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Ms. Carolyn Rogers
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
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UBS response to BCBS Consultative Document "Minimum haircut floors for securities financing transactions"

Dear Ms. Rogers,

UBS would like to thank the Basel Committee on Banking Supervision ("BCBS") for the opportunity to comment on the Consultative Document "Minimum haircut floors for securities financing transactions".

Our specific comments in this letter complement the industry responses of the International Swaps and Derivatives Association ("ISDA") and the Institute of International Finance ("IIF"), Global Financial Markets Association ("GFMA"), as well as of the International Securities Lending Association ("ISLA"), to which we have contributed and which we fully support.

Overall, we are supportive of the proposed technical amendments. However, it should be clarified that all transactions where the bank is paying a haircut on the collateral posted to the securities lender should be out of scope of the Minimum haircut floors for securities financing transactions in accordance with CRE56. In our view, the current contingent exemptions to the minimum haircut floors do not effectively exclude securities borrowing transactions, which are not financing transactions traded for the purpose of leveraging securities lenders.

The reasons for a bank to enter into a borrow transaction with a securities lender is to either source better quality collateral to improve the bank's own liquidity position (i.e., collateral upgrade transactions from the banks' perspective) or to borrow specific securities in order to facilitate client short sale transactions. The market convention in the securities borrowing and lending industry for these types of transactions is for the party initiating the borrow (the borrower) to overcollateralize the lender on the collateral that the borrower posts to the lender. The lender always requires the borrower to pay a haircut for his willingness to lend securities as well as to mitigate potential credit losses of the lender; therefore the direction of the haircut for these types of transactions is not determined by the relative asset quality of the two legs or credit worthiness of the two parties. Thus, the wording of the regulation should recognize this distinction and scope out these types of transactions entirely from CRE56. Otherwise, the way the rules are currently written, the haircut payer in securities borrow transactions may always fail to meet the minimum haircut thresholds.

Further, the exclusion of securities borrow transactions should be independent of the type of collateral posted by the borrowing bank to the lender (securities or cash) and independent of whether the lender can re-pledge or re-sell the securities collateral received, respectively how any cash collateral received is re-invested by the lender.

We therefore thank the BCBS for reflecting such further clarification in the Basel text that all transactions where the bank is paying a haircut on the collateral posted to the securities lender are out of scope of the Minimum haircut floors for SFTs in accordance with CRE56.

Please do not hesitate to contact us in case you have any further questions. We would be pleased to further discuss our feedback with you.

Sincerely,

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