



March 17, 2016

Basel Committee on Banking Supervision
c/o Bank For International Settlements
Centralbahnplatz 2
4051 Basel
Switzerland

Re: Comments on Consultative Document re: Identification and measurement of step-in risk

The Structured Finance Industry Group (“SFIG”)¹ appreciates the opportunity to offer some general comments on, and to respond to the questions raised by, the December 2015 Consultative Document (the “**Consultative Document**”) of the Basel Committee on Banking Supervision (the “**Committee**”) that seeks to help industry and regulators develop an approach for identifying, assessing and addressing step-in risk potentially embedded in banks’² relationships with “shadow banking” entities (such approach, the “**Framework**”). SFIG acknowledges the efforts of the Committee that produced the Consultative Document and strongly supports initiatives to better understand and manage risks in the financial markets that are balanced and appropriately tailored to achieving those goals.³

I. Introduction

We applaud the Committee’s work to improve microprudential and macroprudential risk management since the financial crisis. The global financial crisis was caused, in part, by a variety of triggers and factors throughout the financial industry and revealed widespread stresses in the system. After such stresses were revealed, certain reforms were prudent to stabilize the financial system and prevent a similar crisis in the future. Reforms promulgated by the Committee since the crisis, such as enhanced capital and liquidity measures to address systemic risks, incentives for improved counterparty risk management, enhanced supervisory tools, and improved disclosures and market discipline, have made great strides toward ensuring a more stable financial system.

We are concerned, however, that the enactment of the Framework to address step-in risk may be unnecessary, in light of the already existing Basel III reforms and other recent changes, as described below. First, however, we would like to take this opportunity to address the current redundancy of capital within the financial system given the linkage between accounting and regulatory treatment. Should the step-in

¹ SFIG is a member-based, trade industry advocacy group focused on improving and strengthening the broader structured finance and securitization markets. SFIG provides an inclusive network for securitization professionals to collaborate and, as industry leaders, drive necessary changes, be advocates for the securitization community, share best practices and innovative ideas, and educate industry members through conferences and other programs. Members of SFIG represent all sectors of the securitization market including issuers, investors, financial intermediaries, law firms, accounting firms, technology firms, rating agencies, servicers, and trustees. Further information can be found at www.sfindustry.org.

² For purposes of this letter, “bank” refers to any regulated bank or other financial institution subject to or that may become subject to the Framework, including but not limited to any “banking entity” for purposes of the Volcker Rule as described below.

³ Unless otherwise specified, abbreviations defined in the Consultative Document have the same meaning in this letter.

proposal be adopted without an appropriate delinking of regulatory capital treatment from GAAP consolidation, capital redundancy would be further exacerbated.

II. Current Landscape of Accounting and Regulatory Capital Treatment

The Committee notes in the Consultative Document that accounting and regulatory reforms put into place since the financial crisis have significantly “reduced the likelihood of a bank stepping in to provide financial support”. We believe that the accounting reforms do not change the probability of a bank providing financial support; rather, existing accounting rules which completely ignore the contractual transfer of risk, create a situation where duplicative and redundant capital and loan loss reserves are held by banks, even before the concept of step-in risk is introduced. While acknowledging that the Committee does not determine the implementation of regulatory capital treatment in the U.S., we would like to take this opportunity to share our concerns regarding the linking of such treatment to accounting consolidation.

Prior to the financial crisis, accounting rules, which previously allowed for off-balance sheet treatment of sponsored transactions, were subsequently amended to require that such transactions be consolidated when issuers possessed control and held a potentially significant economic interest in the entities⁴. These accounting rules, known as ASC 860 (FAS 166) and ASC 810 (FAS 167), although adopted post crisis, were conceived of and proposed pre-crisis, and were designed around the goals of open recognition of transactions on the face of the balance sheet rather than taking account of the level of contractual risk that was transferred. Nevertheless, following the crisis, U.S regulatory agencies elected to link regulatory risk-based capital treatment (a risk transfer concept) to accounting-based consolidation (a recognition and disclosure concept) decisions. As a result, irrespective of the particular history of an issuer, the economics of a funding transaction, or the level of risk transfer that had been achieved and contractually agreed upon by all parties, regulators would assume that any transaction where an issuer maintained control and held a retained interest would be subject to step-in risk and, therefore, receive no capital relief. In short, the regulatory assumption is that no risk has been transferred to investors. We believe this assumption is fundamentally in error considering the enormous losses that investors suffered during the crisis, and the significant global regulatory response subsequent to the crisis to prevent reoccurrence of those losses. These erroneous assumptions create additional and duplicative capital requirements and reduce the amount of funding available to the real economy.

While we acknowledge that during the recent financial crisis there were some instances of issuers/sponsors “stepping in” to support transactions, we would reiterate that this did not happen in the majority of cases and that risk was transferred and investors took losses. The complete refusal of risk-based capital rules to recognize the levels of risk transfer and to take the “convenience route” of linking GAAP accounting and regulatory accounting fails to appropriately analyze the facts and circumstances of a transaction, and applies an overly punitive one-size-fits-all approach based on accounting recognition and disclosure considerations rather than appropriate risk-based capital criteria.

⁴ When making GAAP consolidation decisions, a sponsor must evaluate pursuant to ASC 810-10-25-38B which activities are deemed most significantly impacting the VIE’s economic performance and determine whether it has the power to direct those activities. If a reporting entity has the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance, then under the requirements of ASC 810-10-25-38A, that reporting entity also is required to consolidate the VIE if it has the obligation to absorb losses that could potentially be significant to the VIE.

We would further highlight that any attempts to associate “implicit support” risk with past market actions is erroneous. Following the proposals of accounting standards ASC 860 (FAS 166) and ASC 810 (FAS 167), many industry participants, notably issuers and sponsors, asked the joint agencies for guidance on how regulatory capital treatment would be treated following accounting consolidation. No such guidance was forthcoming. In the context of issuers and sponsors being forced by the joint agencies to work with zero knowledge of the future risk based capital standards, it is not surprising – in the face of such a sizeable recession – that action to support trusts in support of liquidity considerations were taken. Had the joint agencies been clear that any form of future risk-based capital relief might be forthcoming, then it is highly probably that trusts would not have been supported to the same degree. We do not believe any correlation should be drawn to actions that were largely taken in an environment where accounting and regulatory frameworks conflict, especially when such conflict is perpetuated by a lack of clarity and decision-making by the prudential regulators.

SFIG membership does not necessarily believe that the risk of “step in” should not be evaluated. Rather, we believe that the magnitude of step-in risk—to the extent it exists—should be the sole basis on which risk-based capital is determined, as it is a more appropriate evaluation of whether risk has been transferred. We strongly recommend, therefore, that there be an appropriate separation between GAAP consolidation treatment and determination of regulatory capital treatment. Using accounting treatment to determine required levels of capital is an example of applying the considerations of one discipline to completely different regimes. SFIG believes that regulatory capital levels should not be based on accounting treatment, but rather should be based solely on step-in risk, and that regulatory capital considerations should be divorced from GAAP treatment. Transactions should be separately evaluated for risk and related regulatory capital requirements – accounting rules should not be at play in this determination.

III. No Additional Regulation is Necessary to Address Step-in Risk

Notwithstanding the duplicative capital impact described above, there have been a number of regulatory developments since the financial crisis which, taken together, should be considered when evaluating the risk that banks will “step in” to support a transaction beyond their contractual obligations to do so. Due to these regulations, which we describe in detail below, SFIG views the probability that banks will step in as remote. The implicit assumption in the proposed Framework that every bank will deliberately, uniformly and unilaterally void their contractual requirements and step in to absorb all losses is unrealistic.

As discussed in the Consultative Document, new accounting, capital, and risk retention standards, Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the regulations implemented thereunder (collectively referred to as the “**Volcker Rule**”), and reforms to money market fund rules have targeted step-in risk concerns in the U.S. Beyond that, we believe that such regulations have fully addressed step-in risk in the U.S., and consequently, no additional regulation is necessary to address such concerns.

The U.S. and numerous other jurisdictions have also adopted, in substantial part, the Basel capital and liquidity reforms, including with regard to the supervisory review of risk-based capital adequacy under Pillar 2. In this regard, and specifically of importance to the Committee’s consideration of its Framework, we note that U.S. law currently provides the prudential bank regulators with the following authority:

“The [Agency] may determine that the risk-based capital treatment for an exposure or the treatment provided to an entity that is not consolidated on the [Agency]-regulated institution’s balance sheet is not commensurate with the risk of the exposure and the

relationship of the [Agency]-regulated institution to the entity. Upon making this determination, the [Agency] may require the [Agency]-regulated institution to treat the exposure or entity as if it were consolidated on the balance sheet of the [Agency]-regulated institution for purposes of determining the [Agency]-regulated institution's risk-based capital requirements and calculating the [Agency]-regulated institution's risk-based capital ratios accordingly. The [Agency] will look to the substance of, and risk associated with, the transaction, as well as other relevant factors the [Agency] deems appropriate in determining whether to require such treatment.”⁵

In other words, banks subject to the U.S. risk-based capital rules are already aware that their supervisors may require them to hold capital against potential risks not otherwise captured – step-in or other – and U.S. supervisors already have the express authority to do so. Given this, there are already incentives for banks to appropriately allocate capital and liquidity measures to address step-in risk.

Additionally, we note that the existing capital framework includes the principle that any bank that provides “implicit support” (beyond its contractual obligations) to a securitization must:

1. include in risk-weighted assets all of the underlying exposures associated with the securitization as if the exposures had not been securitized and must deduct from common equity tier 1 capital any after-tax gain-on-sale resulting from the securitization; and
2. disclose publicly that (i) it has provided implicit support to the securitization and (ii) the risk-based capital impact to the institution of providing such implicit support.⁶

In other words, banks already have a significant disincentive to provide implicit support that constitutes step-in risk.

The largest U.S. banks are already subject to stress-testing requirements, including under the annual Comprehensive Capital Analysis and Review (“CCAR”) program administered by the Board of Governors of the Federal Reserve System. In these stress-testing exercises, the measurements of material risk in times of stress include an assessment of reputational risk, which would encompass exposure to unconsolidated securitizations that present step-in risk. As a result, stress testing such as CCAR effectively requires the bank to operate at a higher level of capital than is required under Pillar 1 requirements when accounting for reputational (step-in) risks.

Further, in the U.S. implementation of the liquidity coverage ratio (“LCR”) pertaining to structured transaction outflow amounts, the term “sponsor” is not clearly defined, particularly in the case of ABCP entities. However, considering the intent of the U.S. regulators to ensure that liquidity pressures resulting from implicit support of off-balance sheet entities are incorporated in the LCR, banks understand that implicit support obligations should be considered in the context of determining net outflows for structured transactions. By analogy, we assert that the same approach has and will be encompassed in the capital allocation for banks with regard to such implicit support obligations, in application of the Basel Pillar 2 principles. In addition, to ensure consistency to the fullest extent possible across the capital, liquidity and accounting regimes, banks would expect to adopt a definition of “implicit support” that is consistent with the similar tests in capital and for purposes of accounting including ASC 810 (FAS 167).

⁵ See, e.g., 12 CFR § 217.1(d)(5).

⁶ See, e.g., 12 CFR § 217.42(e).

While as described herein we assert that the Framework is unnecessary, we believe that should the Committee nevertheless determine to proceed with the Framework, it should be limited to guidance that informs supervisory assessments of capital requirements for step-in risk under Pillar 2. This approach permits banks and their supervisors to adapt risk-based capital expectations to market realities based on informed assessments of step-in risks without confining such assessments to prescribed minimums. Further, this approach mitigates against the potential that a prescribed approach under Pillar 1 would violate the Committee's guiding principle that the Framework not be so conservative that it addresses residual risk (of step-in) in an unjustifiably disproportionate or non-risk-sensitive manner.

Additionally, in order to appropriately identify and quantify step-in risk, we urge the Committee to weigh the following considerations when evaluating whether the proposed Framework would be effective in determining a bank's exposure:

1. The risk of step-in for any bank or entity changes over time and is not static;
2. The decision to step in at any given point will depend on facts and circumstances at the time, such as market liquidity; and
3. A bank will only step in if it has sufficient surplus capital.

Put more simply, an issuer who is significantly over-capitalized and has no surplus liquidity may be more tempted to step in to protect a AAA-level investor from losses than an under-capitalized issuer that has surplus liquidity and is unlikely to be tempted to support a below investment grade investor. A bank is also unlikely to "step in" without consultation with their prudential supervisor, significantly diminishing the risk that they would take (or be allowed to take) an action that leaves them undercapitalized.

These considerations will be weighed at the time a bank is faced with a decision to step in and support a transaction. Additional considerations are also tied to the recent regulatory developments in the U.S. and abroad, as described below.

IV. Additional Elements of the Framework

If the Framework is enacted, we strongly support the Committee's suggestion in Section 5.2 of the Consultative Document, that there may be reasons to permit "collective rebuttals" in certain jurisdictions, such as the U.S., where safety and soundness supervisory authority already exists or enforceable law already limits the potential for step-in risk in the form of the Volcker Rule. We would also support individual rebuttals being permitted at a supervisor's discretion, and that the Framework permit supervisors to accept input from banks themselves as to where there may be step-in risk, rather than to require that supervisors act based upon prescribed standards. In light of the potentially subjective elements of a determination of step-in risk, we submit that the exercise of supervisory authority in a risk-adjusted manner that encompasses a holistic approach to step-in risk at a given bank is highly preferable and more likely than a prescribed approach under Pillar 1, to ensure appropriate mitigation of step-in risk.

Finally, if the Framework is adopted, there is a risk that its implementation could create liability or litigation risk for banks holding capital pursuant to the Framework. We would request that the Committee include clarifying language stating that holding capital to address step-in risk does not in any way create a legal obligation for the entity holding such capital to step in.

V. Discussion of Specific Structures

Some of the most prominent examples of banks providing support to shadow banks during the crisis, as noted in the Consultative Document, involved structured investment vehicles (“SIVs”), securitization conduits and money market funds (“MMFs”). While not noted in the Consultative Document, credit card master trusts were also frequently supported by banks during the crisis. However, since the crisis, the regulatory and economic landscape has substantially changed to prevent such support. As discussed in greater detail below, any step-in risk previously presented by SIVs, securitization conduits, MMFs or credit card master trusts has been mitigated by post-crisis regulations. The Framework’s guidelines, if enacted, would be largely redundant or unnecessary, and as a result, may cause confusion as to how much capital banks are required to retain.

1. Structured Investment Vehicles

In the U.S., the enactment of the Volcker Rule made it virtually impossible for “banking entities” (generally banks, their holding companies and subsidiaries and affiliates of each) to create or support SIVs. The Volcker Rule generally prohibits banking entities from acquiring or retaining an ownership interest in, or having certain relationships with or engaging in specified transactions with, any “covered fund,” with limited exceptions.

Absent an exception, a “covered fund” is defined to mean, among other things, an entity that relies on either one of the exemptions found in Sections 3(c)(1) or 3(c)(7) of the Investment Company Act of 1940 (as amended, the “40 Act”). The Volcker Rule, since its statutory enactment in 2010 and the adoption of the final regulations thereunder in December, 2013, has had a significant impact on the U.S. financial industry, including on SIVs. Banking entities are now effectively prohibited from creating or supporting SIVs that claim exemption under Sections 3(c)(1) or 3(c)(7) of the 40 Act. Moreover, the Volcker Rule severely restricts banking entities’ interactions with such SIVs. If an SIV claims such an exemption, no banking entity that advises, sponsors, organizes, offers or owns an interest in such SIV may provide a loan to it, purchase securities from it, or issue guarantees on behalf of it.

2. Securitization Conduits and Securitizations

As discussed above, pursuant to new accounting standards put into place since the financial crisis, SFIG believes that nearly all securitization conduits, including ABCP vehicles and multi-seller vehicles, in the U.S. are now consolidated for accounting purposes, as the sponsor generally maintains sufficient control over the variable interest entity and the assets included in the securitization to prevent the securitization from being treated as a sale. In addition, many securitizations are consolidated for accounting purposes. Some securitizations which are not consolidated for accounting purposes require the same amount or more regulatory capital than those which are consolidated where a guarantee is included or the capital treatment of the interest retained by the sponsor on balance sheet is different. As a result, these securitizations should also be excluded from any step-in risk analysis.

We would note that even for those securitizations that are not consolidated under accounting or regulatory frameworks, banks are unlikely to support many such securitizations because of prohibitions imposed by the Volcker Rule. As mentioned above, the Volcker Rule severely restricts banking entities’ interactions with “covered funds”. No banking entity that advises, sponsors, organizes, offers or owns an interest in an issuer that is a “covered fund” may provide a loan to such issuer, purchase securities from it, or issue guarantees on behalf of it.

With respect to any securitizations that are neither consolidated nor qualify as “covered funds”, banks would be unmotivated to support such securitizations because banks typically sell to unaffiliated third-parties the economic residual or “first-loss” securities issued in such securitizations at closing as a result of the regulatory capital treatment for such securities. In addition, investors in such securities frequently require the level of control over the VIE which would result in consolidation of the securitization. Any requirement on the part of the sponsor to consolidate would then be as a result solely of reputational risk, but would also require two entities to treat all or a portion of the securitization as on-balance sheet, which would be problematic.

In addition, we would note that overall throughout the securitization industry there have been voluntary disclosure enhancements or changes as a result of Regulation AB II, which should reduce the risk of sponsors stepping in where the disclosure is viewed as inadequate. For example, in RMBS, considerable detail is now provided with respect to the due diligence process and exceptions to underwriting criteria. In addition, more detailed provisions are provided in some RMBS and in Regulation AB II for public securitizations where an asset representation reviewer does an analysis for breaches of representations and warranties. These enhancements should reduce the risk of step-in as a result of perceived securities law liability or as a result of concerns about representations and warranties and the potential liability involved.

Finally, the recent regulations with respect to Risk Retention should also reduce step-in risk as sponsors will already have “skin in the game” with respect to most securitizations after December 2016. These provisions should reduce risk arising from the “originate to sell” model which was a factor in the financial crisis, as sponsors of securitizations will be required to retain some of the risk. Such sponsors will have already constructively “stepped in” at the time of the closing of the transaction by taking all or a portion of the losses with respect to the securities required to be held.

3. Money Market Funds

As the Committee notes in the Consultative Document, new money market reforms enacted by the U.S. Securities and Exchange Commission have eliminated step-in risk associated with MMFs. Institutional MMFs, the type of MMFs that previously posed the most step-in risk, are now required to float their net asset values (“NAVs”). Floating NAV poses less step-in risk than a stable NAV because, in the view of U.S. regulators, a Floating NAV requires shareholders to absorb losses to the extent they would like to redeem shares below their cost. Additionally, MMF boards are authorized to temporarily “gate” redemptions and impose redemption fees of up to two percent if an MMF’s weekly liquidity falls below 30 percent of its total assets. As a result, there is little to no risk that institutional MMFs will be in a situation where a bank would need to step in to support them.

4. Credit Card Master Trusts

Similar to securitizations, banks now hold capital for any credit card master trusts with which they are associated pursuant to the new accounting standards and Basel regulations. Pursuant to new accounting standards, credit card master trusts are consolidated for accounting purposes; we are unaware of any credit card company with a master trust that has treated it as off-balance sheet for accounting purposes. Consequently, banks are now required to have sufficient capital, as mandated by current Basel standards, to support credit card master trusts and additional regulation is unnecessary.

VI. Conclusion

In summary, our responses to the Consultative Document include, among others, the following key recommendations:

- We would urge you not to enact the Framework as part of the Basel risk management scheme, as current regulatory standards for consolidation of entities and existing capital and liquidity requirements adequately address concerns related to step-in risk.
- To the extent the Framework is adopted, Annex A to this letter sets forth our views regarding the questions posed by the Committee in the Consultative Document.
- Further, if the Framework is adopted, we strongly suggest that regulatory capital treatment be decoupled from existing accounting rules to reduce redundancy in the regulatory framework.
- Finally, if the Framework is adopted, we recommend that it be adopted as part of Pillar 2 as opposed to Pillar 1. Such an approach would permit banks and their supervisors to adapt risk-based capital expectations to market realities based on informed assessments of step-in risks without confining such assessments to prescribed minimums.

We greatly appreciate your consideration of our members' comments and would welcome the opportunity to discuss with the Committee the concerns expressed herein and how our member may contribute to the more successful development of a stable risk management strategy. Please do not hesitate to contact the undersigned at +1 (202) 524-6301 or Richard.Johns@sfindustry.org should you have any questions in connection with this letter.

Very truly yours,

A handwritten signature in black ink, appearing to read 'R. Johns', written over a horizontal line.

Richard A. Johns
Executive Director

ANNEX A

Responses of SFIG's members to the questions posed in the Consultative Document

QUESTION 1: What are the commenters' views on the 4 overarching principles? Are there others that should be included?

We agree that the four overarching principles provide sufficient guidelines for the Framework. However, when considering the Framework as a whole, we urge that the Committee ensure that the Framework comply with Principles 2 and 4. These Principles state that the Framework should be simple, foster consistent implementation and be readily operational. As currently presented, we believe that the Framework is overly broad, containing vague indicators and definitions, and if applied in its current state, would capture close to the entirety of the structured finance industry. If enacted, even as part of Pillar 2, we believe the current Framework would be difficult for banks to consistently and correctly implement. In accordance with the goals presented by Principles 2 and 4, we request that the Framework enacted be easy to apply and consistent with existing regulatory schemes.

QUESTION 2: What are the commenters' views on the proposed indicators for step-in risk? Are there additional ones the committee should consider?

We agree that the primary indicators are generally satisfactory factors for assessing step-in risk. Caution, however, should be exercised in utilizing the indicators in conjunction with each other. As currently presented, if a scenario presents any one of the indicators, it is presumed to present step-in risk. Due to the broad nature of the indicators, this could potentially capture a vast proportion of the structured finance market, including situations outside those the Committee intended to address. For example, servicers of securitizations may be viewed as critical services providers, upon which the bank highly depends, and as a result, could be required to hold capital. As there is virtually no risk that servicers would step-in to aid a securitization, requiring them to hold such capital would be inappropriate. We believe that a remedy to this problem that would result in a more accurate and appropriate assessment of step-in risk would be to require that two or more indicators be met before concluding that step-in risk was present.

Additionally, we are concerned about the broad scope of the definition of “sponsor”. The successful adoption and implementation of the Framework will require definitions that clearly delineate the scope of the entities and transactions intended to be covered. To eliminate any ambiguity and uncertainty, the definition of “sponsor” should be clearly defined. As presented in the Consultative Document, the definition encompasses all scenarios in which an entity has either ownership or control over another entity. We strongly disagree that all such scenarios would present step-in risk and we would request that the Committee adopt a more narrowly tailored version of the “sponsor” definition. We believe a more appropriate definition would be one that finds a “sponsor” to exist when both ownership and control were present.

QUESTION 3: What are the commenters' views on the proposed secondary indicators for step-in risk? Are there additional ones the committee should consider? Should any of them be considered as primary indicators?

The “purpose and the overall design of entity structure” indicator conflicts with existing Basel rules and we request that it not be used as an indicator. Current Basel rules allow for capital reduction if risk is transferred. When banks transfer risk from their balance sheet, they may choose to transfer it to an entity that has a business model, portfolio and balance sheet similar to the initial entity. Transferring to such a similar entity may be a business decision or may be necessary for tax or accounting purposes. Under the current Framework, banks might not be permitted to release risk after such a transfer, which is contrary to

the current Basel rules. As a result, we request that this indicator be removed to facilitate regulatory consistency.

Further, while we agree that “implicit recourse” is a satisfactory indicator of step-in risk, we believe that including it as a secondary indicator is unnecessary as such recourse is adequately addressed by existing accounting rules, and currently in the U.S. regulatory capital treatment is linked to accounting consolidation. Including “implicit recourse” as an indicator in the Framework would be duplicative and such redundancy should be avoided.

QUESTION 4: What are the commenters’ views on the different potential step-in risk assessment approaches? Are there any other approaches that the committee should consider to account for step-in risks?

While we recognize that reputational risk of step-in may be shared by two or more banks, we believe that, as proposed, the proportional consolidation approach is overly vague and would be difficult to implement. As an analysis of such risk sharing is necessarily subjective, it is currently difficult to understand how banks would derive a consistent or accurate proportion or number from such an analysis. If proportionate consolidation is to be used, we would request a clearer description of how such risk be divided.

QUESTION 5: What are the commenters’ views on the proposed mapping between the primary indicators and the potential approaches?

As discussed in Section II, new accounting standards issued by FASB have required a more detailed analysis of the consolidation of off-balance sheet entities. Such new accounting analysis require banks to consider numerous factors, many of which are substantially similar to the primary and secondary indicators discussed in the Consultative Document. Including such indicators in the Framework would cause companies to perform identical analyses twice. As duplicate analyses are costly and unneeded, we request that the Committee reconsider whether any of the proposed indicators are redundant and could be removed from the Framework. Additionally, it is important to note in this analysis that for U.S. entities the regulatory capital treatment of off-balance sheet entities is linked to accounting consolidation.

QUESTION 6: What are the commenters’ views on proportionate consolidation for joint ventures?

We believe that the subjective and individual nature of each step-in risk assessment would make it difficult for joint ventures to proportionately consolidate their step-in risk.

QUESTION 7: What are the commenters’ views on risks stemming from banks’ relationships with asset management funds and the appropriateness of the direction envisaged?

We have no comment on this question. Although this question is of interest to several of SFIG’s members, SFIG’s mandate primarily relates to securitization matters.