



Room 525, 5/F., Prince's Building, Central, Hong Kong
Telephone: 2521 1160, 2521 1169 Facsimile: 2868 5035
Email: info@hkab.org.hk Web: www.hkab.org.hk

香港中環太子大廈5樓525室
電話：2521 1160, 2521 1169 圖文傳真：2868 5035
電郵：info@hkab.org.hk 網址：www.hkab.org.hk

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By email: consultation-03-2017@iosco.org &
www.bis.org/bcbs/commentupload.htm

International Organization of Securities Commissions &
Basel Committee on Banking Supervision

Dear Sirs

Consultative Documents (5 October 2017)

- (1) **Basel Committee on Banking Supervision (BCBS) / Board of the International Organization of Securities Commissions (IOSCO) - Criteria for identifying simple, transparent and comparable short-term securitisations**
- (2) **BCBS - Capital treatment for simple, transparent and comparable short-term securitisations**

With reference to the captioned Consultative Documents, on behalf of the member banks of The Hong Kong Association of Banks, we are pleased to set out below our comments for your consideration:

Basel: Simple, Transparent and Comparable ABCP Conduits

We welcome the opportunity to respond to the BCBS-IOSCO's papers on the proposed criteria for determining that exposures related to an asset backed commercial paper (ABCP) conduit can qualify for preferential capital requirements under the simple, transparent and comparable (STC) criteria.

Baseline Approach

We support most of the proposals since they are generally consistent with those developed in other regimes, which have already been subject to scrutiny by international banks. However, we are concerned that BCBS is considering applying a regime which requires that all of the conduit level and transaction level requirements, save for the requirement for full support, be met before the STC can be applied by a liquidity facility provider at the transaction level. Instead, alternative approach 2 must be applied, since this would allow a non-STC conduit to contain STC eligible transactions to which a liquidity facility provider can apply the beneficial risk weight.

Whilst the compliance of the ABCP conduit with both the conduit and transaction level requirements is material for the investors of the commercial paper, the compliance of the conduit with the overall criteria is not relevant to the liquidity facility provider since it is only exposed at the individual transaction level. For example, it is not relevant to the liquidity provider that the overall conduit meets a single obligor limit across all transactions, if it is not exposed to other transactions within the pool.

Maturity Transformation

We consider that a cap on the level of maturity transformation is an unnecessary requirement. In order for a conduit to meet the STC criteria, it needs to be fully supported by a liquidity facility, which fully

Chairman Bank of China (Hong Kong) Limited
Vice Chairman The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
Secretary Celia Shing

主席 中國銀行（香港）有限公司
副主席 香港上海滙豐銀行有限公司
渣打銀行（香港）有限公司
秘書 盛思怡

protects the investors against the risks of maturity transformation. Similarly, at the transaction level, it is not required either: since the sponsor will be the liquidity provider and must be a deposit taker to attain STC, it will be subject to a prudential regime to manage its liquidity that would take into account the potential outflows on the liquidity facility should the commercial paper not be rolled over. If, however, BCBS is minded to continue with the application of a cap, it should amend its definition of weighted average life to be based on cashflows rather than residual maturities, since this would better reflect the maturity of the underlying transactions.

Standardised Risk Weights

It is proposed that the assets in a STC ABCP conduit be subject to a standardised risk weight cap at the outset. It is unclear which version of the standardised approach should be applied: whether it should be the standardised approach based upon the jurisdiction of the investor or that of the original asset. This is particularly relevant to commercial mortgages, where BCBS allows a national discretion to apply a reduced risk weight (50%), which may be exercised by some jurisdictions and not others. This may result in the same conduit being subject to differing eligibility for STC between jurisdictions.

Default Data

We request that the proposal that the performance history of transactions be established for a period of five years for retail assets and seven years for non-retail assets be reconsidered. This will have a negative impact upon the ability to finance trade receivables through an STC conduit, where the retention of such a credit history may be more unlikely. Furthermore, it will limit the ability to finance new products through the conduit, since these would lack such a data set.

We hope you find the above useful. Should you have any questions, please contact our Manager Ms Emily Ngan at (852) 2526 6080 or our Officer Ms Melissa Law at (852) 2567 1780.

Yours faithfully,



P-P
Celia Shing
Secretary

c.c. Mr. Daryl Ho, Executive Director (Banking Policy),
Hong Kong Monetary Authority