

FRENCH BANKING FEDERATION RESPONSE TO BCBS d343

CONSULTATIVE DOCUMENT

I - General comments:

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 390 commercial, cooperative and mutual banks. FBF member banks have more than 38,000 permanent branches in France. They employ 370,000 people in France and around the world, and service 48 million customers.

The French Banking Federation welcomes the opportunity to comment on BCBS' consultative document relative to capital treatment for "simple, transparent, and comparable securitisations", STC securitisations.

The FBF welcomes that the Committee has now proposed a specific prudential treatment for STC securitisations, in accordance with its previous announcement on how to incorporate STC criteria into the revised capital framework for securitisations.

We stress the importance to revive a securitisation market in Europe, toneless since the crisis, in order to encourage banks to originate more credit in relation with the real economy. Indeed a clear and incentive prudential framework for STC securitisations is necessary to revive the securitisation market, especially in jurisdictions where no public agency acts as a supporter of the market.

Nevertheless the FBF regrets that the Committee has not contemplated a more ambitious capital relief for these securitisations deemed of high quality. It is worth reminding that banks are important actors of the securitisation market, as originators, sponsors and as investors as well, it is therefore essential that banks are not excessively penalised in terms of capital requirement for securitisations they hold in their banking book (and also in the trading book) when the instruments are compliant with STC and risk criteria.

When differentiating securitisation transactions, "High Quality" transactions incurred very low level of losses even during the crisis, whilst the main losses have been concentrated in specific asset classes. We urge the Committee to consider that for High Quality Securitisations (or "STC"), the current capital requirements are already too high and not commensurate with the actual historical losses, and the proposals would increase the capital charges even further. In addition, we remind the Committee that when Securitisation is of high quality ("STC"), additional risk due to securitisation (deemed "model risk" by the Committee) is by definition minimal.

If there is not sufficient capital, it is likely that the adjustment should be at the level of the underlying assets, and not at the level of securitisation, as losses on securitisation tranches are primarily due to losses on the asset pools. Additionally, there needs to be greater flexibility in applying the hierarchy of approaches to capital: SEC-IRBA should be more easily possible for IRBA banks using proxy parameters based on the pool data and there should be more flexibility to use SEC-SA instead of SEC-ERBA when the capital charge deriving from SEC-ERBA is not commensurate to the risks of the underlying pool.

Moreover, as an effective funding tool, these STC securitisations should also attract a better treatment in terms of liquidity, firstly when we think about the LCR.

In addition, and more generally, securitisation should also be seen as a potential powerful tool to manage banks' balance sheets, which can therefore help banks to comply with the leverage ratio, whose final calibration will be probably higher than the 3% minimum, especially for G-SIBs that will have to comply with the forthcoming T-LAC. Indeed where STC tranches are sold to third party investors, these exposures should be allowed to be deducted from the exposure value used for leverage ratio calculus.

If these prudential considerations are not well tackled by the Basel Committee, the FBF believes that there will be no revival of the securitisation market. With too low benefits and too many constraints and risks, STC securitisation may not be an attractive option, whilst it was supposed to provide comfort to the market by distinguishing the generally good securitisation transactions from excesses concentrated in a few asset classes in other part of the world.

Finally according to the consultative document these revisions affect neither ABCP programmes nor synthetic securitisations. However we take note that the Basel Committee and IOSCO are currently considering whether and how STC criteria for ABCP programmes should also be issued, and if appropriate how to incorporate them in the revised securitisation framework. Therefore the FBF encourages BCBS and IOSCO to go in this direction, and to take account of what is being currently developed for ABCP at the European Union level. ABCP conduits are an important mean of funding in Europe (and in others jurisdictions as well) which has been very robust. The ABCP should be included in the scope of STC, with specific criteria for this mechanism.

In addition we suggest the Basel Committee and IOSCO to examine to what extent synthetic securitisations could be simple, transparent, and comparable as well (especially for funding transactions such as SMEs).

II – Answer to the questions related to the consultation

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?

The FBF agrees for introducing STC criteria into the capital framework, as this was considered as a counterpart to the fact that the Basel Committee hardened the capital treatment of securitisations in its BCBS d303 final standard.

It is generally positive that the Committee recognises that one-size-fits-all for all securitisations is not appropriate for imposing securitisation capital as there has been a very different loss experience during the recent crisis: the large losses have been concentrated in limited asset classes, namely US RMBS and in particular Subprimes, US CDOs of ABS (in particular those CDOs composed mostly of US Subprimes RMBS), and some CMBS. Other asset classes, and in particular European ABS such as European RMBS, Credit cards, Auto loans and auto leases, SMEs, have experienced a fraction of the losses incurred in the above mentioned US RMBS and CDOs of ABS. The STC framework should aim to focus on avoiding these specific securitisation assets that are concentrating the issues, and not try to define too detailed and prescriptive criteria to obtain an uncertain and too narrow scope.

The Committee should consider the following points:

1- Harmonisation with current ongoing works in other jurisdictions

The European Commission (EC) is introducing the STS framework therefore European banks and investors should not have to apply different criteria or frameworks, otherwise, it would introduce complexity, and inconsistencies in the discussion with the local regulators, and the framework would be prone to dysfunction, costs and confusion.

2- Extension of the scope of the STC framework for capital purposes

ABCPs will be part of the European STS framework, so we recommend they should also be part of the STC framework. During the crisis, they did not suffer from any additional credit risk. The Committee should also consider to what extent synthetic securitisations could be STC as well.

3- A calibration that takes into account losses on European assets

As explained by the EBA and the EC, European securitisation incurred a very low level of losses, at senior tranche level. The design and calibration of the STC framework should take this into consideration, so that 80% of the European ABS are deemed STC and can benefit from the appropriate level of capital.

• A capital surcharge commensurate with the lower risk carried by STC instruments

The BCBS d343 consultative document justifies additional capital introduced for securitisation when compared to the same underlying asset pool, by higher “structural risk” introduced by the securitisation.

We believe there is only limited additional structural risk introduced by securitisation, as shown by non-existent additional losses in European securitisation compared to the losses of the same underlying asset classes. There have been higher losses during the crisis, but these were mainly issues for the underlying assets themselves and risk weights of the underlying assets should be changed/ updated to reflect their actual risk - which is the object of a current process underway at the regulatory level. Securitisation with clear and simple waterfall mechanism does not introduce more risk, it only distributes risks and losses amongst the different tranches. We accept there may be some uncertainty on the distribution of capital between the different tranches, and that cliff effects have to be addressed, however, in our views for those securitisations which are STC, the additional capital surcharge due to securitisation should be lower than 50% (i.e. non-neutrality ratio below 1.5). In addition, the tranches below K_{SA}/K_{IRB} should not be assigned 1250 % Risk weight, as the unexpected losses attached to these tranches cannot be 100%.

- **Most senior tranches should benefit from the RW floor**

Securitisation is a mechanism whereby senior tranches are protected by credit enhancement provided inter alia by junior tranches. We therefore believe that in addition to the most senior tranches, exposures which are senior enough (i.e. with credit enhancement / attachment point quite large / above a large threshold (vs. K_{IRB} or K_{SA})) should benefit from the floor.

4- Consistency with liquidity and market risk frameworks

- The Basel Committee should also consider how to incorporate STC criteria within other regulatory frameworks, in particular the liquidity framework and also the leverage ratio framework. In order to avoid unnecessary effort and complexity, the FBF believes there should be more consistency between the HQLA eligibility of certain securitisations (e.g. RMBS) in the LCR framework and STC securitisations, given that those instruments should attract more liquidity than non-STC instruments.
- In terms of market liquidity, we think that a certain degree of marketability in the securitisation segment is essential, especially for having the ability to liquidate an instrument. If a securitisation can be traded on an exchange, it will attract a broader range of investors and this could play a valuable part in promoting the securitisation market. However, **it should be ensured that the capital requirements for STC securitisations are also taken into account in the context of the fundamental review of the trading book by the Basel Committee** (which is now published).

5- Consistency with the leverage ratio framework

The Basel Committee should be aware that banks (especially in the EU) have currently no incentive to use securitisation as in most instances the underlying assets remain consolidated on the bank's balance sheet (even in the case of true sale). However, for simple cash securitisation where the risk and the economics of the securitised assets are properly transferred to the SPV, the investors in the securitisation do not have any recourse and exposure to the bank. This means that any tranche sold to third party investors is a definitive transfer of credit risk and corresponding liabilities.

The economic size of the bank's total assets is therefore reduced and upon bankruptcy or stressed credit conditions, the bank is not impacted beyond the tranches that have been retained. Therefore banks should be allowed to deduct any STC securitisation tranches sold to third party investors from the total balance-sheet size used for the computation of the leverage ratio, considering that the accounting view on a consolidated basis is not relevant for assessing securitised assets for the purpose of the leverage ratio.

The FBF strongly believes that in the absence of consideration of these key issues, the proposed recalibration of STC transactions will not be sufficient in its own right to increase issuance and demand for STC instruments. We are of the view that these above measures are essential to restart the market.

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

The purpose of the STC criteria is for BCBS and IOSCO to revive the securitisation market by helping but not exonerating investors from their due diligence obligations. In addition the capital relief for STC securitisations would help banks to invest in such instruments, it is therefore rational that additional criteria may be considered, being only those corresponding to lower credit risk / volatility, to reflect the credit quality of a part of STC securitisations.

It is key however that eligibility criteria and additional criteria for STC securitisation should be formulated so as to allow as little room as possible for interpretation and to be workable. Also the additional requirements should only be reflective of lower credit risk, rather than clarifications.

We also insist that there should be materiality thresholds applied to the application of the criteria. It would not be helpful for the investors and originators if a transaction could be changed from STC to non-STC because it is discovered that only an individual exposure does not comply, for example with the homogeneity criteria or the payment status criteria.

Finally we do not understand why the additional guidance for criteria A1 to A5 is specifically deemed for capital purposes. We are of the impression that the additional guidance described in the BCBS d343 document seems to be just more detailed illustrations to understand the criteria themselves. We do not understand this framework and the link with capital as we do not see how securitisation transactions could comply with the criteria but not with the additional guidance.

The Committee should consider our comments on different additional criteria below:

A1: nature of assets

We agree that homogeneous assets imply a higher simplicity for the securitisations. However, we think that Basel Committee is going too far in the details of the description of the homogeneity criterion, which could reduce heavily the size of a portfolio eligible to STC treatment. In the examples given for auto loans portfolios, we disagree that pools should be considered non-homogenous, because they combine fully-amortised loans and balloon loans, or loans with monthly payments and quarterly payments because auto loans having different payment features but the same underlying risk profile are originated and serviced according to the same credit and administration procedures.

Also, interest rates should include commonly encountered market interest rates and their combinations or averages and should not exclude the banks' house rates that are commonly used in Europe for mortgage lending (for instance).

Moreover, it could lead to a level playing field issue between countries according to their size.

For instance, the examples showing that the transactions should include exposure of the same jurisdiction or same currency would discourage STC securitisation of assets from small jurisdictions, in the context of a structured finance product which present fixed costs, requiring transactions of a minimum size to be competitive.

The homogeneity criterion (or others) must be defined to be workable in all types of jurisdictions in the world and different asset classes (i.e. not only the US). As an example, a French bank securitising loans from its German branch would be subject to German law for the law of the contracts but to French law for the enforcement provisions (in case of bankruptcy of the transferor). To avoid interpretation issues, it would be preferable to provide cases when the pool is deemed not-homogeneous and every other cases are deemed homogeneous.

To conclude, the homogeneity criterion is too prescriptive and narrow in its current explanation given by the examples. One should not forget that a greater reduction of the size of the transaction due to the homogeneity criterion, would lead to more difficulties to comply with the granularity objective of 1%.

A2: asset performance history

Although the A2 requirements states that "it is not the intention of the criteria to form an impediment to the entry of new participants to the market", the proposed additional requirement of 7 years of performance history for non-retail exposure (5 years for retail) would actually prevent new participants. We believe although there should be a minimum history (e.g. 3 years) in order to avoid originate-to-distribute models, the 7 years requirement (5 years for retail) should be a requirement only for applying SEC-IRBA. Securitisation complying with all STC criteria and minimum performance history (e.g. 3 years instead of 7) should still be deemed STC, however only the SEC-SA could be applied.

Another solution should be to make the depth of the performance history depend on the maturity of the underlying assets, asking for 3 years performance history for assets with maturity under one year, for 7 years for assets with maturity above 5 years, and for 5 years performance history for the others assets.

D16: granularity of the pool

We agree that granularity would be a relevant factor in assessing the credit risk of the underlying portfolio for homogeneous retail pools; however we think that setting a fixed percentage maximum threshold to individual loan exposures is too limiting for the structuring of transactions in asset classes different from the most granular ones of retail assets (consumer or mortgages).

Indeed granularity of debtors is not the only factor contributing to diversification. For pools of corporate loans, it can be also obtained with geographical diversification or industry diversification.

In addition, it is difficult to compare the credit risk of very granular portfolios (mainly retail borrowers) which are by essence measured with statistical approaches, to credit risk of non-granular pools (e.g. commercial real estate, infrastructure projects, aircrafts, corporate loans portfolios, etc.) for which a very detailed credit analysis is thoroughly performed at individual loan level.

Therefore granularity should be considered a prime factor determining credit risk only for specific retail pools such as RMBS, consumer loans etc., which are concentrated in one country. **For other asset pools such as corporates and SMEs, granularity is less relevant, and should not be applied or a minima reviewed.** In addition, even when granularity is relevant (for homogeneous retail pools in one country), there should not be a granularity “hard” threshold: instead, the most concentrated exposures should be mitigated by the credit enhancement and by insurance when available. Finally we support granularity to be measured as the effective Number of exposure N (inverse of the Herfindhal index)¹.

D17. Relationship between the originator and the servicer of the securitised assets

We do not understand the rationale behind criteria D17. This additional requirement would prevent portfolio of receivables to be serviced by third parties (for instance when servicing role needs to be transferred to a new third party for protecting investor interest – this is commonly known as ‘back up servicing’). We understand the need for an alignment of interest between the issuer of a securitisation and the originator of the securitised assets to be achieved through risk retention. On the contrary, servicing activities can often be outsourced and performed by specialised third parties having systems, critical mass and industry discipline, which should not prejudice the quality of STC securitisations (and in some cases would be beneficial). Finally, allowing only certain jurisdiction to employ a third party servicer for residential mortgages on a “common practice basis” should raise interpretation and level playing field issues.

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

The FBF does not support the approach that the BCBS has proposed to determining compliance with the STC criteria for alternative capital treatment, as it would raise many issues:

- STC certification by originators and sponsors is going to raise the issue with investors (in particular on the secondary market) of diverging interpretations of the multiple criteria, especially if no mutual recognition system is in place.
- The potential requalification would put investors at risk of losing value or having to raise capital, and originators at the risk of potential financial losses as they would be fully legally liable for any lack of compliance.

Instead of requiring securitising parties (i.e. originators and sponsors) to make a legally binding attestation in the offering documents, issuers could provide sufficient disclosures so that investors can make their own assessment as to whether a security purchased out of a securitisation vehicle meets the STC requirements for alternative capital treatment.

¹ See BCBS d0303: paragraph 59 defines the Number of exposures N and the table in paragraph 56 defines granularity as $N \geq 25$ for wholesale portfolios

Indeed securitising parties could make a statement that the structure was developed with the intent to meet the STC criteria as applicable by requirements, and include a disclaimer that investors are expected to make their own assessment of the suitability of their investment. At the same time, the issuer would be required to provide sufficient information to facilitate and support the investors' review.

In addition, we would strongly support the certification prior to closing by the regulator or an independent third party which would provide comfort to originators, investors and the regulator in terms of the quality, consistency and impartiality of the analysis. The supervisor would be in charge of an ex post assessment to confirm the preferential capital treatment that the investor would have benefited.

Such a system would have the merit to ensure a homogenous interpretation and application of the criteria for qualifying instruments, across all jurisdictions implementing STC framework and over the life of each transaction.

Q4. What are respondents' views on the alternative capital requirements for STC securitisation presented in this consultative document?

The BCBS d303 has revised the securitisation framework to remedy a number of weaknesses of the existing Basel II framework with the aim to provide developments such as (i) a hierarchy of approaches relying on the information available to the bank and a reduction of the reliance on external rating by removing the RBA approach from the top of the hierarchy (ii) a higher risk sensitivity approach with the incorporation of additional risk drivers such as maturity or tranche thickness (iii) a more appropriate calibration of capital requirement based on the level of quality of underlying pool.

The objectives pursued by the Committee seems in the right direction, however we think that further steps should be taken to adjust the current regulatory treatment to the underlying risks attached to securitised instruments, and especially for STC securitisations:

- STC is perceived by regulators as the key to revive the market. However:
 - The securitisation market as a whole will see a general increase in capital requirements compared to the current Basel II framework ;
 - Capital benefit for STC in itself is not sufficient to revive the market in Europe. This is because, in jurisdictions where the SEC-ERBA is allowed, it is likely to be the dominant approach. The SEC-ERBA, even after rescaling for STC, is much more punitive than the SEC-IRBA or SEC-SA. Indeed, it results in very large capital multipliers (after/before securitisation) when the risk of the pool (expressed by its capital requirement) is ignored and replaced with opinions of rating agencies.
- What is needed is not only a benefit for STC but also a more general use of formulas for capital:
 - Wider / more flexible usage of the SEC-IRBA for IRB banks
 - Wider / more flexible usage of the SEC-SA for SA banks

- To achieve a wider usage of formulas, we ask the following:
 - More clarity from regulators in order to generalise the use of the top-down approach as a way to derive K_{IRB} parameters for securitisation pools for IRBA banks acting not only as originators but also as sponsors or investors ;
 - A removal of the SEC-ERBA for STC securitisations for the banks that are obliged to rely on external ratings according to the hierarchy of approaches of the 2014 securitisation framework, or at a minimum a flexibility in the hierarchy allowing to use the SEC-SA instead of the SEC-ERBA for all tranches of STC securitisations.
Such flexibility could be guided by a rule such as the one proposed in Europe where the difference between the tranche risk weights from the SEC-ERBA and SEC-SA exceeds a threshold (e.g. 25%). **Such flexibility should also be allowed for “senior enough” tranches of non-STC securitisations.** These can be defined as senior tranches with an attachment point at origination being at least a certain multiple of the pool capital (e.g. 3 or 4 times)

a) A necessary improvement in the prudential treatment of STC securitisations would be to increase flexibility in the application of the new BCBS hierarchy of approaches

Even though the SEC-IRBA approach is at the top of the hierarchy, few investors will be able to use this approach. This will still lead to a “de facto” use of the SEC-ERBA in jurisdictions where ratings are permitted even though it is proved that this approach could lead to highly disproportionate capital surcharges (for instance in Europe the European Banking Authority demonstrated that non-neutrality ratio could be up to 7 times!). This is due to the fact that rating agencies have tightened their securitisation rating methodologies post-crisis while the capital charges based on ratings have not been updated. It has also due to rating caps linked to sovereign ratings. This has proved to be a major impediment to the revival of the securitisation market. There would not be a level-playing field between jurisdictions where external ratings are mandatory, and those where they are not allowed.

For STC securitisation, capital requirements would on average be reduced by only 25-30% from the capital requirements that are increased due to BCBS d303, with still a net increase from current levels in many cases. Under SEC-ERBA the capital required for a pool of securitised assets is not commensurate to the risk of the underlying pool of assets. It is particularly true for the most senior securitisation positions, where capital requirements will be significantly higher than the current Basel II framework. At tranche level, for example an ABS rated AA- would be subject to 30% RWA if not STC under ERBA compared to 8% currently. If STC, it would require 20%, a multiple of 2.5 of the current level.

The SEC-ERBA is by far the most punitive in terms capital requirement after securitisation over the capital requirement of the pool of assets. In many cases, it is non-commensurate with the risk of the underlying pool (especially when the senior tranche has a high credit enhancement) and will discouraged originators to participate to securitisation for recharging their capital capacity or for funding, and as investors in senior securitisation. This seems contradictory to the objective to revive securitisation.

b) STC securitisation should benefit of the current Basel II floor

Securitisations of high quality have incurred a low level of losses even in the crisis. If the credit enhancement or attachment point is sufficiently high, there is no reasons STC securitisation should have a floor above 10%. Historical performance of these securitisations show that the floor should be actually lower than 7%. In these conditions, we believe there is no reason to have a floor higher than the current level of 7% (current Basel II).

c) The “securitisation” surcharge and re-scaling factor of “p” parameter should be lower for STC securitisation

By definition and construction, the STC securitisations do not have “structural risk”, or model risk. Therefore the surcharge due to securitisation should be very low (i.e. non-neutrality ratio close to 1). If the risk is deemed higher for certain transactions, it should be addressed at the level of the underlying pool for the STC securitisations. We understand that this is the Committee’s plan to review the regulatory risk weights of the assets, including for the assets pools underlying the securitisations, therefore the capital of STC securitisation will be consequently adjusted (increased) in liaison with the capital of the underlying pool and the adjustment should be taken into account in the case of STC securitisations: therefore the additional surcharge should be kept at a moderate level. The overall capital of securitisation will be de facto increased.

For SEC-IRBA STC securitisation should benefit of the Basel p-floor of 0.3

Currently, The SEC-IRBA formula contains key problems: it rewards poor asset performance (as K_{IRB} increases, the capital surcharge counter-intuitively decreases) and it contains an anti-European provision with use of the tranche maturity, a non-asset risk driver which is based on the maximum length of the recovery of the underlying assets in the local judicial system rather than the actual portfolio likely average life and penalises without reasons some European countries where the maximum recovery time is potentially longer.

An assessment of the rescaling factor shows that it should be close to 0.30 and not higher than 0.50 in Europe.

From a sample of 1,771 European securitisation for which public data are available (221 wholesale tranches and 1550 retail tranches), the average p-value for retail tranches is 1.19 (i.e. a surcharge of 119%)².

We have estimated the surcharge as calibrated by a risk sensitive measure (the CMA) to be on average 0.354 for European retail tranches³. The scaling factor that would convert the Basel SEC-IRBA surcharge of 1.19 to 0.354 would be x0.30.

² See “Comments on the Commission’s Proposals for Reviving the European Securitisation Market” by Duponcheele, Linden and Perraudin, October 2015 available at www.riskcontrollimited.com

³ See “Calibration of the Simplified Supervisory Formula Approach” by Duponcheele, Perraudin, Totouom-Tangho, March 2014 available at www.riskcontrollimited.com. Table 1 gives a surcharge of 14% and 47% for senior and non-senior tranches of Low RW Residential Mortgage portfolios respectively and 10% and 35% for senior and non-senior tranches of other retail portfolios respectively, the 2 regulatory asset classes present in the study referenced in footnote 1. The weighted average capital surcharge for these 1550 retail tranches is 0.354

Using a conservative approximation, based on a calibration of the M-SSFA with 2 parameters (less precise)⁴, the surcharge would be 0.430. The scaling factor that would convert the Basel SEC-IRBA surcharge of 1.19 to 0.430 would be x0.36.

Finally, using a further approximation based on a calibration of the SSFA with one parameter and full deduction up to one times pool capital⁵, the surcharge would be 0.586. The scaling factor that would convert the Basel SEC-IRBA surcharge of 1.19 to 0.586 would be x0.49.

With different views, we have a rescaling factor which ranges from 0.30 to 0.49 depending on the risk sensitivity of the approach.

A unique scaling factor of **x0.30 or x0.36** for STC retail and Corporate would be adequate.

This could be further simplified using a unique p-value ; **p= 0.3** would be adequate: it is at the Basel p-floor of 0.3, it is consistently below the p-value STC SEC-SA, it simplifies the wholesale and retail framework for SMEs (further increasing the chances of a return to market for those transactions). Furthermore, increased consistency of the STC framework would benefit the high quality European residential mortgage backed securitisations, the main asset class in Europe, severely penalised in the current proposals with the highest capital surcharges.

For SEC-SA the p should be 0.4

A p-factor of 0.5 is currently used in the US for their assets, including subprime. The STC securitisations should obviously benefit from a better rescaling factor than the US subprime, therefore p should be slightly lower. While remaining higher than the p-floor in SEC-IRBA (0.3).

In conclusion, the SEC-SA rescaling factor should lead to **p=0.4**

If SEC-ERBA is maintained for STC it should be recalibrated accordingly (with p=0.3 for SEC-IRBA)

d) Tranche Maturity should be calculated as the weighted average life of the tranche cash-flows, using contractual payment of the underlying loans (or no default, no prepayment)

Tranche maturity is not a risk-driver, as based on legal considerations. Indeed, the proposed final legal maturity is driven primarily by the legal framework of the jurisdiction of the underlying assets, in some cases well beyond the contractual maturity of the underlying exposures. Therefore relying on legal final maturity is not a good approach.

⁴ See previous footnote. Surcharges taken from table 3 of 21%, 55%, 16% and 42% respectively.

⁵ See previous footnote. Surcharges taken from table 2 of 44%, 66%, 46% and 61% respectively