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Secretariat
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002
Basel, Switzerland

Comments regarding Consultative Documents "Revisions to the Basel Securitisation Framework" by the Basel Committee on Banking Supervision ("BCBS")

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.

Comments:

1. The requirement for two external rating agencies should be deleted, since the expected merits of the requirement would not be effective enough to exceed additional costs, for the following reasons:

   - This requirement could impose unacceptable additional costs on banks as the committee members have already recognized, at least nearly half of the securitization exposures held in our institution being rated by single rating agency.

   - Under Basel framework, Paragraph 565 requires to reject arbitrary use of external ratings and to check the eligibility of external credit assessment in order to mitigate the risks of relying on a potentially flawed methodology or isolated errors embedded in ratings of a single rating agency, which we consider sufficient enough.

   - RRBA parameters are calibrated under adequately conservative assumptions. For example, for tranche ratings of BB or better, the assumed one-year PD for the underlying exposures corresponds to the average one-year PD for B- quality corporate bonds. For lower tranche ratings, the assumed PD for the underlying exposures corresponds to a rating three notches below the tranche rating. These assumptions must be effective to absorb rating agencies' modeling risk.

2. In case of high-rated issues, we think that the rating agencies' modeling risk is relatively small, since their PD is quite low and we have never observed any difference between two external ratings of each product in our portfolio. Thus, even if the requirement for two external ratings is to be implemented, the high-rated securitization exposure should be exempt from this requirement. In addition, we suspect the requirement for two external ratings would provide

incentives for issuers to assign other ratings for existing securitization products issued with a single rating. As some issued securitization products could require additional equity capital to the financial institutions who hold these products, there might be counterproductive influence on their value. Therefore, there should be grandfathering for the existing issues.

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