

CONSULTATIVE DOCUMENT

**REVISIONS TO THE BASEL SECURITISATION
FRAMEWORK**

● Proposed revisions to the securitisation framework hierarchies

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? (Page 12)

The concern is that revisions to the Basel Securitisation Framework have been made without a general coordination with other regulatory initiatives undertaken to improve inadequate aspects (for example: new requirements on Credit Rating Agencies (CRAs) rating assignment procedures; improvement in securitisation disclosure, etc.). Considering the collateral data shortcoming, the new hierarchy approach does not permit MSFA application in alternative A and B, and the Concentration Ratio Approach in alternative B. Until the regulatory initiatives referring CRAs and disclosures are not concluded, the current Basel Securitisation Framework revision will penalize the securitisation capital requirements.

Both alternatives A and B are critical. Specifically:

- alternative A implies the local regulator's choice between RRBA and SSFA. As a consequence, a different treatment on securitisation exposures might take place in different countries. Consequently a decrease in regulatory arbitrage cannot be identified.
- alternative B is based on the distinction between senior high-quality securitisation exposures and all the other securitisation exposures. This distinction is based on CRAs' rating assignment. Furthermore, under alternative B, banks can choose the approach to be applied for senior high-quality securitisation exposures. This is in contrast with Basel Committee scope to reduce gaming and arbitrage. The approach application choice is based on CRA rating assignments, subject to regulatory review on procedures. This assumption is in contrast with Basel Committee objectives to limit reliance on external rating and to encourage banks to perform internal assessments of risk.

Moreover, it is evident the substantial inadequacy to apply internal models (credit risk capital requirements) for the K_{irb} calculation referring to third parties securitisation. Intesa Sanpaolo internal models are calibrated on Italian market performance. The models are based on the bank's positions historical data. Consequently for the same securitisation tranche booked in the portfolio, each bank (in relation of the local market context and the bank's historical data) would have different values of K_{irb} based on its internal model validated from the local regulator.

Considering the current regulations, the prudential treatment of the credit risk in the trading book portfolio is aligned with the one in the banking book portfolio. It is then preferable that revisions on the securitisation framework are published contextually for both portfolios.

The revisions to the Basel securitisation Framework should provide a "grandfather clause" that should also cover the deals being currently under structuring. This in order to avoid negative impacts on the business and the markets, remembering that securitisation is an essential funding instrument either for banks and financial institutions.

At last we would like to highlight the relation between the Basel Securitisation Framework and the Basel III Liquidity Coverage Ratio. Specifically we would like to stress the fact the new LCR regulation offers the introduction in level 2B of some RMBS. This is in contrast with all the restrictions introduced by Basel Securitisation Framework. The general RWA increase will in fact limit the liquidity and marketability of the securitisation exposures.

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? (Page 12)

From a general perspective, different choices might be made by the different local regulators. Under alternative A, arbitrage mechanisms are not reduced as the decision to apply either the RRBA or the SSFA would be made by the local jurisdiction. Competitive advantages to market players would take

place in different countries according to the local regulator's choice. Holding certain securitisation exposures would mean an increase (decrease) of provisions due to the credit risk capital requirements applied according to the regulator's choice. This cost (saving) would be then reflected on the disinvestment price.

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? (Page 12)

An important and robust parameter to identify "high quality" positions is the credit enhancement. The limited disclosure on collateral assets does not permit the K_{irb} calculation / MSFA and Concentration Ratio application. This implies incoherence between the risk weight of securitisation exposures and collateralized assets. In other words, the collateralized assets RWA will be lower than the securitisation exposures RWA since in the latter the MSFA or Concentration Ratio are not applicable.

The CRAs rating is the only parameter proposed to distinguish senior high-quality from non-senior high-quality exposures. Stressed market conditions imply a potential risk downgrade of senior high quality tranches. This potential downgrade would be reflected in an exponential risk weights increase that is not justified despite of the real credit risk's increase. The approach is then not aligned with the objective to reduce the cliff-effects.

Question 4: Are there alternative hierarchies or revisions to the two proposed (or a combination of both) that the Committee should consider? (Page 12)

From a general perspective, a single hierarchy and simplified approaches have to be proposed, with no choice demanded to local regulators or banks.

We propose the following hierarchy:

Method	Description
RRBA	In the Revised Rating Based Approach, the key parameters should be the credit enhancement and WAL. "Thickness" factor is not relevant for the risk quantification (see also questions number 6 and 16). RWs on RRBA should follow a 5 years rating migration matrix determined as the weight average RW of each class between the original and final migrated one.
IAA	Banks should be allowed to apply their own credit quality internal assessments to all securitisation exposures, not only to securitisation exposures in ABCP programs (e.g. liquidity facilities and credit enhancements). Internal assessment of securitisation exposures shall be mapped to equivalent external ratings of an ECAI as stated by the current regulation.
RSFA	We would propose a different MSFA (RSFA). Since the lack of information, we would base the calculation on specific clusters of assets. Besides, we would introduce a RSFA that takes into account both the expected loss method and the incurred loss method. Specifically, the collateral should be clustered in different classes according to specific key risk parameters. For example: LTV, Interest Rate Range, Geographic Area, Fico Score/Z-Score could identify the different categories for mortgages class (RMBS).

	The regulators should provide the values of the parameters for each category. Mixed pools should require a Diversity Score Ratio (as the one used by Moody's in CDOs) in order to define the mix of categories included in the pool. After that, the relevant key risk parameters matrix will be applied for each identified category. At the beginning the portfolio performance disclosure will be based on the bank's historical data according to the performance of the entire population of the same asset category. As soon as the first year is occurred, then the general data for the first year (i.e. "expected loss") are substituted with the incurred securitized portfolio performance (i.e. "incurred loss"). This mechanism allows the Investor to have at the end of the transaction a whole view of the incurred performance on the securitized portfolio. Once all performances have been calculated for each category, then the K_{rsfa} can be quantified. It is understood that: - if the securitisation exposure is below the K_{rsfa}, 1250% risk weight is applied otherwise - pro-rata or entire exposure (depending on securitisation exposure position in respect of the K_{rsfa} value) will require [N] times the K_{rsfa} value adjusted by the credit enhancement.
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● Requirements to use the revised RBA

Question 5: The Committee recognizes 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' modeling risk with the costs of using two ratings and/or whether exceptions to this treatment should be permitted. (Page 13)

Considering the lack of CRAs rating reliability as the crisis demonstrated, the additional cost to have two ratings is not compensated by a major reliability on the exposures credit risk evaluation.

Specifically:

- In the Consultative document it is assumed that CRAs are changing or will change in a conservative way the evaluation parameters and adjustments on the rating models. There is then the risk to incur in a double counting risk due to the increase of both CRAs' and regulators' conservatism.
- Since the Consultative document highlights a lack of reliance on agency ratings we do not understand how the presence of two ratings could improve the exposure risk evaluation.

Furthermore, we are worried of the downgrading timing impact. In other words, it's necessary to consider "when" the downgrade is applied. If more than one year is necessary to obtain a revised rating, the two following effects are likely:

- The risk during the life of the deal is not promptly and correctly identified. Furthermore this effect has a bigger impact if the rating agencies' ratings are updated in different moments.
- The final impact is bigger (several notches). If we imagine to draw a diagram, it would not be linear but with a "step" structure

To solve the above mentioned issues it could be useful to apply a "due date" to the rating. For example, after two years being not update, the rating is not reliable anymore.

● Requirements to use the revised RBA

Question 6: Is the RBA appropriately calibrated and formulated? Should other risk drivers be incorporated? (Page 19)

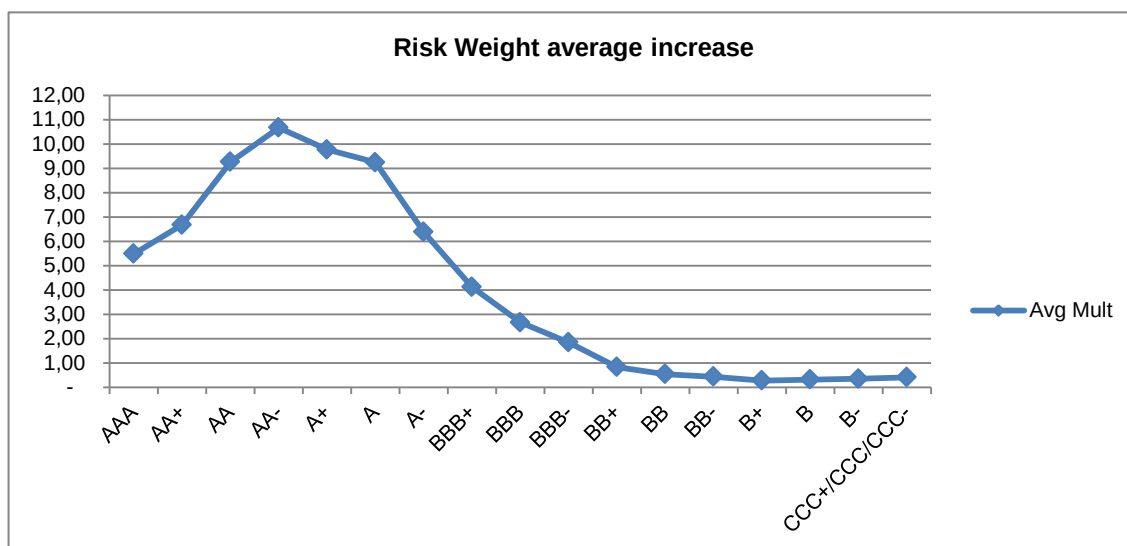
Under both Alternatives A and Alternative B, RRBA shows a significant increase in the regulatory capital.

The cliff effect between higher quality tranches and the other tranches have been reduced, but RW on the highest quality tranches have been significantly increased. For example, considering a senior tranche having a rating higher than A-, an 800% average increase in the capital requirement is registered.

The table below shows the risk-weights for **senior tranche** under Alternative A (if the new regulatory risk weights are lower than the current framework ones, the cell are colored in grey):

Rating	New Regulatory Framework					Current Framework
	Maturity 1 year	Maturity 2 years	Maturity 3 years	Maturity 4 years	Maturity 5 years	All Maturity
AAA	20,00%	28,09%	38,06%	48,03%	57,99%	7,00%
AA+	32,38%	42,92%	53,47%	64,02%	74,57%	8,00%
AA	51,13%	62,61%	74,09%	85,57%	97,06%	8,00%
AA-	60,88%	73,13%	85,38%	97,64%	109,89%	8,00%
A+	71,00%	84,36%	97,72%	111,09%	124,45%	10,00%
A	81,25%	96,10%	110,96%	125,81%	140,66%	12,00%
A-	93,50%	110,59%	127,68%	144,78%	161,87%	20,00%
BBB+	105,63%	124,93%	144,24%	163,55%	182,86%	35,00%
BBB	117,50%	138,98%	160,46%	181,94%	203,42%	60,00%
BBB-	135,63%	160,42%	185,21%	210,00%	234,79%	100,00%
BB+	153,13%	181,12%	209,11%	237,10%	265,09%	250,00%
BB	169,75%	200,78%	231,81%	262,84%	293,87%	425,00%
BB-	209,88%	248,24%	286,61%	324,97%	363,34%	650,00%
B+	261,75%	306,88%	352,00%	397,13%	442,25%	1250,00%
B	320,50%	361,56%	402,61%	443,67%	484,72%	1250,00%
B-	388,63%	416,99%	445,36%	473,73%	502,10%	1250,00%
CCC+/CCC/CCC-	472,25%	496,29%	520,33%	544,36%	568,40%	1250,00%

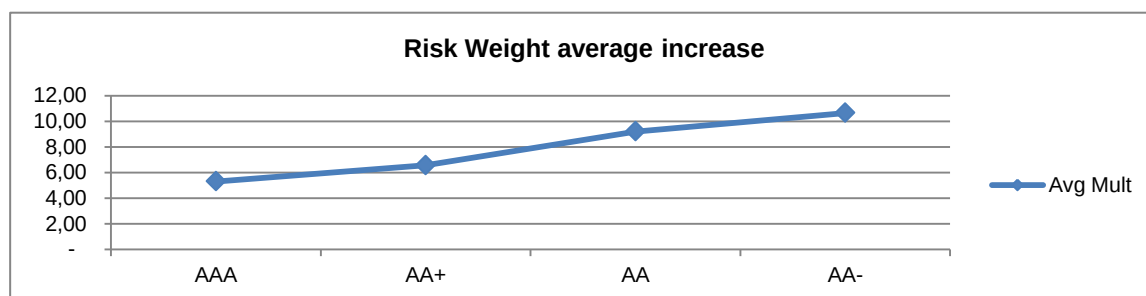
The following graph shows the risk weights average increase for each rating class. Under the RRBA - Alternative A, a senior tranche rated AA- will be subject to a RW average increase up to 11 times.



In the table below the risk weights regarding high quality senior tranches under RRBA - Alternative B are reported.

Rating	New Regulatory Framework					Current Framework
	Maturity 1 year	Maturity 2 years	Maturity 3 years	Maturity 4 years	Maturity 5 years	All Maturity
AAA	20,00%	26,00%	36,00%	46,00%	58,00%	7,00%
AA+	32,00%	41,00%	52,00%	63,00%	75,00%	8,00%
AA	51,00%	62,00%	73,00%	85,00%	97,00%	8,00%
AA-	61,00%	73,00%	85,00%	97,00%	110,00%	8,00%

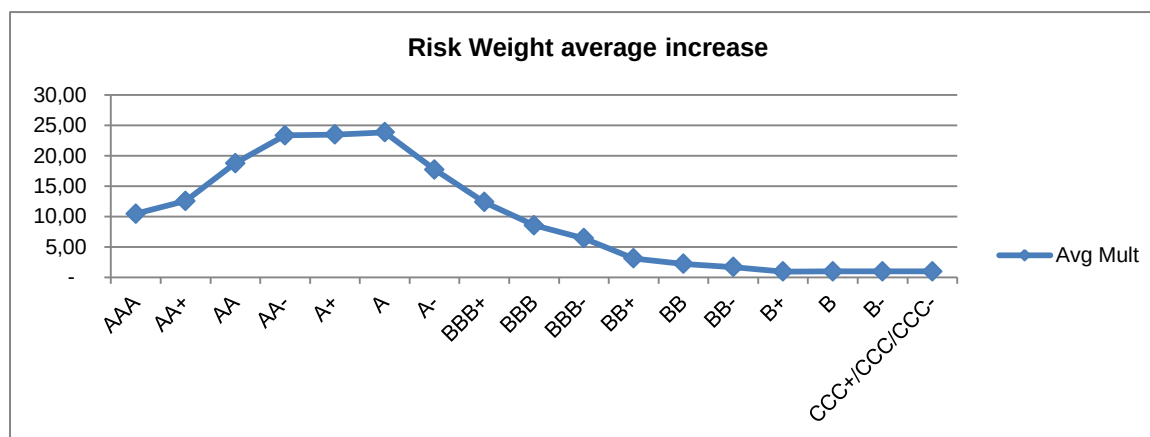
In the graph below the RW average increase for each rating class is reported. Comparing the new RRBA approach for senior tranches with the Current Framework RBA a huge RW increase is registered (as seen under Alternative A).



The table below shows the risk-weights for **non- senior** tranche under Alternative A (if the new regulatory risk weights are lower than the current framework ones, the cell are colored in grey).

Rating	New Regulatory Framework					Current Framework
	Maturity 1 year	Maturity 2 years	Maturity 3 years	Maturity 4 years	Maturity 5 years	All Maturity
AAA	20,00%	45,52%	72,92%	100,32%	127,71%	7,00%
AA+	32,38%	66,50%	100,62%	134,74%	168,86%	8,00%
AA	66,88%	108,52%	150,16%	191,80%	233,44%	8,00%
AA-	102,75%	144,76%	186,76%	228,77%	270,78%	8,00%
A+	153,00%	193,93%	234,86%	275,78%	316,71%	10,00%
A	212,08%	249,13%	286,19%	323,24%	360,30%	12,00%
A-	291,18%	322,75%	354,31%	385,87%	417,43%	20,00%
BBB+	384,66%	408,97%	433,28%	457,59%	481,90%	35,00%
BBB	476,27%	495,51%	514,75%	533,99%	553,24%	60,00%
BBB-	598,00%	620,84%	643,68%	666,53%	689,37%	100,00%
BB+	728,60%	756,43%	784,26%	812,10%	839,93%	250,00%
BB	888,65%	922,59%	956,54%	990,49%	1024,43%	425,00%
BB-	1028,04%	1067,31%	1106,58%	1145,85%	1185,12%	650,00%
B+	1167,23%	1205,75%	1244,26%	1250,00%	1250,00%	1250,00%
B	1249,63%	1250,00%	1250,00%	1250,00%	1250,00%	1250,00%
B-	1250,00%	1250,00%	1250,00%	1250,00%	1250,00%	1250,00%
CCC+/CCC/CCC-	1250,00%	1250,00%	1250,00%	1250,00%	1250,00%	1250,00%

Referring to investment grade ratings, applying the RRBA, the negative effect on the non-senior tranches is even higher than the one registered for the senior tranches. The graph below shows that for some tranches the average increase is more than 20 times the current framework.



Here below some considerations about risk drivers considered in the RRBA formula are reported:

- **Maturity.** The maturity parameter has a too high negative effect on the risk-weights especially on those exposures that have a high credit rating. A tranche that has a AAA rating and maturity greater than 5 years will move from 7% (calculated under the current framework) to a 58%.
For further considerations about maturity please refer to question 16.
- **Granularity.** The RRBA approach does not include granularity parameter. We still believe that “granularity” can be one of the expressions of the risk tendency. If EADs are in fact concentrated in few exposures then the potential losses are bigger. We would suggest to eventually consider the Diversity Score that reflects, better than the granularity, the assets’ similarity/diversity in the portfolio.

- Thickness (RRBA alternative A). The thickness has a material impact on risk weights and sometimes the effects are not in line with the risk profile of the exposures under evaluation. In particular:

- Ceteris paribus, a thinner tranche retains more risk. Consequently, in the on-going phase of the deal the capital requirement can be higher than at inception due to the amortization of the tranche.
- Besides, if the senior note is reimbursed the mezzanine note becomes thicker, consequently the relevant RWA decreases (despite of the same risk profile).

These counterintuitive effects show how this parameter is not appropriate to adjust the external rating. For example the Committee could consider the level of credit enhancement to adjust the existing external rating.

Referring thickness effects an example is reported below.

Example – RWA effects on mezzanine tranche amortization

T₀: inception of the deal (no tranches amortized)

Maturity: > 5 years

Tranche	Rating	Original capital structure	Current Thickness	RRBA - A
Senior	AAA	50,00%	50,00%	58%
Mezzanine A	A-	15,00%	15,00%	368%
Mezzanine B	BBB	15,00%	15,00%	482%
Mezzanine C	BB-	15,00%	15,00%	1014%
Junior	CCC	5,00%	5,00%	1250%

T₁: 30% of the tranches are reimbursed

Maturity: > 5 years

Tranche	Rating	Original capital structure	Current Thickness	RRBA – A
Senior	AAA	50,00%	29,00%	58%
Mezzanine A	A-	15,00%	21,00%	321%
Mezzanine B	BBB	15,00%	21,00%	417%
Mezzanine C	BB-	15,00%	21,00%	865%
Junior	CCC	5,00%	8,00%	1250%

T₂: All the senior tranches are reimbursed (no mezzanine tranches amortized)

Maturity: > 5 years

Tranche	Rating	Original capital structure	Current Thickness	RRBA - A
Senior	AAA	50,00%	0,00%	Na
Mezzanine A	A-	15,00%	30,00%	269%
Mezzanine B	BBB	15,00%	30,00%	347%
Mezzanine C	BB-	15,00%	30,00%	708%
Junior	CCC	5,00%	10,00%	1250%

Applying the RRBA – Alternative A, the risk weight for the mezzanine tranches (highlighted in red in the tables above) decreases although these tranches maintain the same risk profile in T_2 as in T_1 and in T_0 .

T_3 : further 10% of the tranches (part of Mezzanine A) are reimbursed

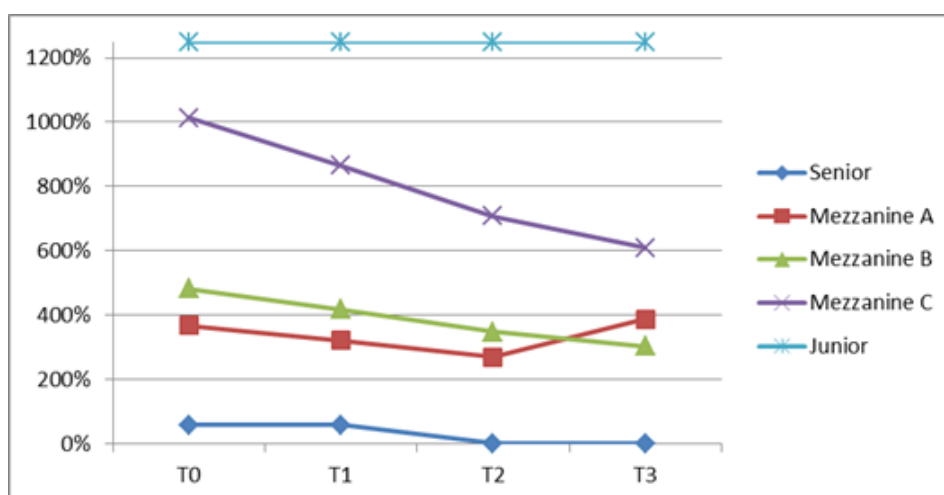
Maturity: > 5 years

Tranche	Rating	Original capital structure	Current Thickness	RRBA - A
Senior	AAA	50,00%	0,00%	Na
Mezzanine A	A-	15,00%	12,50%	391%
Mezzanine B	BBB	15,00%	37,50%	304%
Mezzanine C	BB-	15,00%	37,50%	615%
Junior	CCC	5,00%	12,50%	1250%

Applying the RRBA - A approach, the risk weight for the mezzanine tranche increases due to the reduction of tranche thickness in consequence of its amortization. This is not consistent with the risk profile of the tranche under analysis.

The following graph summarizes the RWA trends for all the tranches in the different phases of the transaction:

- The RW of senior and junior tranches remains stable
- The RW of the mezzanine shows the following two counterintuitive effects:
 - The decrease in RWA due to the amortization of the relevant senior tranches
 - The increase in RWA (as results for mezzanine A from T_2 to T_3) due to the amortization of the same tranche



● Modified Supervisory Formula Approach (MSFA)

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? (Page 19)

If the rule remains in place, IRB approaches will not be applicable even if there is a significant and exhaustive collateral data coverage percentage. We suggest to maintain the already existing “prevalence” approach but with a clear definition of the relevant threshold.

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? (Page 21)

Before entering the analysis, we would like to first highlight the following general comments:

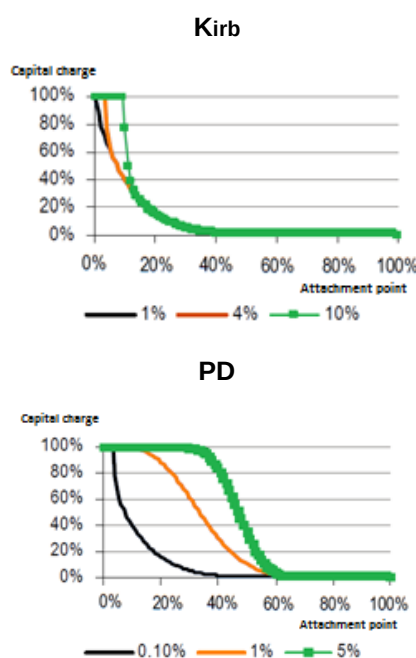
- **Data Availability.** In order to apply MSFA and Concentration Ratio Approach, loan level data must be available. At the moment, no Info provider delivers collateral portfolios loan level data including the parameters needed to run IRB models. The only way to obtain these data is to ask directly the originators. Consequently the costs to structure the data set would increase.
- **IRB Model.** IRB models are calibrated using the banks data / historical performance. Underlying assets can instead be originated by different banks and each portfolio can have different characteristics and performance. Applying the bank's internal IRB model to calculate MSFA and Concentration Ratio Approach for other banks portfolios could have material impacts on the consistency of the results.

To analyze the results of MSFA approach we have tested different input combinations. The following charts show the note's marginal capital charge behavior along the "attachment point line" according to a specific input data (Kirb, PD):

- In the first chart we have tested the impact on the margin capital charge according to 3 different Kirb values (respectively, 1%, 4% and 10%).
- In the second chart we have tested the impact on the margin capital charge according to 3 different PD values (respectively, 0.1%, 1% and 5%).

Specifically, the horizontal axis shows the attachment point of the tranche while the vertical axis shows the marginal capital charge at that point. The marginal capital charge at a particular attachment point can be interpreted as the capital charge that would be required to hold a tranche of infinitesimally small thickness (a tranchelet) at that attachment point.

The MSFA formula introduces the prudential add-ons for the model risk charging 100% (1250% times 8%) the tranches covering losses below KIRB. This is clear in the chart. Higher KIRB pushes towards the right the attachment point at which capital charges drop below 100%. Considering that usually lower mezzanine and junior tranches have a little attachment point, they will be directly impacted by the value of Kirb used.



We can see in the charts that there is generally a narrow band where the MSFA is relevant (i.e. different from 1250% and value near to the floor). The extreme of the margin capital charge curves show low attachment point tranchelets receiving 100% capital charges and high attachment point tranchelets receiving the floor capital charge (1.6%).

Higher PDs, LGDs, AVCs and tranche maturity generally shift the curve to the right (towards higher attachment points) due to their effect on expected and unexpected losses.

Referring tau and omega, to analyze their results we have tested different input combinations (the MSFA proposals suggest reducing tau and omega to 100 and 10 respectively, from the current levels of 1000 and 200). We have seen that changing the supervisory parameters tau and omega there is a little effect on the capital charges).

Question 9: Is it prudent to allow the use of the MSFA by banks making use of the foundation IRB approach (i.e. not calculating internal estimates of the underlying loans' LGD)? (Page 21)

It is worth mentioning that no data are available at a loan level for investors in securitisation transactions. LGD calculations depend on the underlying assets vintage, type, geographic area and if these underlying assets experienced any defaults. As reported in question number 8, IRB models are calibrated using the banks' data and the use of internal IRB model to calculate MSFA for other banks portfolios could have material impacts on the consistency of the results.

Finally, we think it is conservative to allow the use of the MSFA by Foundation IRB banks because advanced internal LGDs are probably lower than the ones defined by the Basel framework.

● Simplified Supervisory Formula Approach (SSFA)

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? (Page 23)

The SSFA proposed by Basel is almost identical to the one proposed by the US regulators. However, in the US proposals, the parameter p (a multiplier comprised in K_{ssfa} calculation) is proposed to be equal to 1.5 for re-securitisation, and 0.5 for all other securitisation. The new proposal is to set p equal to 1.5 for all securitisation.

This supervisory adjustment factor results more conservative than the one used in the US version, even if it is commonly demonstrated that US deals are riskier than EU transactions.

That multiplier is comprised in the K_{ssfa} parameter and affects all the tranches, but the impact will be greater for those tranches "cut" by the K_a .

Question 11: Is the SSFA properly formulated or should other risk drivers, such as maturity, be incorporated? (Page 23)

The SSFA calculations are based on standardized approach (SA) values. The applied capital charge depends on the relationship between the attachment point, the detachment point and K_a (the weighted average capital requirement of the underlying pool) adjusted for delinquencies. Following some considerations on risk drivers incorporated in the SSFA:

- Delinquency:
 - The weighted average SA capital requirement (K_{SA}) of the underlying exposures is adjusted for delinquency levels (W), where delinquency means 90 days or more past due. Applying the formula it is possible to notice an inconsistency on delinquencies treatment. If the entire portfolio is delinquent (W set equal to 100%), the 99% thick senior tranche will be 1079%. This is counterintuitive and incoherent in respect of all RW required for each rating class exposures under the RRBA. Following the example described above:

Tranche	Delinquency	Ka	ATT	DET	Risk-Weight
Senior	100%	2,80%	1,00%	100,00%	1079,47%
Junior	100%	2,80%	0,00%	1,00%	1250,00%

- There is no a common definition for “delinquency” and “default”. Disclosures are reported following the specific definition reported in the agreements (for ex. 60D+ definition).
- Thickness. SSFA doesn't take into consideration the credit enhancement. The ratio between exponential thickness and linear thickness, used to calculate K_{ssfa} , is the base of the RWA calculation in SSFA. In the example below we have assumed the credit enhancement as the sum of attachment point minus delinquency. The results show differences in RW for tranches having the same credit enhancement but different delinquencies. These differences are due to the fact that SSFA considers only the thickness and does not include credit enhancement (linked to delinquencies). Following an example:

Tranche	Delinquency	Ka	ATT	DET	Risk-Weight
Case 1	5%	8,00%	0,00%	30,00%	882,00%
Case 2	20%	8,00%	15,00%	45,00%	763,00%

- Maturity of the transaction. Senior and mezzanine tranches have different maturity depending on collateral amortization. Parameters related to the securitisation exposures are only attachment and detachment point; these factors can't differentiate RWA for senior with prepayment and call date versus senior longer in maturity.

Stated the above and considering the parameter p , SSFA is not consistent with Committee principles and doesn't reflect the effective risk of the different securitisation exposures in the different transactions.

● Backstop Concentration Ratio Approach (BCRA)

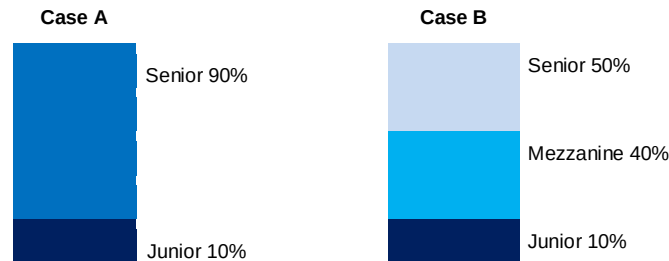
Question 12: Has the BCRA been appropriately calibrated and formulated? (Page 28)

The Backstop Concentration Ratio doesn't consider the following aspects:

- Attachment point of the securitisation exposures. Taking into consideration only the detachment point, there is the risk to calculate the same regulatory requirement for two tranches having a different risk profile. The relevant credit enhancement is in fact a key factor to identify the real risk exposure.

- Maturity of the transaction. Senior and mezzanine tranches have different maturity depending on collateral amortization. The detachment point alone cannot differentiate senior tranches with prepayment and call date from senior tranches with a longer maturity.
- F parameter. BCRA is a very conservative approach to assigning RW and capital charge. If a bank is unable to apply any of the other approaches, the last approach is BCRA which, through the F parameter doubles the capital charge for any non-senior exposures. For example, the RWA for these exposures will be different from 1250% only when detachment point doubles the original portfolio standard capital requirement. Referring to non-senior exposures, included high-mezzanine tranches, the final result is to have the portfolio's PD doubled. This is too conservative. Besides the credit enhancement has not be accounted for.

The following example shows the obtained RWA applying BCRA on the following two structures:



Case	Tranche	Ksa	F (S=1, M-J=2)	D	RWA
A	Senior	2,80%	1	100,00%	35,00%
A	Junior	2,80%	2	10,00%	700,00%
B	Senior	2,80%	1	100,00%	35,00%
B	Mezzanine	2,80%	2	50,00%	140,00%
B	Junior	2,80%	2	10,00%	700,00%

The two senior tranches (Case A and Case B) have same risk weights. The two results are not consistent because:

- in Case A the senior tranche has a credit enhancement equal to 10%.
- in Case B the senior tranche has a greater credit enhancement equal to 50%.

It is clear that the two tranches have not the same risk profile but under the BCRA approach they obtain the same risk weight.

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? (Page 28)

The formula requires a minimum of 12.5 times the K_{sa} to a maximum of 25 times. Applying a 2 F parameter to a senior with a detachment point of 100%, the RWA floor will be the following:

Asset Type	F	Ksa	RWA floor
Mortgage	2	35,00%	70,00%
Retail	2	75,00%	150,00%
Corporate	2	20,00% - 150,00%	40,00% - 300,00%

Such RWAs are inconsistent with no securitized assets risk weights. Furthermore these risk weights are more conservative than other proposed approaches.

● **** Clarification on the application of the CR in the case of mixed underlying pools**

a) Underlying pool composed of non-securitisation SA and IRB exposures

Question 14: How prevalent and material are securitisation exposures backed by mixed pools? (Page 29)

Under a regulatory approach it is useful to detail two kind of mixed collateral assets:

- Credit pool made of both IRB model assets and Standard model assets: Intesa Sanpaolo does not have such cases
- Credit pool made of only IRB models assets: Intesa Sanpaolo does have many cases belonging to this category

Question 15: Is the proposed treatment for mixed pools appropriate, or should another approach be employed? (Page 29)

If the regulation requires full collateral data coverage, then IRB approaches will not be applicable even if there is a significant and exhaustive collateral data coverage percentage. Certainly it is preferable a prevalence principle. Maybe a threshold could be introduced.

● **Definition of maturity (M)**

Question 16: Is the definition of maturity appropriate, in light of the Committee's objectives? (Page 30)

In our opinion, the Maturity does not support the effective securitisation exposures risk calculation.

It is not realistic to assume only unconditional cash flows because securitisation transactions are based on the collections from hundreds to thousands assets with different assumptions, amortization plans and performances. If unconditional cash flows are unavailable, then a 5 years cap will be applied (due to Legal Maturity application). This would penalize high-quality tranches and would lead to a different treatment between portfolio credit risk and securitisations exposures.

Applying the proposed Maturity definition, there will not be any cliff-effect just because a the 5 years cap will be applied to almost all the tranches.

Stated the above, we believe that Maturity is not the correct parameter to be included in the formulas (at least unless the legal maturity decreases below the 5 years period).

In order to consider different time to PIF (i.e. "payment in full") of the issued tranches, single weighted average life should be considered. But this would imply for the banks to run the cash flows simulations for each collateral underlying the accounted for tranche.

● Risk-weight floor

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. (Page 32)

We believe the proposed 20% RW floor is not set at an appropriate level.

The following considerations led us to classify the 20% RW floor as not appropriate:

- Covered bonds vs Securitisations treatment. The discrepancy in prudential treatment between covered bonds and securitisation bonds is likely to increase. For example, the covered bonds have a 10% RW under the SA approach. This will further address the banks' funding preference towards the covered bond market. As a consequence, banks will have to renounce the flexibility of the securitisation product.
- The proposed 20% risk-weight floor in reality is 58% due to maturity definition set to 5 years.
- Securitized vs not securitized assets. In order to analyze the misalignment between securitised and not securitised assets' treatment we made a reverse engineering operation. Applying ISP internal IRB model to a corporate portfolio (not securitised) to obtain a RW equal to 58% is necessary to set PD of the portfolio to 0.13%. This value, according to CRA's PD matrix, corresponds to a rating equal to BBB+.

Question 18: Should the risk-weight floor for short-term exposures be the same as for long term exposures? (Page 32)

Risk weight floor for short term and long term exposures should be different and related to the definition of weighted average life mentioned in question number 16.

● Interaction between floors and caps

Question 19: Are the proposed caps and their interactions with the proposed floor risk weight appropriate? (Page 33)

There are different considerations related to caps and their interactions. Specifically:

- Overall Cap. This definition is already applicable for own securitisations in the current regulatory framework. Securitisation is in fact considered as a credit risk mitigation instrument: the point is to verify if such an instrument is effective or not. From this perspective, it is appropriate to introduce the overall cap.
- RW Cap for senior securitisation exposures under SA and IRB framework. These conditions are appropriate but IRB loan level data must be available. Otherwise the cap is not applicable.
- Interactions between floors and caps. This condition is appropriate but IRB loan level data must be available and floors' issues have to be solved.

● Treatment of write-downs and purchase discounts

Question 20: Are there other approaches that could provide a more risk-sensitive treatment while still being prudent and operationally straight-forward to implement? (Page 34)

“Purchase discount” and “write down” applied on securitisation exposures have a direct impact on the exposure definition used for RWA calculation (accounting net value, fair value, nominal value, etc.).

It would be preferable to have only one international definition of exposure in order to avoid arbitrage and/or double accounting. For example both components “purchase discount” and “write down” have already an impact on profit and loss; the risk is to incur on double counting if these components are not considered in the determination of the amount subject to RWA calculation.

● V. Key assumptions and theoretical underpinnings

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. (Page 36)

We do not believe that the proposed approaches fully satisfy the Committee’s objectives. Specifically:

- Capital requirements for credit risk. There is a basic inconsistency between securitisations, covered bonds and not-securitized assets. For example:
 - Risk weight floor
 - Collateral Risk weight
 - Rating consideration
 - Maturity consideration
- Parameters included in the formulas. Parameters considered in the formulas do not discriminate the effective risk in the securitisation exposures. The parameters used are only maturity, thickness and delinquency. Maturity definition is not consistent with the relevant cash flows of the transactions; thickness is insensible to specific riskiness exposures because is related on tranching; delinquencies are considered in the bucket 90D+ without any reference to delinquent or defaulted assets in the outstanding portfolio and recovery amounts.
- Approaches to be applied:
 - RRBA shows an inconsistency due to the thickness application
 - SSFA shows an inconsistency due to the portfolio delinquencies application
 - MSFA and CRA are not applicable as data availability is inadequate
 - BCRA is inconsistent if applied to exposures with the same detachment point and different credit enhancement

● Retail securitization

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? (Page 37)

Proposed treatment of the retail securitisations seems to us appropriate once granularity (diversity score) will be considered as parameter in the different approaches.

Question 23: How could concerns that securitised retail exposures have high default risk or high correlation be managed? (Page 37)

As reported in question number 6, we would suggest to eventually consider the Diversity Score that reflects, better than the granularity, the assets' similarity/diversity in the portfolio and could discriminate high correlation / high default risk transactions considering the effective risk tendency of the portfolio.

● VI. Calibration of the proposals and planned QIS

Question 24: Is the relative calibration of the approaches appropriate? Please provide empirical data to support any conclusions. (Page 38)

The calibration of the approaches is inappropriate as argued in single questions answered in this document. Here below are reported some representative samples of our portfolio. The last 4 columns in grey represent RW applied for different approaches proposed.

Italian RMBS

Deal/Tranche	Seniority	Thickness	Rating	W	Ksa	ATT	DET	RBA Alt-A	RBA Alt-B	SSFA	BCRA
CORDUSIO RMBS/TV 2033 SEN A2	S	0,73	AA+	0,96	0,028	27%	100%	74,57%	75,00%	20,00%	35,00%
CORDUSIO RMBS/TV 2033 MEZ CL B	M	0,08	AA+	0,96	0,028	19%	27%	177,64%	na	24,37%	257,07%
CORDUSIO RMBS/TV 2033 MEZ CL C	M	0,18	BBB	0,96	0,028	1%	19%	447,05%	na	481,88%	361,44%
CORDUSIO RMBS/TV 2033 JUN	J	0,01	na	0,96	0,028	0%	1%	na	na	1250,00%	1250,00%

Italian Lease ABS

Deal/Tranche	Seniority	Thickness	Rating	W	Ksa	ATT	DET	RBA Alt-A	RBA Alt-B	SSFA	BCRA
SUNRISE/TV 2030 SEN SR 1-2007	S	0,88	A	2,06	0,06	12%	100%	140,66%	na	90,61%	75,00%
SUNRISE/TV 2030 MEZ 1-2007	M	0,07	BB+	2,06	0,06	5%	12%	891,50%	na	1070,57%	1250,00%
SUNRISE/TV 2030 JUN C 1-2007	J	0,03	B-	2,06	0,06	2%	5%	na	na	1250,00%	1250,00%
SUNRISE/TV 2030 JUN J 1-2007	J	0,02	na	2,06	0,06	0%	2%	na	na	1250,00%	1250,00%

Hollande high quality RMBS

Deal/Tranche	Seniority	Thickness	Rating	W	Ksa	ATT	DET	RBA Alt-A	RBA Alt-B	SSFA	BCRA
HERMES11 BV A	S	0,91	AAA	2,35	2,80%	9%	100%	57,99%	58,00%	32,54%	35,00%
HERMES11 BV B	M	0,03	AA	2,35	2,80%	6%	9%	274,99%	na	682,44%	757,58%
HERMES11 BV C	M	0,03	BBB+	2,35	2,80%	3%	6%	573,78%	na	1132,14%	1198,63%
HERMES11 BV D	J	0,01	BBB	2,35	2,80%	2%	3%	707,27%	na	1250,00%	1250,00%
HERMES11 BV E	J	0,02	B+	2,35	2,80%	0%	2%	1250,00%	na	1250,00%	1250,00%

Spanish SME Loans

Deal/Tranche	Seniority	Thickness	Rating	W	Ksa	ATT	DET	RBA Alt-A	RBA Alt-B	SSFA	BCRA
PYMES Banesto 2 A2	S	0,75	BBB-	4,3	6,00%	25%	100%	234,79%	na	45,77%	75,00%
PYMES Banesto 2 B	M	0,11	B	4,3	6,00%	15%	25%	1250,00%	na	470,87%	595,24%
PYMES Banesto 2 C	J	0,15	CC	4,3	6,00%	0%	15%	1250,00%	na	1116,88%	1034,48%

European CLO

Deal/Tranche	Seniority	Thickness	Rating	W	Ksa	ATT	DET	RBA Alt-A	RBA Alt-B	SSFA	BCRA
Essential Pub Infrastructure Cap A+	S	0,85	A+	0	6,00%	15%	100%	124,45%	na	47,44%	75,00%
Essential Pub Infrastructure Cap A	S	0,07	BBB-	0	6,00%	8%	15%	234,79%	na	687,42%	491,48%
Essential Pub Infrastructure Cap B	M	0,01	BB+	0	6,00%	7%	8%	1125,67%	na	1087,27%	1250,00%
Essential Pub Infrastructure Cap C	M	0,01	BB	0	6,00%	5%	7%	1250,00%	na	1236,31%	1250,00%
Essential Pub Infrastructure Cap D	M	0,01	B+	0	6,00%	4%	5%	1250,00%	na	1250,00%	1250,00%
Essential Pub Infrastructure Cap E	M	0,01	B-	0	6,00%	3%	4%	1250,00%	na	1250,00%	1250,00%
Essential Pub Infrastructure Cap F	J	0,03	na	0	6,00%	0%	3%	1250,00%	na	1250,00%	1250,00%

European Auto loans

Deal/Tranche	Seniority	Thickness	Rating	W	Ksa	ATT	DET	RBA Alt-A	RBA Alt-B	SSFA	BCRA
AUTONORIA A	S	0,78	AAA	0,1	6,00%	22%	100%	57,99%	58,00%	24,20%	75,00%
AUTONORIA B	J	0,22	NA	0,1	6,00%	0%	22%	1250,00%	na	763,74%	678,73%