wish to point out in this context that it is not usually possible for the seller to determine the risk weight of an exposure to an entity under the CRSA. In particular, the seller is unlikely to be able to determine whether the entity has an external credit rating that would lead to a risk weight of 150%. The requirement should therefore only have to be complied with to the best of the seller’s knowledge.

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Alternatively, the risk weight of the liquidity facility under the Internal Assessment Approach (IAA), which is largely determined by the credit risk of the securitised exposures, could be applied. The requirement should then be regarded as complied with if the liquidity facility has a risk weight of not more than 100%.

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

The Criterion B7 requirement that the support has to be provided by a single entity may exclude some existing programmes from the proposed capital treatment and limit flexible programme design in the future. Programmes commonly exist that are structured with support provided by multiple entities and allow for the replacement of liquidity providers, subject to programme-defined minimum credit requirements specified in the prospectus or offering document. Where this is the case, we believe that the STC classification should not be affected where all other short-term STC capital criteria are satisfied.

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

We agree that the capital treatment of an STC short-term transaction should be comparable with that of a tranche with a similar maturity as described in the July 2016 framework for STC term securitisations.