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Dear Secretariat

Basel Committee on Banking Supervision (BCBS) Consultative Document: Capital treatment for “simple, transparent and comparable” securitisations

This letter encloses Standard Bank’s response to the BCBS’ consultative document: Capital treatment for “simple, transparent and comparable” securitisations published in November 2015.

We would like to thank you for affording us the opportunity to comment on the BCBS proposal for introducing “simple, transparent and comparable” (STC) criteria into the capital framework for securitisations.

Overall Standard Bank supports the BCBS in this initiative, noting a few aspects which require further consideration to ensure the framework achieves the objective of the BCBS. Our response to the questions in this consultation follows below.

Q1. Do respondents agree with the rationale for introducing STC criteria into the capital framework? Are there any other aspects that the Committee should consider before introducing STC criteria into the capital framework that are not already reflected in the rationale above?

We do agree with the introduction of the STC criteria into the capital framework. The capital benefit would need to be material enough to promote STC securitisations given the cost associated with the adherence to the STC criteria. We have highlighted three key areas where we believe enhancement is required in order for STC securitisations to be more effective.

- **Supervisory parameter (P)** – A floor of 0.3 has been proposed for the supervisory parameter which is consistent to the p parameter applied to non STC compliant

securitisations as proposed by the Revised Securitisation framework issued in December 2014 ("Revised framework"). To differentiate these less risky structures it is encouraged that the STC framework incorporate a lower floor to this supervisory parameter.

- **Risk Weighted Assets (RWA) floor** – While the Revised framework increased the RWA floor from 7% to 15%, the STC framework proposes lowering this floor for senior tranches to a range between 10% - 12%. This however results in non-senior tranches being subject to an RWA floor of 15% which is more than double the current floor of 7% and the same as non-senior tranches in non STC compliant securitisations. It is proposed that the STC framework affords non senior tranches an RWA floor which is less than the 15% currently proposed. This takes cognisance of the fact that STC compliant securitisations as a whole are less risky and therefore non senior tranches should attract less capital than the same tranche in non STC compliant securitisations.
- **Asset Backed Commercial Paper (ABCP) programmes** – These transactions have been specifically excluded from the STC framework. It is submitted that certain ABCP programmes may well meet all the criteria of an STC compliant securitisation and it therefore appears iniquitous to have a blanket exclusion of these transactions. Consideration should be given to include these transactions in the ambit of the STC framework.

Q2. Do respondents agree that for the purposes of alternative capital treatment, additional criteria are required? What are the respondents' views regarding the additional criteria presented in Annex 1?

The intention of the STC paper is to introduce a lower capital requirement for certain securitisation assets taking into account (i) the structuring of the securitisation vehicle and homogeneity of the underlying assets; (ii) the enhanced level of information on the underlying assets and the risks an investor is exposed to and (iii) the ability of investors to compare different securitisation products.

It appears that the purpose of criteria D15 in Annex 1 is to not grant STC capital treatment to higher risk underlying exposures. This seems somewhat contrary to the spirit of the paper. It is proposed that the greater level of transparency and information availability would enable an investor to assess the level of risk. The capital calculations contained in the framework should by themselves result in a higher capital hold for riskier assets. Therefore it is questionable if these perceived riskier assets should automatically be disqualified from the STC framework.

Under criteria D15 in Annex 1, for a commercial mortgage exposure to qualify under the STC framework, the risk weight assigned to such commercial mortgage under the standardised approach should be equal to or smaller than 50%. The second consultative document – Revisions to the Standardised Approach for credit risk proposes a risk weight of 60% for $LTV \leq 60\%$ or the risk weight of the counterparty for a higher LTV. The counterparty is unlikely to have a risk weight below that of a sovereign. The approach measures the credit risk on underlying exposures purely on risk weights even though the other criteria have been

met. This is to the detriment of emerging markets specifically, given that emerging markets external rating is at investment grade or below.

Q3) What are the respondents' views on the compliance mechanism and the supervision of compliance presented in this consultative document?

The dual assessment approach seems appropriate and should achieve the aim of ensuring the originator makes all information available and that the investor conducts a rigorous due diligence. In order to avoid placing excessive burden on supervisors and to delay transactions it also follows that supervisors would review these transactions as part of their normal review process.

Concluding remarks and recommendations

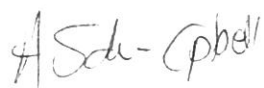
The Revised framework issued in December 2014 could result in risk weighted assets increasing by more than 100% when compared to current regulations. While the STC framework does offer some capital relief, risk weighted assets could still increase by over 70% when compared to current regulations. In order to qualify for this STC capital treatment Banks will need to ensure compliance with all the STC criteria which will introduce additional administrative and operational burden at potentially additional cost and it is anticipated that the reduction in capital as currently proposed may not warrant the additional cost.

In order to ensure that the STC capital treatment reflects the underlying risks of STC compliant transactions and to ensure Banks have the correct incentive to meet the additional burden, the capital relief offered should be more substantial than that currently proposed. This can be achieved through the following measures:

- **Supervisory parameter (P)** – adjusting the supervisory parameter or adjustment thereto to 0.5 is proposed. As mentioned above the supervisory parameter floor of 0.3 is constant across the revised framework and the STCF framework which does not differentiate the level of risk between the two securitisation types. It is submitted that this floor should be lowered for STC compliant transactions.
- **Risk Weighted Assets (RWA) floor** – Non senior exposures attract the same RWA floor under both the revised framework and STC framework. It is proposed that a revised floor of 10% should be introduced under the STC framework to differentiate these securitisations from other non-compliant securitisations. In addition, it is proposed that a floor of 10% be applied to senior exposures as well.
- **Asset Backed Commercial Paper (ABCP) programmes** – The inclusion of ABCP programmes could also provide the added incentive for Banks to incur the additional cost and burden required under the STC framework.

Please note that we are happy to supply additional information on any of our responses should the BCBS require it. Should you require additional information or wish to discuss any aspects further, please do not hesitate to contact Annelie Schnaar-Campbell, at 011-415-4352.

Yours sincerely

A handwritten signature in black ink, appearing to read "ASch-Campbell". The signature is written in a cursive, flowing style.

Annelie Schnaar-Campbell
Head: Financial Impact and Strategy Unit
Standard Bank Group