

Comments on the Consultative Document

Criteria for identifying simple, transparent and comparable short-term securitisations
issued by the Basel Committee on Banking Supervision and the Board of the International
Organization of Securities Commission

Japanese Bankers Association

We, the Japanese Bankers Association (“JBA”), would like to express our gratitude for this opportunity to comment on the consultative document: *Criteria for identifying simple, transparent and comparable short-term securitisations*, issued by the Basel Committee on Banking Supervision (“BCBS”) and the Board of the International Organization of Securities Commissions (“IOSCO”) on July 6, 2017.

We respectfully expect that the following comments will contribute to your further discussion.

[Executive Summary]

We welcome the BCBS and the IOSCO’s new proposal of the STC criteria for short-term securitisations such as asset-backed commercial papers (“short-term STC criteria”), reflecting our comments provided for “*Capital treatment for “simple, transparent and comparable” securitisations*” issued in November 2015.¹ We are grateful to the BCBS and the IOSCO for discussing the short-term STC criteria by taking account of the characteristics of ABCP conduits.

On the other hand, there are still requirements practically difficult to comply with and those that need further clarification in the consultative document. We therefore expect that such requirements will be further reviewed to establish a better balanced framework from perspectives of cost and benefit.

In the following Specific Comments, we would like to comment on those matters which need to be considered in terms of practical business in order to take actions in line with the purposes of the consultative document.

¹ JBA’s Comment on the Consultative Document: *Capital treatment for “simple, transparent and comparable” securitisations*, issued by the Basel Committee on Banking Supervision
<https://www.zenginkyo.or.jp/fileadmin/res/abstract/opinion/opinion280235.pdf>

[Specific Comments]

1. Asset performance history

Criterion A2 requires the sponsor to provide investors with historical data regarding performance history of credit claims and receivables with substantially similar risk characteristics to underlying assets.

In this regard, when the sponsor prepares and discloses data for the assets with substantially similar risk characteristics to underlying assets, the sponsor should be allowed to take flexible approaches in consideration of sponsor's confidentiality obligations. For example, the sponsor may use aggregated data created by third parties such as external rating agencies.

2. Asset selection and transfer

Criterion A5 requires the sponsor to disclose to investors the receipt of appropriate representations and warranties from sellers that the credit claims or receivables being transferred to the securitisation are not subject to any condition or encumbrance that can be foreseen to adversely affect enforceability in respect of collections due. We would like to confirm that Criterion A5 can be satisfied if the sponsor discloses the fact that the sponsor receives such representations and warranties from sellers, and the sponsor is not required to disclose an individual legal agreement with sellers.

If an individual legal agreement with sellers is required to be disclosed, it is likely to be difficult to comply with this requirement in practice. Therefore, we request to specify how this disclosure is expected to be made.

[Response to the question]

Question 4: Do respondents agree that the right balance has been achieved in the short-term STC criteria between the level of transparency needed by investors exposed to commercial paper issued by STC ABCP conduits and the need to protect the "private" nature of the underlying transactions financed by such STC ABCP conduits?

(Response)

We think the following revisions need to be made to the proposed requirements.

Criterion A4 sets forth that the sponsor should inform investors of the material selection criteria applied when selecting sellers (including where they are not financial institutions). It also specifies that the sponsor should ensure that sellers disclose to it the timing and purpose of changes to underwriting standards.

(Specific requirements)

“The sponsor should also inform investors of the material selection criteria applied when selecting sellers (including where they are not financial institutions).”

“The sponsor should also ensure that sellers disclose to it the timing and purpose of changes to underwriting standards.”

Informing the material selection criteria may lead to disclosure of the sponsor’s confidential information depending on the scope, and thereby may damage its ability to compete. We therefore would like to confirm that this requirement can be satisfied by disclosing to investors elements (e.g., the size of sales and/or industry/sector, etc.) which are the basis for the selection criteria, instead of disclosing the sponsor’s internal selection criteria itself.

In addition, we would like to clarify that changes to underwriting standards to be disclosed by sellers to the sponsor should be limited to material changes that may have a significant impact on collectability in the future. If any changes to the underwriting standards are required to be disclosed, this could impose excessive operational burden for information disclosure, and discourage sellers to securitize their assets.

There would be various approaches for the sponsor to ensure that sellers disclose to the sponsors significant changes made to their underwriting standards in their process of structuring credit claims and receivables. For example, including such requirement in a legal agreement, or carrying out periodic hearing to sellers as a part of the sponsor’s internal management is considered as the sponsor’s approaches. We would like to confirm that each sponsor is allowed to take flexible approaches in line with its business practice as described above.

In the case of a conduit’s acquisition of credit claims or receivables on a bulk-purchase basis, instead of on a revolving-purchase basis, the transfer of the credit claims or receivables from sellers is executed only once on the closing date. Hence any subsequent changes to underwriting standards would not have any impact on performance of the claims or receivables having been transferred. Therefore, such a transaction on a bulk-purchase basis should be excluded from the scope of this requirement.

Q9. Do respondents agree that the proposed methodology to calculate the average maturity of the transactions funded by the ABCP conduit is appropriate? Do respondents agree that the limit on maturity transformation should be set at a value between one and three years?

(Response)

As for the criterion for cap on maturity transformation, the residual maturity in the object of the calculation is proposed to be based on the following items of 1 and 2:

1. the exposure-weighted average residual maturity of the conduit's contractual obligations resulting from the beneficial interests held or the assets purchased by the conduit in order to finance the transactions of the conduit, and
2. the exposure-weighted average maturity of the underlying assets financed by the conduit.

With respect to the calculation of weighted average maturity set forth in Criterion B14, the item 2 should be more specifically defined.

For the item 2, it is not always the case where data, which enable to calculate weighted average maturity of underlying assets in each pool, is provided. In such a case, the sponsor may instead use the maximum maturity of the assets in the pool as defined in the legal agreements governing the pool (eg investment guidelines). In this regard, if the legal agreements do not specify the maximum maturity of the assets for a certain pool, the resultant value for the item 2 would be an infinite value. Since this methodology is considered to be excessively conservative, more detailed methodology should be established. The detailed methodology should make the resultant value finite numbers by including appropriate conditions, such as "if the legal agreements do not specify the maximum maturity of the assets, the maximum maturity should be set at 5 years," or "if the proportion of a pool with no stated maximum maturity is less than 5%, the pool should be excluded in calculating the weighted average."