NATIONAL RESEARCH UNIVERSITY
HIGHER SCHOOL OF ECONOMICS

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Basel Committee on Banking Supervision Consultative Document: Revisions to the Basel Securitisation Framework

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Basel Committee on Banking Supervision
Email: baselcommittee@bis.org

Dear Sirs,

Basel Committee on Banking Supervision Consultative Document
Revisions to the Basel Securitisation Framework

The National Research University Higher School of Economics (HSE) is one of the leading Russian economic research and educational establishments actively carrying out the empirical research and policy response analysis, particularly in the area of finance and banking.

The National Research University Higher School of Economics (HSE) entirely supports the objective "to make capital requirements more prudent and risk sensitive" is pleased to provide response on the Consultation Document 'Revisions to the Basel Securitisation Framework' published by the Basel Committee on Banking Supervision on December 18, 2012 at:
http://www.bis.org/publ/bcbs236.htm

We would like to provide two sorts of comments: with respect to selected questions and paragraph-wise comments with respect to issues that are of importance from our point of view. Hope our comments would be of use for further development of the needed securitization framework revision.

We would be happy to provide you with rationale for the comments provided!

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Responses to Selected Questions

Question 5

§III, p. 13: "Requiring at least two ratings and using the lower of the two (or the second best in the case of more than two available ratings) helps to reduce over-reliance on a single rating agency's assessment of risk. In other words, it mitigates the risk of relying on a potentially flawed methodology or isolated errors embedded in the ratings of a single rating agency"

The problem can arise when there is only two ratings available. In this case using the lower of the two is not fully relevant (especially in the case of downward bias in this rating). It is proposed to use a sort of corridor of rating or an average rating, not limited to the worst one.

Question 13

§III, (ii), p. 28: "One option to address this concern would be to set the parameter *F* equal to 2 in all instances"

We argue that the Committee should differentiate senior and non-senior tranches. Doubling the parameter F from 1 to 2 for senior exposures seems material. Sure, the arbitrage opportunities will be lower in this case but they will not disappear at all. Nevertheless, in the example represented in Figure 1 the change of F from 1 to 2 does not lead to significant changes in capital charge (just the increase from 1$ to 2$). But if the sums are much more material, the consequences might be dramatic.

Question 18

§IV, p. 31: "The lowest risk weight proposed under the revised securitisation framework, for both long and short-term exposures, would be set at 20%"

We think that the risk-weight floor should not be the same both for short-term and long-term exposures. These kinds of exposures have relatively different sets of characteristics, that is why either additional justification for equal weights is needed or differentiation is proposed.

Paragraph-Wise Comments

§II, (i), p. 9: "If a bank could not use the MSFA for a given securitisation exposure, it would then use either the revised RBA or the Simplified Supervisory Formula Approach (SSFA). The decision to apply either the revised RBA or the SSFA would be made by the local jurisdiction"

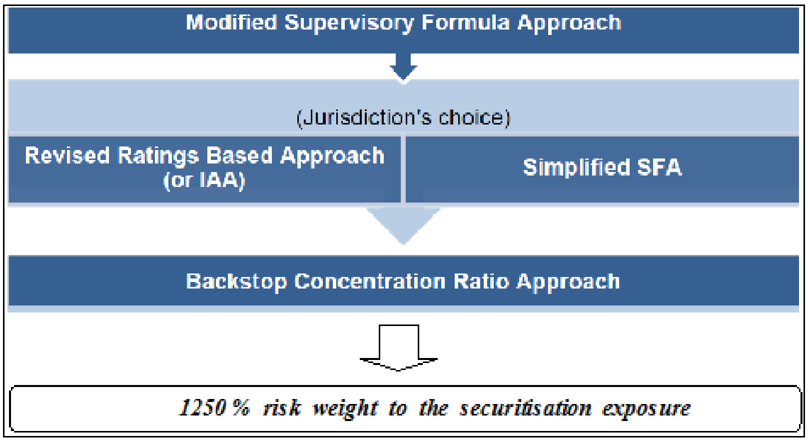
More explanation on the criteria the local jurisdiction are expected to use whether to apply either the revised RBA or the SSFA is welcomed. Additionally it is useful to list the cases when the local jurisdiction should choose one or another approach.

§II, (i), p. 9: "Specifically, to avoid regulatory arbitrage, a supervisor would allow only one approach to be used within its jurisdiction – ie either the revised RBA (and IAA) or the SSFA"

It is recommended to clarify whether the statement refers to one bank or all the banks. In our mind freedom to choose the approach given all the preconditions are met should be in place, i.e. the statement need to refer to a bank.

§II, (i), p. 9: [graphic representation]

We think that the scheme of the hierarchy under Alternative A should also contain the extreme case when a bank is unable to use any of the suggested approaches and a 1250% risk weight is assigned. The figure on the page 11 is proposed to be adjusted as follows:

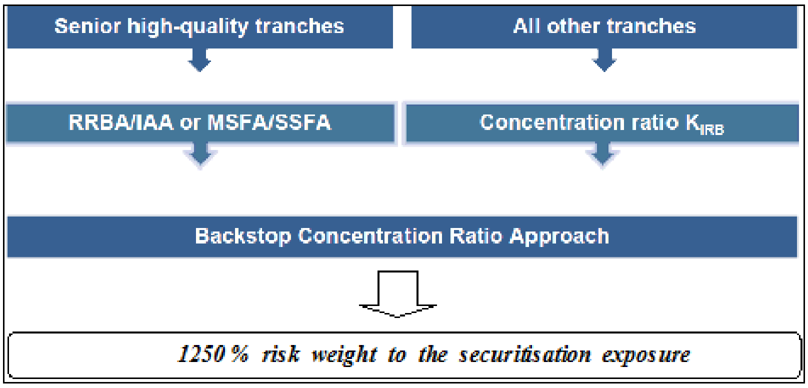


§II, (ii), p. 10: "The determination of "high-quality" would be based both, on available external information, such as external ratings, market data, and analyst's reports"

It is advised when running QIS to incorporate the respective question to arrive at the calibrated weights for external ratings and market data when determining the quality. Still equivalently to IRB approach banks might be allowed to decide on their own given proper validation and approval by local regulatory body.

§II, (ii), p. 11: [graphic representation]

We think that the scheme of the hierarchy under Alternative B should also contain the extreme case when a bank is unable to use any of the suggested approaches and a 1250% risk weight is assigned. The figure on the page 11 is advised to be adjusted as follows:



§III, (a), p. 14-15:

We think that the Document should contain not only the expressions for calculating the capital requirements per unit of exposure and the set of parameters for it but also the results of calculations in table form and in graphical form (please, see pp. 278-279 of Basel II (http://www.bis.org/publ/bcbs128.pdf) devoted to "Annex 5. Illustrative IRB Risk Weights").
Please, then see below the proposed items:

- Table 1 represents these results.
- Figure 1 shows the estimations of the capital requirements for different tranches in the light of their maturity, thickness and seniority/non-seniority.

Rating	Senior tranche		Non-senior tranche							
			Thin		Thickness = 0.10		Thickness = 0.25		Thickness = 0.50	
	Maturity (years)		Maturity (years)		Maturity (years)		Maturity (years)		Maturity (years)	
	1y	5y	1y	5y	1y	5y	1y	5y	1y	5y
AAA	0,015	0,046	0,015	0,140	0,015	0,102	0,015	0,075	0,015	0,054
AA+	0,026	0,060	0,026	0,182	0,026	0,135	0,026	0,101	0,026	0,075
AA	0,041	0,078	0,054	0,245	0,054	0,187	0,051	0,139	0,046	0,097
AA-	0,049	0,088	0,082	0,275	0,082	0,217	0,074	0,158	0,062	0,109
A+	0,057	0,100	0,122	0,310	0,122	0,253	0,103	0,178	0,081	0,120
A	0,065	0,113	0,176	0,347	0,170	0,288	0,134	0,200	0,099	0,132
A-	0,075	0,129	0,261	0,383	0,233	0,334	0,170	0,237	0,117	0,157
BBB+	0,085	0,146	0,366	0,459	0,308	0,386	0,215	0,270	0,143	0,180
BBB	0,094	0,163	0,487	0,566	0,381	0,443	0,264	0,306	0,174	0,202
BBB-	0,109	0,188	0,680	0,784	0,478	0,551	0,331	0,382	0,219	0,252
BB+	0,123	0,212	0,829	0,956	0,583	0,672	0,403	0,465	0,266	0,307
BB	0,136	0,235	0,945	1,000	0,711	0,820	0,481	0,555	0,313	0,360
BB-	0,168	0,291	0,984	1,000	0,822	0,948	0,546	0,630	0,350	0,404
B+	0,209	0,354	0,997	1,000	0,934	1,000	0,618	0,700	0,396	0,448
B	0,256	0,388	1,000	1,000	1,000	1,000	0,706	0,730	0,452	0,467
B-	0,311	0,402	1,000	1,000	1,000	1,000	0,732	0,732	0,468	0,468
CCC+/ CCC/ CCC-	0,378	0,455	1,000	1,000	1,000	1,000	0,777	0,777	0,497	0,497

Table 1. Estimates of capital requirements per unit of exposure for given set of revised RBA parameters

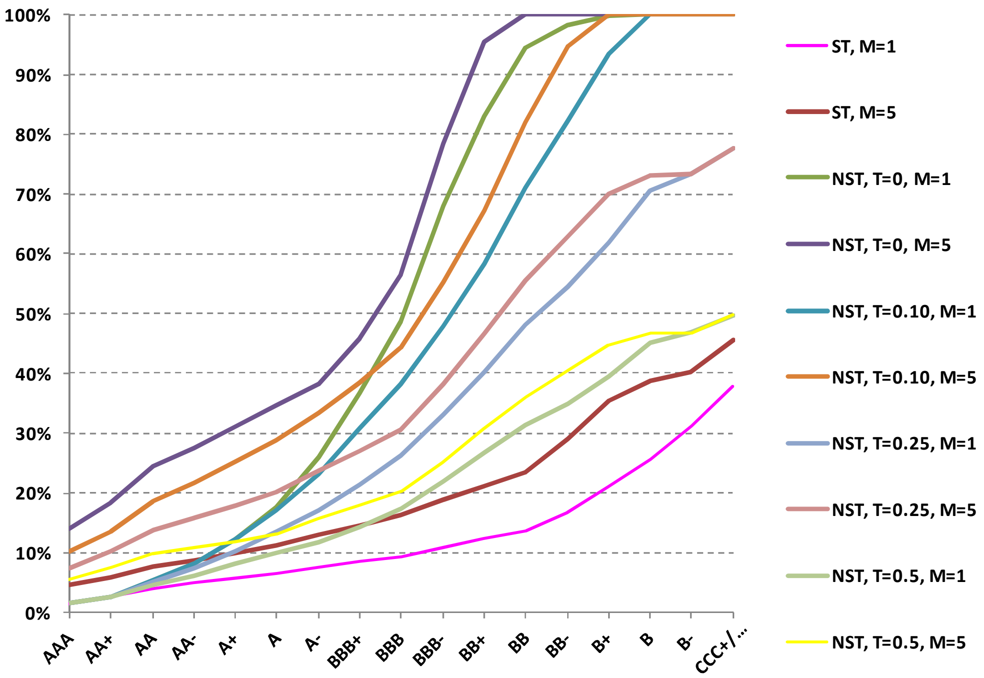


Figure 1. Estimations of the capital requirements for different tranches in the light of their maturity, thickness and seniority/non-seniority.

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