TSE/BdF Conference on Securitisation

Removing regulatory barriers to healthy growth of securitisation markets

23 September 2015
Basel 3 : Why a revised capital framework for securitisation?

• The crisis revealed a number of weaknesses in the current framework, including
  – mechanistic reliance on external ratings,
  – excessively low risk weights (RW) for highly-rated securitisation exposures, and
  – cliff effects (in the rating based method – e.g. large increase in RW when ratings fell; in the supervisory formula - e.g. a securitisation structure could require almost no capital on mezz and above).

• The revised framework (Dec 2014) attempts to correct them.

➢ Revisions follow 2 consultations and QIS exercises. To be implemented by January 2018.
Basel 3 : What are the main policy changes ?

• Under the revised framework (Dec 2014), capital requirements are calculated using one of the following hierarchy of approaches:
  - “Sec-IRBA”: a formula-based Approach - using IRB (Kirb) on the underlying pool pre-securitisation as key input
  - “Sec-ERBA”: an External Ratings Based Approach - to be used when $K_{IRB}$ cannot be calculated and the securitisation position is externally-rated
  - “Sec-SA”: a simplified less risk-sensitive formula-based Approach - to be used when neither of the other two approaches can be used

• 15 % risk weight floor applies for all approaches

▶ Basel Committee is considering how to incorporate the STC concept in the capital framework
BCBS-IOSCO: Criteria for “S TC” securitisation

• BCBS-IOSCO Task Force on Securitisation Markets (TFSM) co-chaired by David Rule (Executive Director, PRA) and Greg Medcraft (Chair, IOSCO Board) was established in early 2014 to:
  – review current functioning of securitisation markets,
  – identify factors that may be hindering the development of sustainable securitisation markets, and
  – develop criteria to identify and assist in the development of more simple and transparent securitisation structures in view to help expand the current investor base.

• In July 2015, BCBS-IOSCO issued 14 criteria to identify securitisation transactions that are Simple Transparent and Comparable (term securitisation)
BCBS-IOSCO: Why STC criteria on securitisation?

• Securitisation declined since 2007 for various reasons, in partic. as demand from key elements of the leveraged investor base (including SIVs, conduits) vanished.

• Efforts to help revive as a complementary tool for financing of the “real” economy:
  – EU COM : Green Paper and Communication on Long Term Financing (March 2013 and April 2014)
  – BoE-ECB : ‘The case for a better functioning securitisation market in the European Union’ (May 2014)
BoE-ECB Paper: what did we hear from investors?

• Main impediments identified to securitisation
  – general stigma following the failing of certain asset classes (e.g. CDO and sub-prime RMBS)
  – difficulties for investors to assess risks in securitisation
  – practices related to credit rating
  – regulatory treatment and uncertainty.

• Other constraining factors due to current environment
  – the pricing and availability of alternative funding for bank originators (e.g. central bank facilities)
  – lack of credit demand
  – impaired market liquidity
BCBS-IOSCO: What are the main policy proposals?

• 14 STC criteria have been developed and classified under three categories as to whether they seek to mitigate risk related to:
  – The underlying asset profile
  – The securitisation structure
  – Governance and fiduciary duties

• But they deliberately do not address the fundamental credit risk of securitisations’ underlying assets.

- Purpose of these criteria **not to serve as a substitute for investors’ due diligence on the ultimate creditworthiness of a securitisation tranche.**

Rather to identify and assist in the development of STC securitisation transactions by the industry to facilitate these due diligence.
EBA: What are the main policy proposals?

- Additional criteria related to the credit quality of underlying assets are also included.
- These are meant to ensure that Simple Standard and Transparent (SST) securitisation transaction are not put in place to finance high risk underlying exposures.

They are based on:
- qualitative conditions (e.g. underwriting standards)
- quantitative conditions (e.g. granularity and maximum RW under CRR standardised approach) ensuring that the underlying assets of a securitisation transaction meet minimum levels of credit quality.

- These additional criteria will be given due consideration by banks when assessing whether the capital treatment for a SST securitisation is appropriate.