

P.O. Box 1800, 1000 BV Amsterdam, The Netherlands

To:
Basel Committee on Banking Supervision

Subject	Date
Response of ING Bank on the consultative document "Revisions to the Basel Securitisation Framework"	March 8, 2013

Dear Committee,

We would like to thank the Committee for the opportunity to provide feedback on the proposed changes to the securitisation framework. For a well-functioning securitisation market, it is important that the review of both the liquidity and the capital charge for securitizations currently discussed in the Basel Committee is well balanced and consistent.

Asset securitisation supports the real economy as it enhances the lending capacity of financial institutions to grant financing backed by mortgages, loans to small and medium sized enterprises, auto-loans/leases, consumer financing, trade receivables, etc. In particular, securitisation can enhance the capacity of banks to fulfil their role in intermediating between the liquidity needs of savers and the long term funding requirements of borrowers. Securitizations also allow increased competition by allowing more asset producers including new entrants to enter a market before establishing (long-term) funding sources. This has the impact of supporting the economy by lowering the cost and increasing the choice to customers.

One of the important benefits of securitisation techniques is that the funding repayments are matched to the amortisation of the underlying assets whilst it can also transfer unexpected losses to other institutions with lower risk concentrations. As such securitised funding complements fixed maturity wholesale funding (MTN's and covered bonds), and improves the efficiency and diversity of funding sources for the banking system.

We will provide you first some general feedback on the proposals, then our suggestions to improve the framework, and finally we will address the individual questions that have been put forward in the consultative document.

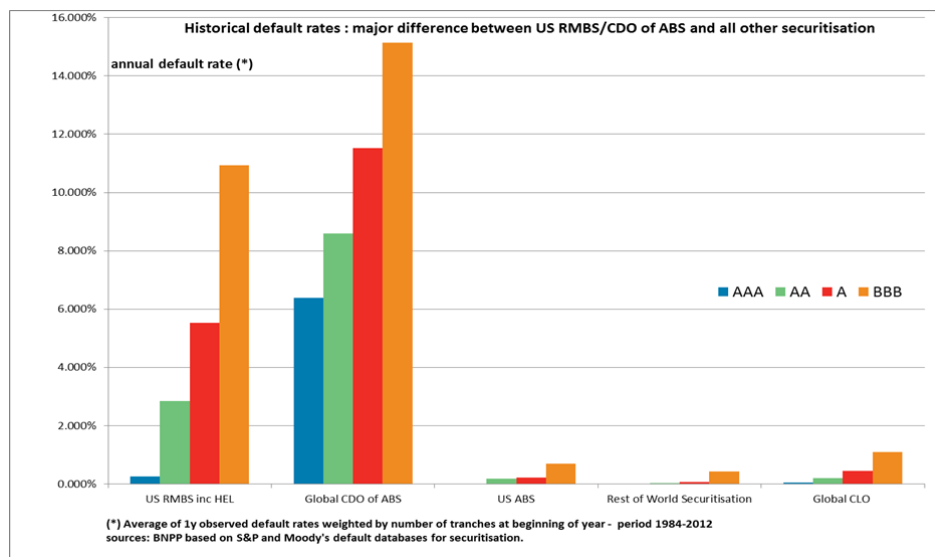
General Comments

It is important to emphasise that we believe that previous regulatory amendments, particularly the minimum exposure that originators of securitisations need to hold, or the "skin in the game", the enhanced requirements for credit analysis and the re-securitisation concepts enshrined in Basel 2.5 were well directed to address the primary issues that led to the

problems in the US Mortgage Backed Securities markets. Our view is that the primary cause of the problems in the US was misrepresentation brought about between a conflict of interest between the originators of the assets and the ultimate investors. The “skin in the game” regulations deal specifically with this governance issue aligning both the underlying originators and the investors.

Due to effectively addressing the issues mentioned above, the capital and liquidity regulations can be well calibrated to reflect the inherent risks associated with transactions. Ultimately, a risk sensitive and well calibrated approach will enable the technique to be used to fund the real economy, whilst improving the ability of banks to manage their solvency, liquidity and portfolio concentrations.

We would like to emphasise that from a credit risk perspective the performance of senior tranches in granular securitisations (RMBS/ABS) supported by European assets have been significantly better than the performance of similar exposures in the US (see graph below). As such, the proposed significant increase in risk weights applicable to senior tranches in European securitisations is at variance with the actual historical performance of these securities.



We believe that the proposed new capital rules should be grounded in how the applicable risk weights reflect actual performance of securitisation transactions. Whilst liquidity of European asset backed securities did suffer in recent years, resulting in some sharp reductions in secondary market prices, the fundamental loss record and related default history has actually indicated the efficacy of the securitisation techniques.

The application of overly punitive risk weights to securitisation tranches will result in a distortion in the allocation of capital and restrict the ability of banks to invest and divest liquidity and risks.

Main Comments on the proposed framework

With respect to the specific proposal of the Committee we have the following overall observations/remarks:

- The proposed risk weights under each of the methodologies is not commensurate with the risks involved or bear any relationship with known historical performance. The calibration is overly-conservative, and will harm the securitisation market even further.
- The proposal is very complex and not consistent in treatment across the various alternatives: (1) the capital levels between the three approaches differs widely, and (2) the risk weights of the securitisations exceed that of the underlying portfolio. Consistent application across banks, and jurisdictions will be very challenging.
- In relation to the proposed alternatives, in its current drafting the MSFA cannot be applied in most situations. The KIRB cannot be determined on an asset by asset basis by investors for a number of reasons:
 - Lack of specific models per asset class and jurisdiction on the side of investors
 - Lack of required data as input to the AIRB models for investors
- The SSFA could be a workable framework with expansion to include other risk mitigating tools (Excess spread etc.) but proposed calibration needs to be adjusted, we contend that the previous 0.5 calibration applied in the US is appropriate.
- The new RRBA risk weights are too punitive and appropriate recognition is not given for the maturity stresses already applied in assessing transactions.
- The two alternative hierarchies have significant implementation challenges. Alternative A relies predominantly on MSFA which is very difficult to apply in its current format (see above) and then allows the jurisdiction to choose between RRBA and SSFA. Alternative B requires a classification of Senior High Quality Tranche which as currently drafted is not practical.
- Mark-to-Market based modelling is not appropriate for Hold-To-Maturity assets. Also with a view that the IFRS and FASB accounting framework for non-trading-book assets is moving away from Mark-to-Market valuation, as the fluctuation in market values were not in line with the underlying risks.

Suggestions for improvement of the framework

In this section we would like to present our views to improve the proposed framework in a coherent way.

- We consider the SSFA approach to be the most viable solution. However, it should be recalibrated, so that the resulting risk weights are more realistic, and in accordance with past performance. It needs to be enhanced as well, so that it incorporates reserve

accounts, recoveries, excess spread, etc. When the same calibration (p-parameter) is used in Europe and the US the level playground between European and US based banks will be assured.

- Due to its relative simplicity, the SSFA can be further adjusted, such that it can be calibrated to different exposures classes. For example, different calibrations for retail mortgages, and SME loans can be accommodated for by adjusting the parameter p. Also, AIRB capital levels of the underlying assets can be taken as a starting point, rather than SA capital levels.
- If the MFSA approach is further pursued, then institution should be given suitable discretion to choose which approach to take (MSFA/SSFA/RRBA). The application of the IAA currently followed by banks could be extended to other asset classes than ABCP alone. Further, the MSFA should be recalibrated, so that it provides risk weights that are more realistic, and in accordance with past performance. It should also be amended such that a loan by loan analysis is not required.
- Due to the conservative calibration of the risk weights, the inclusion of a risk weight cap is a crucial aspect of the framework. The cap should apply to originators, sponsors and investors. In order to apply the cap in a consistent manner, in an operational achievable manner, ING proposes that the originating bank will need to provide the required capital charges of the tranches, based on their own AIRB models and internal data to investors. This reduces the reliance on external rating agencies, and guarantees a level playing field.
- Any implementation of a new regulatory framework should consider grandfathering over a period of time of prior exposures taken under the current regime. This will enable banks to rebalance their portfolios in a controlled way. It will also avoid a reduction in lending capacity of banks.

In the attached document we will address the individual questions that have been put forward in the consultative document.

Please do not hesitate to contact us if you have any further questions.

Yours sincerely,

Question 1:

What additional costs and benefits of the two hierarchies should the Committee consider? Which hierarchy presents the greater benefits relative to its drawbacks? Which hierarchy would best address the shortcomings identified with the current framework, whilst meeting the Committee's objectives?

Answer ING:

Per our opening remarks all approaches are calibrated in an over-conservative manner. Specifically the RRBA appears to be very punitive. It will potentially lead to European financial institutions avoiding using that methodology which itself has the significant benefit of having 3rd party validation on the risks involved.

European financial institutions cannot practically use the MSFA approach as they would need to have the following information : loan-by-loan data, calculation of the PD and LGD for jurisdictions that there are not currently locally based (e.g. Dutch financial institution buying Irish RMBS).

A specific concern under Hierarchy A is that the individual regulator can at its own discretion choose whether for e.g. an institution should use the SSFA or the RRBA. Ultimately this may punish institutions that would get more favourable treatment under the SSFA than the RRBA but because they had previously developed models under the RRBA (i.e the IAA) they could be forced to adhere to the punitive proposed risk weights under the RRBA. Given that Alternative A leaves to the jurisdiction to make the choice of RRBA or non-RRBA approach (which is the biggest drawback in Alternative A) our potential initial preference is Alternative B.

That said, there are two potentially drawbacks in Alternative B for European financial institutions. In the first instance, the definition of "high-quality" needs to be expanded.

If the definition solely relies on ratings and internal assessments, then rating elements such as country ceiling should be discounted, i.e. if the underlying stresses applied are to a high quality standard then this should be sufficient. This is required as assets that would be rated AAA based on their underlying performance but are rated BBB or lower would potentially fall outside the "high-quality" category. Given that this is not now available (i.e. rating before sovereign cap) all securitisations entire markets in Europe regardless of asset quality will be disqualified.

The potential cliff effect under alternative B when a securitisation exposure no longer qualifies as "high-quality" needs to be lessened and hence the F factor of 2 needs to be reduced and in the first instance should not be applied to the most senior tranche.

The second significant problem with the proposals is that whether the loan-level model approach option can really apply for European banks and European assets. It seems that only institutions with a presence in the local market and with significant loan level data can really benefit from the Kirb approach. This is not practical or workable in the majority of securitisations (particularly client/real economy transactions). To have Kirb models across all asset classes in all jurisdictions in combination with specific loan level PD and LGD is not realistic or feasible.

Therefore the only alternative to not using the RRBA approach is the SSFA approach, Having said that, current proposed calibration means proposed capital under this option is not proportionate with the underlying risk .

If the p factor is set to be similar or the same to the one that is going to be used in the US ($p=0.5$), then this approach could work. But given that the current proposal for a $p=1.5$ our calculations show that it would result in this approach being more punitive in a number of instances than the RRBA method and not reflective of the real risk position.

Question 2:

As regards Alternative A, could both the revised RBA and the SSFA be accommodated without raising concerns about regulatory arbitrage or level playing field?

Answer ING:

No, this is not possible, as alternative A allows jurisdictions to use different methodologies. That in itself will lead to a non-level playing field. Subsequently, the calibration of the SSFA differs between Europe and the US, which also leads to a non-level playing field.

- The risk weights of the RRBA or SSFA differ for the same securitisations. As the RRBA is more punitive, jurisdictions that choose the SSFA as the preferred method will have an advantage over those that will use the RRBA approach.*
- In the SSFA methodology, US financial institutions will need to use $p=0.5$ and European financial institutions will have to use $p=1.5$. This results in more punitive risk weights for European institutions.*

As a consequence, this will leave European institutions always with higher risk weights than their US based counterparts, as Europe will implement either the more conservative RRBA, or the more conservative SSFA. The non-level playing field caused by the differences in risk weights will lead to certain securitisations being bought by institutions that will apply RRBA and another subset by institutions that will apply SSFA.

Question 3:

As regards Alternative B, which methods could a bank use to conclude that a securitisation exposure is of high-quality? Would the use of these methods likely result in a capital charge consistently related to credit risk across banks and countries? Would Alternative B produce material cliff effects as exposures deteriorate below high-quality?

Answer ING:

1. Definition of high quality:

To judge whether a securitisation is of high quality the quality of the borrowers in the pool, the quality of any collateral, the underwriting standards of the issuer, structural features of the transaction, etc. need to be assessed. ING proposes to leave this assessment to the banks themselves. Banks can compare the results of the assessment against their own experience. The IAA may be used for this purpose. This might potentially lead to inconsistent capital charges across banks.

2. Cliff Effects

There are potential cliff effects when securitisations move from “high-quality” to “low-quality”. ING is in general not in favour of methodologies that make use of these binary features, as they always lead to cliff effects. A more gradual approach is preferred, or the classification of the quality should not change after issuance.

Question 4:

Are there alternative hierarchies or revisions to the two proposed (or a combination of both) that the Committee should consider?

Answer ING:

ING proposes the following approach:

- 1. The SSFA with the p-factor set to 0.5 would be at the top of the hierarchy. The approach should also be slightly adjusted to take into account excess spreads, reserve accounts and recoveries. This gives also a level playing field between US and Europe. Additionally, it is the most transparent model in the revised framework, and it is very achievable from an implementation point of view.*
- 2. The revised RBA approached should then only be used as a last resort and needs to be further refined as the risk weights are too high for the top rated notes particularly further out the maturity curves. See also question 6.*

As for the MSFA ING is of the opinion that the proposed methodology is too complex, not transparent, and an operational burden, given the fact that this approach is very data intensive, and requires a substantial modelling effort. Most notably, the application of the MSFA by banks that act as investors, or as sponsors for client related transactions is not possible. This method is therefore not supported by ING in its current form.

Question 5:

The Committee recognises that in some instances and in some jurisdictions, the requirement for two external ratings could be difficult to implement or could impose additional costs on banks. The Committee requests feedback on the relative merits of reducing idiosyncratic, rating agencies' modelling risk with the costs of using two ratings and/or whether exceptions to this treatment should be permitted.

Answer ING:

ING does not agree with the committee's view to use 2 ratings. Instead, ING fully supports the position that investors themselves are responsible for making their own assessment of the risks in securitisation transactions, and not rely on ratings alone. As a consequence the number of required ratings should be reduced, rather than increasing the number of required ratings.

Additionally, obtaining 2 ratings is very onerous, and especially for transactions that relate to client business it is overly punitive to suggest that they always require 2 ratings. For smaller transactions it is for clients not economically viable to obtain 2 ratings.

Question 6:

Is the RBA appropriately calibrated and formulated? Should other risk drivers be incorporated?

Answer ING:

Additional Risk Drivers

ING acknowledges the incorporation of additional risk drivers for the rating based approach. The thickness of tranches is an important risk driver. However, it would be better to incorporate attachment point, next to the thickness, as the level of subordination for mezzanine and senior tranches is an important factor.

Additionally, ING does not agree with maturity as an additional risk driver. Maturity is already factored into the rating, which leads to double counting when including it as an additional risk driver in the calculations of the risk weights.

Level of calibration

ING is of the opinion that the RBA approach is not calibrated appropriately and is overly conservative. The RRBA approach does not take into account the extra protection that the equity and mezzanine notes provide to the A notes. The calibration of the RRBA needs further attention, and needs to be corrected downward. We will show this with a real-life example of a securitisation transactions where ING is the issuer.

This example is based on the Orange Lion 6 transaction as of end December 2012. This transaction is a public transaction, initiated in June 2011. The underlying pool of Dutch mortgages has an average risk profile (no adverse selection), comparable to the rest of ING's

Dutch mortgage portfolio. This is in terms of the distribution of LTV, geography, Debt to Income, types of mortgages, etc. There are only a few delinquencies in the underlying pool.

The tranching of the transaction is relatively straight-forward: there are two senior tranches that are time-tranched, a mezzanine note B and an equity note C. The class A2 notes will be redeemed after the class A1 notes have been fully redeemed. The A1 and A2 notes have the same subordination level. Both A1 and A2 notes are externally rated by two rating agencies. The table below shows the relevant characteristics and parameters of all four notes, together with the proposed risk weights of the tranches, and the resulting RWA per tranche.

Tranche	Current Balance (*)	Fitch	Moody's	maturity	Attachment Point	Detachment Point	Proposed Risk Weight	RWA
Class A1 Notes	209,345,663	AAA	Aaa	2	7.84%	100.00%	28%	58,809,253
Class A2 Notes	960,000,000	AAA	Aaa	5	7.84%	100.00%	58%	556,800,000
Class B Notes	46,400,000	nr	nr	na	4.18%	7.84%	1250%	580,000,000
Class C Notes	53,100,000	nr	nr	na	0.00%	4.18%	1250%	663,750,000
Total	1,268,845,663						147%	1,859,359,253

(*) Please note that there is a small difference between the outstanding balances of the notes and the mortgages. This is caused by the reserve accounts, as well as some building deposits that have not been drawn yet.

Comparing the risk weights from the RRBA method with the risk weights of the Standardised Approach for mortgages, shows that the RRBA leads to a very significant increase in risk weights. Under the SA approach, the risk weight for a mortgage with an LTV below 100% amounts to 35%. For mortgages with an LTV above 100%, the risk weight for the loan part exceeding the LTV of 100% amounts to 100%. The proposed risk weights of the class A notes exceeds the SA capital charge of 35% of the underlying mortgage pools. The same holds for the total required capital for all four notes: the required capital for the notes far exceeds that the 35% risk weight.

When the AIRB approach is used for the underlying mortgages, the difference in capital required for the underlying mortgages and the notes becomes only more pronounced.

ING is therefore of the opinion that the RRBA approach is not calibrated appropriately and is overly conservative. The RRBA approach does not take into account the extra protection that the equity and mezzanine notes provide to the A notes.

Additional Note:

From the text it is not clear whether any reserve accounts that are part of the securitisation transaction should be added to the subordination level of the tranches. It would help if the committee would make this explicit.

Question 7:

Is it appropriate to require that in order for the MSFA to be used the IRB approach should be applied for all underlying assets?

Answer ING:

No, it is not appropriate to require the IRB approach application to all assets, as this is too restrictive. It raises issues in terms of (1) modelling, as well as (2) data transfer.

As for (1) modelling, the development of IRB models requires a substantial effort, and it will be hard for banks to meet the requirements to get approval from their regulator especially if they wish to invest in, or sponsor, a securitisation transaction with an underlying pool of assets that is not comparable to assets on the bank's own balance sheet. In this case the bank does not have access to data and/or experts required to develop an IRB model.

In terms of (2) data, the application of the MSFA on a loan by loan basis requires substantial amounts of data transfer to be provided from originators to investors. This data needs to be publicly available, auditable, etc.

For the above reasons ING has concerns that banks will not be able to meet the requirements in order to use the MSFA, let alone the complexity of using the revised formulas operationally. As a result, banks will be forced to default to SSFA or RRBA/IAA.

Question 8:

Is the MSFA appropriately calibrated and formulated? Does it incorporate the appropriate risk drivers? Is the calibration of tau and omega appropriate? If not, what evidence can respondents provide to support an alternative calibration?

Answer ING:

The calibration of the MSFA is overly conservative. The supervisory add-ons of tau and omega have been reduced from 1000 to 100 and from 20 to 10 respectively; while this is intended to add prudence and reduce cliff effects, the downward revision is extremely large and unworkable. Further below we will provide an example that illustrates our point. Overall, the MSFA requires extensive information including loan-by-loan IRB estimates of the underlying assets. This will be a challenge for most banks that act as investors. A simpler alternative is needed. This loan by loan estimate of PD/LGD is absolutely not practical and cannot be implemented for client securitisation transactions where banks act as sponsors.

Example

This example is based on the Orange Lion 7 transaction as of end December 2012. This transaction was initiated in June 2012. The underlying pool of Dutch mortgages has an average risk profile (no adverse selection), comparable to the rest of ING's Dutch mortgage portfolio. This is in terms of the distribution of LTV, geography, Debt to Income, types of mortgages, etc.

ING has all relevant information of the underlying mortgage pool, and hence the MSFA calculations can be performed. The tranching of the transaction is relatively straight-forward: there are four senior tranches that are time-tranched, and an equity note B. The class A1 notes will be redeemed first, then the class A2 notes, etc. All A notes have the same subordination level provided by the B note. All A notes are externally rated by two rating agencies. The table below shows the relevant characteristics and parameters of all four notes, together with the proposed capital charges and amounts based on the MSFA approach.

Notes	Rating	Amount	AP%	DP	Maturity	MSFA	MSFA (EUR)
Class A1	AAA	2,233,418,790	17.34%	100%	0.5	1.60%	35,734,701
Class A2	AAA	2,500,000,000	17.34%	100%	4.5	1.60%	40,000,000
Class A3	AAA	3,100,000,000	17.34%	100%	5	1.60%	49,600,000
Class A4	AAA	3,221,700,000	17.34%	100%	5	1.60%	51,547,200
Class B	N/R	2,319,000,000	0%	17.34%	5	20.1%	467,046,600
Total		13,374,118,790				4.81%	643,928,501

The MSFA results can be compared to the capital charge that mortgages receive under the SA approach. The capital charge for mortgages amounts to 2.8%, which is substantial lower than the 4.81% capital charge of all four notes together. The MSFA method leads to a very significant increase in capital. This difference increases when comparing the results from the MSFA with the AIRB capital of the underlying mortgages. As such the MSFA approach does not take into account the extra protection that the equity notes provide to the A notes.

The number of loans underlying the Lion 7 transaction exceeds 100.000. This example illustrates how data intense the proposed MSFA method is. This is operationally burdensome.

ING is therefore of the opinion that the MSFA approach is not calibrated appropriately and is overly conservative. This approach does not take into account the extra protection that any equity or mezzanine notes provide to senior notes. The method is too complex, and requires too much data in order to work.

Additional Note:

From the text it is not clear whether any reserve accounts that are part of the securitisation transaction should be added to the subordination level of the tranches. It would help if the committee would make this explicit.

Question 9:

Is it prudent to allow the use of the MSFA by banks making use of the foundation IRB approach (ie not calculating internal estimates of the underlying loans' LGD)?

Answer ING:

The LGDs of the foundation IRB approach have been set and accepted by the regulators. ING sees therefore no issues with applying these LGDs with the MSFA. Having said that, ING is also of the opinion that the proposed MSFA is not workable in practice, and should be revised altogether. See also our feedback on question 8 above.

Question 10:

Is the SSFA (particularly the constant term p) appropriately calibrated? Please provide justification and evidence, to the extent possible, for alternative appropriate levels of calibration?

Answer ING:

The constant term p in the proposed new formulae appears to be arbitrary, it is simply proposed higher than the US proposal of June 2012, and is three times higher than the US proposal. Despite the Committees' statement that the SSFA is calibrated more conservatively than in the US, the significant variance raises concerns about keeping a level playing field (see also our answer to question 2) and also casts doubts on how fairly the performance of the market during the crisis is reflected, especially for European securitisations.

It is absolutely imperative that the constant p is looked at, from our own analysis the changing of the p factor from 0.5 to 1.5 has a dramatic impact on capital under the SSFA which is not justified or warranted. We strongly suggest to leave the p factor at 0.5.

The following live example illustrates the various RWA treatments of a senior tranche in a securitisation. The transaction is a pool of Dutch consumer loans financed through ING's multi-seller conduit. The underlying assets are very granular and are unsecured Dutch Consumer loans generated through a core client of ING, (financing the real economy). There are over 100.000 loans in the underlying pool, hence making the application of MSFA practically impossible.

<i>Current RWA using IAA/RBA of ING's senior position:</i>	<i>7%</i>
<i>Revised RRBA RWA:</i>	<i>58%</i>
<i>SSFA RWA*:</i>	<i>148%</i>
<i>SSFA following US model (i.e. p factor calibrated to 0.5)</i>	<i>33%</i>
<i>MSFA RWA:</i>	<i>Cannot be assessed</i>

**The SSFA result might be reduced as a result of the cap, although it is not clear how this would be calculated and in any respect would not be lower than 75%*

This example clearly demonstrates the punitive nature of the proposed p factor which is extremely punitive in the example above and does not take into account the risk mitigating techniques of securitisation.

Question 11:

Is the SSFA properly formulated or should other risk drivers, such as maturity, be incorporated?

Answer ING:

The SSFA requires the use of five parameters (KSA, A, D, p, W) that already pose many questions on up-to-date data availability, complexity and operational challenges. The addition of maturity will only add more complexity and penalise longer maturities. As per above we would also suggest incorporating risk mitigants such as recovery rate, reserve fund and excess spread in the formula and/or inputs. One simple and transparent way to appropriately account for these key variables is to adjust the W factor for known recoveries and to adjust the tranche size to account for predictable excess spread.

Question 12:

Has the BCRA been appropriately calibrated and formulated?

Answer ING:

No, the BCRA has not been calibrated appropriately. However, the BCRA has two positives; it is relatively simple and it applies the SA risk weights of the underlying exposures to a tranche. It would act as a fall-back if a bank could not use other approaches to calculate capital requirements for a given securitisation exposure. It is however overly conservative in that it gives no credit to the enhancement provided for senior and upper mezzanine tranches prevalent in Europe. The implied increase from existing capital requirements does not appear to bear any reality to actual historic performance of these tranches. Deciding to double the capital for non-senior tranches is overly simplistic and is harsh given the fact that the detachment point of the tranche is already taken into consideration. It overly penalises upper mezzanine tranches that may be high in the transaction waterfall but not the most senior (for example where there is a fast-pay senior tranche). The proposal to make the BCRA extremely conservative in order to protect against arbitrage opportunities should be seen in context of our response to the calibration of the other techniques available. As we consider the other techniques to be extremely and unnecessarily conservative, improvements to these techniques should not lead to arbitrage opportunities in the BCRA.

Question 13:

What factors should the Committee consider in weighing whether the F parameter should be set at 2 for senior as well as non-senior tranches to avoid arbitrage opportunities?

Answer ING:

For senior positions, we believe increasing the result by a factor of 2 (i.e. simply doubling the result) is a crude and unnecessary measure, penalising banks by not being able to use another method. We believe arbitrage opportunities would be avoided by amending the overly conservative current proposals for the RRBA, SSFA and MSFA. The committee should consider the historic performance of senior (and other) tranches in Europe, the improved regulatory environment over the last number of years (e.g. retention rules, reporting standards etc), the credit enhancement which provides a collateral buffer to senior tranches and the increase in capital that banks would need to hold compared to existing capital requirements and compared to the capital requirements for the pre-securitised assets.

Question 14:

How prevalent and material are securitisation exposures backed by mixed pools?

Answer ING:

We would expect that differing pools of assets funded through a multi-seller vehicle would not be considered a mixed pool and that the institution could look at these as separate pools and allocate capital based on the most appropriate treatment per asset class/pool.

Question 15:

Is the proposed treatment for mixed pools appropriate, or should another approach be employed?

Answer ING:

Refer to Q14.

Question 16:

Is the definition of maturity appropriate, in light of the Committee's objectives?

Answer ING:

ING agrees that the weighted average maturity of the cash flows is the appropriate definition, provided that prepayments and the cash flow waterfall of the securitisation structure are taken into account. We would like to stress here that the final legal maturity of a securitisation transaction is not an appropriate tool for analysing the risk associated with maturity. Very often there is a long tail on securitisation and transactions with this feature will be unduly punished through this definition.

As per our answers above, we would like to mention again that maturity is already a driver for the rating of tranches. Therefore assigning risk weights based on maturity as in the revised RBA can be considered as double-counting, and the punitive factors applied to longer dated transactions are overly harsh and should be re-examined.

Question 17:

Is the proposed 20% risk-weight floor set at an appropriate level? Please provide justification and evidence, to the extent possible, for alternative levels for the risk weight floor.

Answer ING:

ING does not have an issue per se with a risk-weight floor. The proposed floor, however, is an issue. We believe 10% is an appropriate floor. Our own internal experience of highly rated European ABS and noting market available statistics (refer to graph and text in introduction) is that losses over any time horizon for AAA European AMBS is virtual non-existent and therefore there is no empirical justification in raising the floor to 20%. Of further concern in the dramatic increases in the proposed risk weights as maturity increases particularly for the high rating classes, as stated in our overall feedback, maturity is a key consideration applied in both rating agency and our own internal assessment models for assessing securitisation positions and is very much enshrined in the enhancement calculations. Whereas we accept that longer dated transactions do inherently carry a greater risk of downgrade over the life of the transaction our experience of loss (and noting that of publicly available statistics) in the top rating classes does not equate to the capital increases as proposed particularly under the RBA/IAA.

Question 18:

Should the risk-weight floor for short-term exposures be the same as for long-term exposures?

Answer ING:

As per above we believe that sizable increase in weightings across the maturity buckets is not appropriate or calibrated correctly, we also contend that a risk weight floor should be set lower for maturity positions that are less than one year.

Question 19:

Are the proposed caps and their interactions with the proposed floor risk weight appropriate?

Answer ING:

ING agrees with the principal that the risk weights of a securitisation can never exceed the risk weight of the underlying assets when held directly on the bank's balance sheet. Per definition the capital amount of the senior position should absolutely be lower than that of the underlying portfolio under the AIRB/Standardized methods. ING is therefore of the opinion that this cap should hold for issuers, sponsors as well as investors.

Given the harsh impact of the proposed risk weights under all approaches, the cap of the risk weights is going to be a very important aspect of the new framework. This makes it crucial that the cap can be implemented. There are, however, numerous and cumbersome practical implications when implementing the cap. Especially for banks that act as investors this will lead to a large amount of data transfer, as well as development of new AIRB models in order to apply the MSFA formula. In order to come to a practical approach, ING proposes that the risk weights should be calculated by originators, and provided to investors. The calculations performed by the originators, should be based on their regulatory approved AIRB models, and internal data. This will reduce the amount of data transfer and required modelling considerably. This will also lead to a broader investor base, which will improve the liquidity of the issues considerably.

Question 20:

Are there other approaches that could provide a more risk-sensitive treatment while still being prudent and operationally straight-forward to implement?

Answer ING:

We concur with the approach that is proposed by the committee to risk weight the carrying value of the securitization exposures. As a matter of fact, this approach is currently followed by ING already. With this method, any (re-)impairments, or increment of the bonds is immediately taken into account, and it assures alignment of the capital with reported financials. However, we would like to make another note in this context. As the committee will be aware, IFRS 9 will result in an adjustment of the current accounting rules for Loan Loss Provisions, and therefore the value assigned in the financial accounts to exposures. These changes will affect exposures that are currently accounted for as Loans and Receivables, as well as exposures that are currently accounted for as Available for Sale. The new IFRS-9 rules are not yet finalized, and it may take some more adjustments before the final rules are fully settled. However, ING is concerned that these new IFRS rules may result in substantial inconsistencies with the Basel framework. One of the most notable aspects here is the capital shortfall. The different methodologies, horizons as well as caps and floors used in the regulations may result in double counting of capital and provisions. ING urges the committee to guard for any inconsistencies that lead to unnecessary double counting, which will put

additional constraints on the financial recourses of banks, that will ultimately hamper the real economy.

Question 21:

Are the assumptions used in developing and calibrating the approaches discussed above appropriate in view of the Committee's stated objectives? Please provide empirical justification for alternative assumptions to those noted above.

Answer ING:

No, the new proposed risk weights are significantly more punitive compared to the underlying risk profiles. We like to evidence this with risk weights laid down in the Standardised Approach and with internal ING Bank data. We will also provide evidence from another angle: how do the BIS proposed risk weights translate to average PD and LGD levels?

Under the Standardised Approach rules, the risk weights for residential mortgages with LTV up to 100% equals 35%. A securitisation based on residential mortgages (RMBS) does not increase or decrease the risk, instead it re-distributes the risk. Therefore the average risk weight of a standard RMBS should not be higher than the conservative 35% risk weight as determined under the Standardized Approach.

Under the Advanced IRB rules these risk weights are determined by internal rating models which are approved by the Home Supervisor. For ING Bank these risk weights for the largest residential mortgage portfolios are significantly lower than the SA 35%. Again, when re-distributing the risk via an RMBS, the average risk weights should not be significantly higher than these percentages.

We would like to follow also another approach to show that the level of the risk weights is set at an overly-conservative level. For this, we start with calculating the risk weights for a range of PD and LGD combinations, based on the AIRB approach for retail mortgages (including the regulatory floor of 10%). The results are provided in the table below. Subsequently we compare these outcomes with the risk weights for senior tranches as proposed in the consultative document. The light orange color indicates the PD-LGD combinations that are below the 20%-floor. The middle orange cells are combinations between the proposed risk weight of 20% and 58% for senior AAA tranches. And, finally, the dark orange combinations are the combinations with a risk weight higher than the proposed minimum risk weight of 58% for senior AAA tranches with a maturity of 5 years. As you can see from the table, the proposed risk weights correspond very punitive PD and LGD levels. These levels are totally not in line with our residential mortgage portfolios.

		LGD												
Confidence Level	99.90%	PD	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%	55%	60%
Scaling Factor	1.06	1	0.01%	0%	0%	1%	1%	1%	1%	2%	2%	2%	2%	2%
Correlation Factor	15%	2	0.02%	1%	1%	1%	1%	2%	2%	3%	3%	4%	4%	4%
LGD floor	10%	3	0.03%	1%	1%	1%	2%	2%	3%	4%	4%	5%	5%	6%
Apply LGD floor	yes	4	0.04%	1%	1%	2%	2%	3%	4%	5%	6%	6%	7%	7%
Internal rating buckets		5	0.05%	1%	1%	2%	3%	4%	4%	5%	6%	7%	7%	8%
		6	0.07%	2%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%
		7	0.10%	3%	3%	4%	5%	6%	8%	9%	10%	11%	13%	14%
		8	0.15%	3%	3%	5%	7%	9%	10%	12%	14%	15%	17%	19%
		9	0.23%	5%	5%	7%	9%	12%	14%	17%	19%	21%	24%	26%
		10	0.36%	7%	7%	10%	13%	16%	20%	23%	26%	29%	33%	36%
		11	0.59%	9%	9%	14%	19%	23%	28%	32%	37%	42%	46%	51%
		12	0.99%	13%	13%	20%	26%	33%	40%	46%	53%	59%	66%	73%
		13	1.70%	19%	19%	28%	37%	47%	56%	66%	75%	84%	94%	103%
		14	2.97%	26%	26%	39%	52%	66%	79%	92%	105%	118%	131%	144%
		15	5.36%	36%	36%	54%	72%	90%	109%	127%	145%	163%	181%	199%
		16	9.92%	48%	48%	72%	96%	120%	144%	168%	192%	216%	240%	264%
		17	18.85%	59%	59%	88%	118%	147%	177%	206%	236%	265%	295%	324%
		18	25.00%	62%	62%	92%	123%	154%	185%	215%	246%	277%	308%	339%
		19	35.00%	61%	61%	92%	122%	153%	183%	214%	244%	275%	305%	336%

Table: overview of the risk weights per PD & LGD combination, using the AIRB BIS formula for Retail secured by residential property.

All in all, regarding RMBS, the new proposed risk weights for securitisations are significantly more punitive compared to the risk weights of the underlying exposures when applying either the current SA or AIRB rules. We strongly propose to align the risk weights for securitisations by taking notice of the underlying risk profiles and therefore taking notice of the underlying risk weights currently applied, as a securitisation does not increase the underlying risk profiles, it rather re-distributes the underlying risks.

Question 22:

Is the proposed treatment of retail securitisations using the same approaches as for corporate securitisations appropriate? Would additional complexity (in the form of an additional formula to adjust the AVCs of retail underlying exposures) be justified to remove the double-counting effect of maturity effects?

Answer ING:

ING recognises the balance that needs to be struck between on the one hand accuracy and on the other hand simplicity and tractability. However, by following an approach tailored to corporate exposures, retail exposures are unduly treated. The vast majority of public and private securitisation transactions are based on pools of retail exposures, and provide funding benefits for the real economy. It is therefore warranted that the risk levels in securitisations transactions based on pools of retail exposures are measured accurately, and the resulting risk weights should be realistic, and in line with the underlying risks. Double counting should also be avoided as much as possible.

Further to this, ING urges that the risk weights of securitisations of retail exposures should be calibrated on the basis of the performance of retail securitisations. Likewise, the risk weights

of securitisations of corporate exposures should be calibrated on the performance of corporate exposures.

Another issue that ING would like to raise here is the difference in LGD treatment between retail exposures secured by real estate and other corporate exposures. The RWA calculations for retail exposures secured by real estate prescribes a minimum LGD floor of 10%. By imposing a RWA floor of 20% for super senior tranches there is potential conservatism on conservatism for retail exposures secured by real estate. (See also questions 17 and 18 for additional response.)

Question 23:

How could concerns that securitised retail exposures have high default risk or high correlation be managed? Please provide data supporting any modifications to the proposed approaches, particularly the MSFA and revised RBA, to account for differences in risk based on underlying exposure types.

Answer ING:

We would like to stress here once again that losses in Europe have historically been lower than in the US, and as a result, the correlations of mortgages in the underlying pools in Europe are also lower than in the US. We therefore do not agree with the observation from the Committee that correlations in retail portfolios are necessary high. The high default risk in retail mortgage securitisations is mainly Expected Loss based, due to the low correlations, and should therefore not be reflected in higher capital amounts.

Question 24:

Is the relative calibration of the approaches appropriate? Please provide empirical data to support any conclusions.

Answer ING:

No, the relative calibration of the various approaches is not appropriate. We will show this with an example of a securitisation transaction that ING has originated.

The transaction that is used in this example is the same as question 8. For specific information about the transaction we refer to this question. The table shows the capital levels and amounts obtained with the three approaches proposed in the consultative document. The calculation tool that was provided with the QIS has been used for these calculations. It can be seen that the risk weights of the securitisations differ substantially per approach. Not only on total portfolio level, but also on tranche level.

Notes	Rating	Amount	AP%	DP	Maturity	MSFA (%)	MSFA (EUR)	RRBA (%)	RRBA (EUR)	SSFA (%)	SSFA (EUR)
Class A1	AAA	2,233	17.34%	100%	0.5	1.60%	36	1.60%	36	1.60%	36
Class A2	AAA	2,500	17.34%	100%	4.5	1.60%	40	4.64%	116	1.60%	40
Class A3	AAA	3,100	17.34%	100%	5	1.60%	50	4.64%	144	1.60%	50
Class A4	AAA	3,222	17.34%	100%	5	1.60%	52	4.64%	149	1.60%	52
Class B	N/R	2,319	0.00%	17.34%	5	20.1%	467	100%	2,319	4.83%	112
Total		13,374				4.81%	644	20.67%	2,764	2.16%	289