Alternative Investment Management Association

Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

By email to: baselcommittee@bis.org

5 February 2016

Dear Sirs,

AIMA's response to Consultative Document on Capital treatment for "simple, transparent and comparable" securitisations

The Alternative Investment Management Association Limited[1] (AIMA) appreciates the opportunity to comment on the BIS consultative document entitled 'Capital treatment for 'simple, transparent and comparable securitisations' (the 'Consultative Document').

In the securitisation space, our members are acting for both the buy-side and the sell-side.

- **Acting for investors (buy-side):** Many AIMA members are (i) AIFMs that manage or market one or more AIFs in the EU or (ii) UCITS management companies.
- **Originators, sponsors, arrangers and third-party external investment managers (sell-side):** other AIMA members are originators, sponsors, arrangers or third-party external investment managers for securitisation vehicles, including but not limited to CLOs.

Given that AIMA members acting for investors are not prudentially regulated in the same way as credit institutions, they will not be impacted on the buy-side with respect to capital requirements for positions taken in STC securitisations. However, as originators, sponsors and arrangers, the provisions in this consultation will impact AIMA members on the sell-side. As such we will constrain our comments to aspects of the additional criteria proposed for STC securitisations.

We agree with the general approach that securitisations with lower structural risks and less risky underlying assets should be accompanied with lower capital charges. However, we are concerned that, in some cases, the additional criteria proposed for STC securitisation (set out in Annex 1 of the Consultative Document) will make it difficult for investment fund-lead CLOs to qualify. Indeed we would question whether some of the suggested additional criteria would lead to more effective risk management than is currently the case.

For example, we do not believe that it is necessary to mandate that, outside of residential mortgages, the servicer of the assets and the originator of the assets should be the same legal entity. In Annex 1 – D17, the rationale for doing so is to ensure that having the two parties as related, gives both an incentive to perform as expected because they regularly engage in such activity. Such an approach would likely disqualify investment fund CLOs where the bank is the originator, even though the CLO manager has an incentive to manage the portfolio effectively.

[1] As the global hedge fund association, the Alternative Investment Management Association (AIMA) has over 1,600 corporate members (with over 10,000 individual contacts) worldwide, based in over 50 countries. Members include hedge fund managers, fund of hedge funds managers, prime brokers, legal and accounting firms, investors, fund administrators and independent fund directors.

Furthermore, a blanket disqualification for 'actively managed' securitisations is too broad and could exclude many of CLOs that deploy a very limited notion of active management. Indeed it implies that a CLO manager has more flexibility than is actually the case.

In most deals, the manager can only turn over a limited portion of the collateral, generally around 20%, each year. Managers can only replace the loans in the portfolio with loans that meet the eligibility criteria of the CLO structure used to structure the initial pool of [investment positions in] the securitisation. The performance of a CLO operating under these rules would not, as the Consultative Document suggests, be dependent on the selection of loans on an ongoing basis as it would be fundamentally dependent on the initial makeup of the loan portfolio, given that like can only be replaced with like.

Lastly, the exclusion of synthetic securitisations on the grounds that they are deemed incompatible with 'revitalising sustainable securitisation markets' seems misplaced without further explanation. AIMA's view is that to exclude securitisation transactions purely based on the method of risk transfer is unnecessary. Certain asset classes (including SME loans) are more easily securitised using synthetic securitisation techniques; an exclusion of such transactions risks discouraging funding by way of securitisation to certain parts of the real economy which would benefit from it most.

We hope you find our comments useful and would be more than happy to answer any questions you may have in relation to this submission.

Yours faithfully,

Jiří Król
Deputy Chief Executive Officer
Global Head of Government Affairs