

Mizuho Securities Co., Ltd.
Fixed Income Group
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Comments on the 'Second Working Paper on Securitisation' issued by the Basel Committee on Banking Supervision (Bank for International Settlements)

MAIN POINTS

Mizuho Securities Co., Ltd (hereinafter, Mizuho Securities) has discussed the 'Second Working Paper on Securitisation' (hereinafter, Working Paper) released by the Bank for International Settlements (hereinafter, BIS) with many investors (the investment divisions of banks such as city banks, regional banks etc., that may become subject to monitoring under the new BIS system(hereinafter, banks as investors)). As a result, we are aware of several issues of concern that are shared by such banks as investors (Refer to the section, 'Concerns of banks as investors').

Mizuho Securities, as the largest player in the Japanese securitisation market, believes it has a duty to its clients and the market as a whole to inform to the BIS the concerns prevailing in the Japanese market relating to aspect of the Working Paper. We hope that such comments will be beneficial for the management of asset-backed securities (hereinafter, ABS) in future.

Our investigations regarding ABS issued by domestic companies reveal that investors such as banks that are likely to be subject to BIS regulations have great influence over investment in the so-called mezzanine class of ABS - rated about below single A (Note 1). We recognize the risk weight levels, if assigned in accordance with the proposals in the Working Paper, would have a major impact on the Japanese market (Note 2).

Note 1. Mizuho securities estimates that banks have recently accounted for 40% of ABS investments rated below single A . Thus, these banks cover approximately half of the ABS market for mezzanine class. Funds and pension funds that are major investors in the mezzanine class of ABS in the US, are not active investors in this area in Japan.

Note 2. There would be a particular large impact on CMBS and CDO, which often incorporate a mezzanine class. Moreover, there are concerns about the impact on the ABS issuance market as a whole.

CONCERNS OF BANKS AS INVESTORS

1. Banks as investors are particularly perplexed by and find it difficult to accept the large difference between the risk weighting of ABS and issues by corporate entities that are rated double B and below. They hope that a rational explanation of this point will be forthcoming.

(For example: An investment in a multiple number of issues by double B rated companies(a) and investment in all tranche of a CBO securitised by such same corporate bond issues(b) should entail no basic difference in the underlying credit risk. However, calculations, based on the expected credit rating that would be assigned by credit rating agencies for each tranche of the CBO, indicated the risk weight for (b) would be several times larger than that of (a))

2. The allocation of risk weights indicated in the Working Paper would curtail the number of investors that would invest in assets rated double B and below, and be an impediment to issuance of ABS itself. Banks as investors are concerned this may cause the ABS market in Japan to stagnate or contract.

3. Banks as investors are concerned that risk weights will fully depend upon the credit ratings assigned by external credit rating agencies (hereinafter, credit rating agencies). Therefore, they hope to secure trust in credit rating agencies. They also expect that Japanese credit rating agencies etc. would be included as external credit rating agencies since they are considered more likely to reflect the unique features of defaults etc. in Japan.

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