

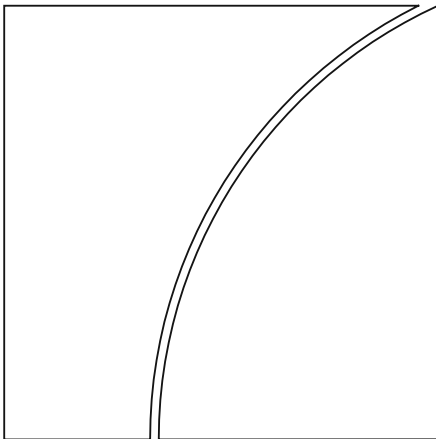
Basel Committee on Banking Supervision

Consultative document

Capital treatment for simple, transparent and comparable short-term securitisations

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1. Introduction

The Basel Committee on Banking Supervision (BCBS) published the revised securitisation framework in December 2014.¹ In July 2015, the BCBS and the Board of the International Organization of Securities Commissions (IOSCO) published the criteria for identifying simple, transparent and comparable (STC) term securitisations (July 2015 STC criteria for term securitisations).² In July 2016, the BCBS published revisions to its securitisation framework that incorporated the regulatory capital treatment of STC term securitisations (July 2016 framework).³ The purpose of these criteria and associated regulatory capital treatment is to assist the financial industry in its development of STC securitisation structures.

The published criteria for identifying STC term securitisations and associated regulatory capital treatment had explicitly scoped out short-term securitisations and, more specifically, asset-backed commercial paper (ABCP) structures. An ABCP programme predominantly issues (i) commercial paper with an original maturity of one year or less or (ii) notes to third parties (hereafter referred to collectively as “notes”) backed by assets or loans held in a bankruptcy remote special purpose entity (SPE). The exclusion took into account the difference in structure between ABCP programmes and term securitisations, which meant that the July 2015 STC criteria for term securitisations cannot be applied to exposures to ABCP structures without appropriate amendments. It was mentioned in the publication, however, that the Basel Committee and IOSCO would consider whether STC criteria for exposures to ABCP structures should be issued. In addition, should the Committee and IOSCO eventually publish the STC criteria for short-term securitisations (“short-term STC criteria”), the Committee would also determine how to incorporate them in the revised securitisation framework.

In conjunction with the publication of the consultative document on short-term STC criteria,⁴ this consultative document sets out a proposed approach to incorporate the short-term STC criteria into the securitisation framework. Respondents are invited to respond to both consultative documents, given the interlinkage between them. In particular, views on the criteria themselves should be addressed to the BCBS-IOSCO consultation rather than this consultative document, which focuses on the incorporation of the proposed criteria under the capital framework.

2. Definition of short-term STC criteria for regulatory capital purposes

The design of short-term STC criteria published in the BCBS-IOSCO consultative document follows the July 2015 STC criteria for term securitisations. While all principles underlying the July 2015 STC criteria for term securitisations are relevant for short-term securitisations, a number of criteria have been amended to reflect some specific aspects of ABCP programmes, in particular:

- the short maturity of the commercial paper issued by ABCP conduits;
- the different forms of programme structures (multi-seller, single seller);⁵ and

¹ See www.bis.org/bcbs/publ/d303.htm.

² See www.bis.org/press/p150723.htm.

³ See www.bis.org/bcbs/publ/d374.htm.

⁴ See www.bis.org/bcbs/publ/d414.htm.

⁵ Some jurisdictions use multi-seller structures in which a conduit typically holds interest from multiple pools of credit claims or receivables from various sellers. These sellers can be non-financial institutions.

- the existence of multiple forms of liquidity and credit support facilities on different levels of the ABCP structure (ie conduit level or transaction level).

Arguably, the short-term STC criteria are better able to capture the nuances and qualitative elements of structures, thus increasing confidence as to how these transactions will perform. The criteria help mitigate uncertainty related to asset risk, structural risk, governance and operational risk.

While the short-term STC criteria are sufficiently detailed to serve as guidance for good practice, the use of the criteria for the setting of preferential regulatory capital requirements requires greater prescriptiveness. In addition, the short-term STC criteria focus on the perspective of investors of notes issued under an ABCP programme rather than on the role of a bank as a sponsor, which is typically the main role played by banks in ABCP structures.

The Committee has therefore decided to enhance and supplement the short-term STC criteria by setting out additional guidance and requirements for the specific purpose of applying preferential capital treatment (short-term STC capital criteria) for banks acting as investors and sponsors.

Enhancements to the short-term STC criteria

The proposed enhancements and supplements to the short-term STC criteria have been developed to be consistent with the STC criteria for regulatory capital purposes in the July 2016 framework and to cater to the specificities of ABCP structures. The short-term STC capital criteria have been designed to be as stringent as the STC criteria for regulatory capital purposes in the July 2016 framework, in order to provide the same degree of confidence with respect to short-term securitisations that the STC criteria provide for term securitisations. As such, transaction-level enhancements are also incorporated to instil confidence in exposures at a transaction level.

In addition to largely retaining the additional guidance and requirements for regulatory capital purposes from STC term securitisations, new guidance and requirements have been added to the following criteria:

- **Initial and ongoing data (Criterion A6):** to ensure that investors have access to key monthly information on the performance and key characteristics of the ABCP structure.
- **Full support (Criterion B7):** to ensure that investors in the notes issued by the conduit are fully protected against losses, the sponsor should provide support covering 100% of the notional value of the notes issued by the conduit against any losses. An exception is granted only for sponsors whose exposure to the ABCP structure arises through their provision of support. Specifically, such exposures could still qualify for STC capital treatment even if the support does not cover assets that are in default at the time the support facility is drawn. However, the support provided would still need to protect investors against all other losses, and be sized to cover at least 100% of the notional value of the notes (net of defaulted assets). The investors in the notes issued by such a “partially supported” ABCP conduit would not qualify for STC capital treatment. See Section 3 for details.
- **Redemption cash flow (Criterion B8):** to ensure that the redemption risk of the underlying assets is addressed from the sponsor’s perspective.
- **Documentation disclosure and legal review (Criterion B12):** to ensure that the transactions funded by the conduit have an enforceable legal structure and that sponsors ensure that they receive sufficient information from sellers and other relevant parties, and disclose sufficient information to investors.

The full set of the short-term STC capital criteria (including the additional guidance and requirements for regulatory capital purposes) is set out in Annex 1.

Question 1: Do respondents agree with the insertion of the additional guidance and requirements in Annex 1, which enables the short-term STC criteria to be adapted for regulatory capital purposes? Are there any other guidance and requirements for regulatory capital purposes which respondents would consider necessary to support the development of STC short-term securitisations?

3. Satisfying the short-term STC capital criteria

The short-term STC criteria distinguish between criteria relevant at the transaction level (which must be separately met by each transaction in the conduit) and at the conduit level (which must be met by the overall conduit as a whole). Most criteria are relevant at both levels, but have a slightly different focus to reflect the differences in risk, stakeholders or structure at each level. For instance, at the transaction level, for the criterion on consistency of underwriting (Criterion A4), the sponsor is required to ensure that sellers apply a consistent underwriting standard between the assets transferred to the transaction and those retained on its balance sheet. At the conduit level, the sponsor is required to make representations and warranties to investors that it has taken steps to verify that assets financed by the conduit have been subject to consistent underwriting standards.

The Committee is proposing that the short-term STC capital criteria have to be fully complied with at both the conduit level and the transaction level, but with an exception for sponsors' exposures detailed below (the "baseline approach"). This ensures that investors are fully protected against all losses, including those arising from a deterioration in the performance of the underlying assets (ie full support). An exception is granted for Criterion B7 (full support) solely for a sponsor, whose exposures to the ABCP structure arise from the sponsoring arrangement provided. In this case, such exposures may qualify for STC capital treatment only if the sponsor provides support covering 100% of the notional value of the notes, notwithstanding that the support contains any provisions that preclude the ability to fund against defaulted assets (ie "partial" support). To be more specific, partial support provides full protection against all losses,⁶ except any credit losses arising from assets in default at the time the support facility is drawn (ie excess losses would have to be absorbed by the holders of the issued notes).⁷

The baseline approach is relatively simple in requiring compliance with one set of short-term STC capital criteria that apply at both the conduit level and the transaction level, where the only exception is to allow exposures providing "partial" support to qualify for STC capital treatment (assuming all other short-term STC capital criteria are satisfied). This strikes a balance between simplicity and risk sensitivity. The perspective of a bank in its role as sponsor is considered where the provision of "partial" support should result in lower risk to the bank, all things being equal (as compared with the provision of full support).

Under the baseline approach, two different ABCP structures, one receiving "partial" support and one receiving full support, could both qualify for STC capital treatment for their respective sponsors' exposures, but only investors in the notes issued by the ABCP conduit receiving full support could qualify for STC capital treatment.

⁶ The "partial support" would need to cover risks unrelated to the credit risk of underlying assets, including interest rate risk, foreign exchange risk, commingling risk, dilution risk, seller and servicer risk and legal risk.

⁷ For example, consider an ABCP conduit with \$100 of issued ABCP notes backed by underlying assets of \$120 and supported by a liquidity facility of \$100 (where coverage excludes assets that are in default at the time the support facility is drawn). In a situation where a significant and unexpected rise in default results in \$30 of credit losses, the support provided by the liquidity facility would cover only \$90 (\$120 – \$30) out of the \$100 of issued ABCP notes, leaving investors in the notes to absorb losses of \$10 (\$100 – \$90).

In addition to the baseline approach, other approaches that are considered by the Committee include the following:

- **Alternative approach 1 – For a bank’s exposure to qualify for STC capital treatment, the short-term STC capital criteria would have to be complied with in their entirety (ie no exemption from Criterion B7 would be granted for sponsors’ exposures to ABCP structures).** This approach is more conservative than the baseline approach in that the short-term STC capital criteria would have to be fully complied with by both investors and sponsors. Alternative 1 is simpler than the baseline approach in that compliance with the same set of short-term STC capital criteria (both conduit-level and transaction-level criteria) would be required for both investors and sponsors.
- **Alternative approach 2 – For a bank’s exposure at the transaction level to qualify for STC capital treatment, compliance with the transaction-level short-term STC capital criteria alone would suffice (ie independent of whether the overall conduit/other transactions underlying the conduit qualified).** Alternative 2 has the advantage of being more risk-sensitive than the baseline approach from a credit risk perspective. In addition to allowing exposures providing “partial” support to qualify for STC capital treatment (assuming all other short-term STC capital criteria are satisfied), this alternative subscribes to the idea that assessing STC capital treatment on a transaction-by-transaction basis provides an incentive to structure STC-compliant transactions (ie there continues to be an incentive to be STC-compliant even when other transactions under the ABCP structure are not). In addition, any increase in risk exposure resulting from non-STC transactions under the ABCP structure has no impact on the transaction sponsored by the sponsor bank. Moreover, it provides an incentive to transaction-level participants to reinforce the sponsor’s STC attestation by carrying out their own due diligence regarding the transactions they are exposed to.

Question 2: What are respondents’ views on the baseline and alternative approaches being considered by the Committee?

For the STC classification of the notes to comply with Criterion B7, the Committee expects that support ensuring full and timely payment of the notes has to be provided by a single sponsoring entity. The Committee, however, is interested in respondents’ views regarding the relevance/range of cases where support is not provided by a single entity but a combination of different entities which together provide sufficient support to ensure the full and timely payment of the notes. Feedback might also be helpful for a potential distinction between the treatment of the notes themselves and the exposures (eg liquidity facilities and credit enhancements) constituting the required support – similar to the one regarding the difference between full and partial support in the baseline approach.

In addition, the Committee is considering how compliance with Criterion B7 should be assessed in the case of the replacement of the sponsor as provider of a liquidity facility.

Question 3: What are respondents’ views regarding the requirement that the support required by Criterion B7 has to be provided by a single entity and the consequences of a subsequent replacement of this entity?

4. Determining compliance with the short-term STC capital criteria

In terms of determining compliance with the short-term STC capital criteria, the Committee is considering following the same process for the determination of STC compliance for term securitisations, as set out in paragraphs 111 and 112 of the July 2016 framework. This means that the sponsor must disclose to investors and relevant parties the necessary information to allow them to determine whether the exposure is compliant with the short-term STC capital criteria. The determination of compliance for different types of exposures would then be carried out as follows:

- **For notes issued by the ABCP conduit – The assessment of compliance with the short-term STC capital criteria is performed by the investor only.** The sponsor, though not required to assert that the short-term capital criteria are met, must make sufficient disclosures to enable the investor to make the assessment that the criteria are met at both the transaction and conduit levels, which may include pool-level disclosures and attestations of relevant facts. Requiring the investor to make an independent assessment helps ensure that the investor conducts the necessary due diligence.
- **For other exposures to an ABCP structure – In the case of a sponsor’s exposure to an ABCP structure, only the sponsor would need to assess that the criteria have been met.**⁸

Another possibility considered by the Committee would be a dual attestation and assessment process performed by both the sponsor and the investor, as detailed below:

- **For notes issued by the ABCP conduit – The assessment of compliance with the short-term STC capital criteria is performed by both the sponsor and the investor.** Specifically, the investor must assess that the support provided by the sponsor is compliant with the Criterion B7 (full support), while the sponsor must confirm and attest to investors that the remaining criteria are met at both the transaction and conduit levels. Making the sponsor also accountable for assessing compliance with the criteria helps to ensure that it will make the necessary information for the assessment publicly available (or at least available to the parties interested in the transaction). The sponsor is also the party most likely to have all of the information necessary to assess STC compliance.
- **For other exposures to an ABCP structure – In the case of a sponsor’s exposure to an ABCP structure, only the sponsor would need to attest that the criteria have been met.** No differentiation is made in this case because the sponsor is the only relevant party and the sponsor should have sufficient information in order to attest to compliance with the short-term STC capital criteria.⁹

Question 4: What are respondents’ views on the options being considered by the Committee for determining STC compliance?

⁸ If support as required by Criterion B7 can be provided by more than one entity (depending on the outcome of Question 3), in the case of a third-party support provider the provider should determine its own compliance with the criteria. The third-party support provider should have access to information on the underlying exposures it supports and must undertake its own due diligence to assess whether the criteria are met.

⁹ If support as required by Criterion B7 can be provided by more than one entity (depending on the outcome of Question 3), in the case of a third-party support provider the attestation of compliance with the short-term STC capital criteria should be performed jointly by the sponsor and the third-party provider.

5. Capital treatment

The calibration of capital requirements for exposures to ABCP structures should reflect the strength of the short-term STC capital criteria. Given that the short-term STC capital criteria have been designed to be as stringent as the STC capital criteria for term securitisations, it follows that exposures to ABCP conduits or transactions that are compliant with the short-term STC capital criteria should justify the same reduction in the conservatism built into the capital framework through the non-neutrality of the capital framework, as exposures to STC-compliant term securitisations.¹⁰ All things being equal, a short-term securitisation with lower structural risk or less risky underlying assets warrants lower capital requirements than a short-term securitisation with higher structural risks or riskier underlying assets.

The Committee aims to introduce greater risk sensitivity to the revised securitisation framework by allowing exposures to ABCP structures to qualify for STC capital treatment, but without significantly increasing the operational burden on the banks in computing the capital relief applicable for such exposures.

Notes issued by an ABCP conduit

In its role as an investor, a bank's exposure to notes issued by an ABCP conduit is economically the same as its exposures to a term securitisation tranche, notwithstanding the difference in legal form of the instrument.

As long as the ABCP conduit meets the short-term STC capital criteria,¹¹ the capital treatment for the exposures to the issued notes should be equal to that of risk positions of comparable maturity within STC term securitisations published in the July 2016 framework. For example:

- When applying the External Ratings-Based Approach (SEC-ERBA) for its holding of a note issued by an ABCP conduit that meets the short-term STC capital criteria with a short-term credit rating, a bank investor would use the applicable risk weights for STC exposures with short-term credit ratings in Table 1 below.

Table 1: STC ABCP SEC-ERBA risk weights (consistent with the July 2016 framework for tranches of term securitisations with short-term credit ratings)

External credit assessment	<i>A-1/P-1</i>	<i>A-2/P-2</i>	<i>A-3/P-3</i>	<i>All other ratings</i>
Risk weight for STC exposures (both term securitisations and ABCP)	10%	30%	60%	1,250%

- When applying the Internal Ratings-Based Approach (SEC-IRBA) for its holding of a note issued by an ABCP conduit that meets short-term STC capital criteria, a bank investor would use the note maturity as the input to the SEC-IRBA formula. The risk weight under the formulaic approaches would be determined by applying a 0.5 scalar to the "p" parameter, with the "p" parameter floored at 0.3, and a risk-weight floor of 10% for senior tranches and 15% for non-senior tranches.

¹⁰ The non-neutrality of the framework refers to the fact that the total capital required for a securitisation (ie the sum of the capital required for all securitisation tranches) is greater than the amount of capital required for the underlying assets.

¹¹ For the avoidance of doubt, this includes the full support criterion.

Other bank exposures to an ABCP structure

The situation of a bank providing liquidity and/or credit facilities to an ABCP structure is akin to taking a position in a term STC securitisation.

The capital treatment would follow the treatment for STC term securitisations in the July 2016 framework. Given that the robustness of the short-term STC capital criteria is similar to that of term STC securitisations, the capital discount is calculated in the same way (ie by applying a 0.5 scalar to the “p” parameter, with the “p” parameter floored at 0.3; and a risk-weight floor for exposures treated under the formulaic approaches of 10% for senior tranches and 15% for non-senior tranches, and using the discounted risk-weight tables for exposures treated under the SEC-ERBA or the Internal Assessment Approach, respectively).

Similarly to the July 2016 framework, where the risk weights for market risk hedges such as currency or interest rate swaps are inferred from a securitisation exposure that is junior to or pari passu with the swaps, the same capital treatment would be adopted for short-term securitisations. Swap exposures would qualify for STC treatment, for instance, similar to that for notes issued by an ABCP conduit, as long as the swap exposure meets the requirements in paragraph 63, 69 or 86 of the July 2016 framework (where the notes would be the reference securitisation exposure).

Question 5: Do respondents have any comments on or concerns over the proposed capital treatment?

6. Next steps

The Committee would welcome feedback regarding Questions 1 to 5 above.

Comments should be uploaded by 5 October 2017 using the following link: www.bis.org/bcbs/commentupload.htm. All comments will be published on the website of the Bank for International Settlements, unless a respondent specifically requests confidential treatment. Once the Committee has reviewed responses to this consultative document, it intends to publish the final standard within an appropriate time frame, bearing in mind that the December 2014 revised securitisation framework is to be implemented by January 2018.

Annex 1

Criteria for identifying simple, transparent and comparable (STC) short-term securitisations¹²

Terms and definitions

ABCP conduit / conduit	Asset-backed commercial paper (ABCP) conduit, being the special purpose vehicle which can issue commercial paper.
ABCP programme	The programme of commercial paper issued by an ABCP conduit.
assets / asset pool	The credit claims and/or receivables underlying a transaction in which the ABCP conduit holds a beneficial interest.
investor	The holder of commercial paper issued under an ABCP programme, or any type of asset representing a financing liability of the conduit, such as loans.
obligor	The borrower underlying a credit claim or a receivable that is part of an asset pool.
seller	A party that (i) concluded (in its capacity as original lender) the original agreement that created the obligations or potential obligations (under a credit claim or a receivable) of an obligor, and (ii) transferred those assets through a transaction to the ABCP conduit.
sponsor	Sponsor of an ABCP conduit. It may also be noted that other relevant parties with a fiduciary responsibility in the management and administration of the ABCP conduit could also undertake some of the responsibilities of the sponsor under its control.
transaction	An individual transaction in which the ABCP conduit holds a beneficial interest. A transaction may qualify as a securitisation, but may also be a direct asset purchase, the acquisition of undivided interest in a revolving pool of asset, a secured loan etc.

In order for an exposure to an ABCP structure (ie an exposure to the conduit or to a transaction funded by the conduit) to be considered compliant with the short-term STC capital criteria, the following criteria need to be met at the conduit level and transaction level (unless otherwise specified). This assumes the adoption of the baseline approach, as set out in Section 3 of the consultative document (which may change depending on the outcome of Question 1).

¹² Annex 1 is based on the BCBS-IOSCO consultative document on short-term STC criteria. Some of the terms might not have the same meaning/definition as that used in the July 2016 framework.

A. Asset risk

1. Nature of assets	
Relevant to the conduit level	Relevant to the transaction level
<p>The sponsor should make representations and warranties to investors that the subsections of Criterion A1 defined at transaction level are met, and explain how this is the case on an overall basis. Only if specified should this be done for each transaction.</p> <p>Provided that each individual underlying transaction is homogeneous, a conduit may be used to finance transactions of different asset types, which may have been originated in different jurisdictions or legal systems and which may be denominated in different currencies.</p> <p>Programme-wide credit enhancement should not prevent a conduit from qualifying for STC status, regardless of whether such enhancement creates re-securitisation.</p>	<p>The assets underlying a transaction in a conduit should be credit claims or receivables that are homogeneous. In assessing homogeneity, the sponsor's consideration should be given to asset type, jurisdiction, legal system and currency.</p> <p>The assets underlying each individual transaction in a conduit should not be composed of "securitisation exposures" as defined in the Basel III securitisation framework.¹³</p> <p>Credit claims or receivables underlying a transaction in a conduit should have contractually identified periodic payment streams relating to rental,¹⁴ principal, interest, or principal and interest payments. Credit claims or receivables generating a single payment stream would equally qualify as eligible. Any referenced interest payments or discount rates should be based on commonly encountered market interest rates,¹⁵ but should not reference complex or complicated formulae or exotic derivatives.¹⁶</p>

Additional guidance for capital purposes

"Homogeneity"

For capital purposes, this criterion should be assessed taking into account the following principles:

- The nature of assets should be such that there would be no need to analyse and assess materially different legal and/or credit risk factors and risk profiles when carrying out risk analysis and due diligence checks for the transaction.
- Homogeneity should be assessed on the basis of common risk drivers, including similar risk factors and risk profiles.
- Credit claims or receivables included in the securitisation should have standard obligations, in terms of rights to payments and/or income from assets and that result in a periodic and well defined stream of payments to investors. Credit card facilities should be deemed to result in a periodic and well defined stream of payments to investors for the purposes of this criterion.
- Repayment of the securitisation exposure should mainly rely on the principal and interest proceeds from the securitised assets. Partial reliance on refinancing or resale of the asset securing the exposure may occur provided that refinancing is sufficiently distributed within the

¹³ See <http://www.bis.org/bcbs/publ/d374.htm>.

¹⁴ Payments on operating and financing lease are typically considered to be rental payments rather than payments of principal and interest.

¹⁵ Commonly encountered market interest rates may include rates reflective of a lender's cost of funds, to the extent that sufficient data are provided to the sponsors to allow them to assess their relation to other market rates.

¹⁶ The Global Association of Risk Professionals (GARP) defines an exotic instrument as a financial asset or instrument with features making it more complex than simpler, plain vanilla products.

pool and the residual values on which the transaction relies are sufficiently low and that the reliance on refinancing is thus not substantial.

“Commonly encountered market interest rates”

Examples of these would include:

- interbank rates and rates set by monetary policy authorities, such as Libor, Euribor and the federal funds rate; and
- sectoral rates reflective of a lender’s cost of funds, such as internal interest rates that directly reflect the market costs of a bank’s funding or that of a subset of institutions.

“Exotic derivatives”

Interest rate caps and/or floors would not automatically be considered exotic derivatives.

“Conduit should not be composed of ‘securitisation exposures’”

The transaction-level requirement is still met if the conduit does not purchase the underlying asset with a refundable purchase price discount but instead acquires a beneficial interest in the form of a note which itself might qualify as a securitisation exposure, as long as the securitisation exposure is not subject to any further tranching (ie has the same economic characteristic as the purchase of the underlying asset with a refundable purchase price discount).

2. Asset performance history	
Relevant to the conduit level	Relevant to the transaction level
In order to provide investors with sufficient information on the performance history of the asset types backing the transactions, the sponsor should make available to investors sufficient loss performance data, such as delinquency and default data of claims and receivables with substantially similar risk characteristics, and for a time period long enough to permit meaningful evaluation. The sponsor should disclose to investors the sources of and access to data and the basis for claiming similarity to credit claims or receivables financed by the conduit. Such loss performance data may be provided on a stratified basis. ¹⁷	In order to provide the sponsor with sufficient information on the performance history of an asset type backing the transactions to conduct due diligence and access to a sufficiently rich data set to enable a more accurate calculation of expected loss in different stress scenarios, verifiable loss performance data, such as delinquency and default data, should be available for credit claims and receivables with substantially similar risk characteristics to those being financed by the conduit, for a time period long enough to permit meaningful evaluation by the sponsor.

Additional requirement for capital purposes

The sponsor of the securitisation, as well as the original lender who underwrites the assets, must have sufficient experience in the risk analysis/underwriting of exposures or transactions with underlying exposures similar to those securitised. The sponsor should have well documented procedures and policies regarding the underwriting of transactions and the ongoing monitoring of the performance of

¹⁷ “Stratified” means, by way of example:

- all materially relevant data on the conduit’s composition (outstanding balances, industry sector, obligor concentrations, maturities etc.) and the conduit’s overview; and
- all materially relevant data on the credit quality and performance of underlying transactions, allowing investors to identify collections, and, as applicable, debt restructuring, forgiveness, forbearance, payment holidays, repurchases, delinquencies and defaults.

the securitised exposures. The sponsor should ensure that the seller(s) and all other parties involved in the origination of the receivables have experience in originating same or similar assets, and are supported by a management with industry experience. For the purpose of meeting the short-term STC capital criteria, investors must request confirmation from the sponsor that the performance history of the originator and the original lender for substantially similar claims or receivables to those being securitised has been established for an "appropriately long period of time". This performance history must be no shorter than a period of seven years for non-retail exposures. For retail exposures, the minimum performance history is five years.

Rationale

The Committee considered that, in addition to the asset performance history, it is important that the original lender should have a minimum track record in originating assets similar to those securitised. Moreover, the seller and all other parties (such as the seller's agents) should have experience in the origination of the receivables, not only in the servicing of the receivables.

3. Payment status	
Relevant to the conduit level	Relevant to the transaction level
The sponsor should make representations and warranties to investors that Criterion A3 at the transaction level is met with respect to each transaction, and explain how.	The sponsor should take reasonable steps to ensure that the credit claims or receivables underlying each individual transaction are not, at the time of acquisition of the interests to be financed by the conduit, in default or delinquent or subject to a material increase in expected losses or of enforcement actions.

Additional requirement for capital purposes

To prevent credit claims or receivables arising from credit-impaired borrowers from being transferred to the securitisation, the original seller or sponsor should verify that the credit claims or receivables meet the following conditions for each transaction:

- the obligor has not been the subject of an insolvency or debt restructuring process due to financial difficulties in the three years prior to the date of origination;¹⁸
- the obligor is not recorded on a public credit registry of persons with an adverse credit history;
- the obligor does not have a credit assessment by an external credit assessment institution or a credit score indicating a significant risk of default; and
- the credit claim or receivable is not subject to a dispute between the obligor and the original lender.

The assessment of these conditions should be carried out by the original seller or sponsor no earlier than 45 days prior to acquisition of the transaction by the conduit or, in the case of replenishing transactions, no earlier than 45 days prior to new exposures being added to the transaction. In addition, at the time of the assessment, there should to the best knowledge of the original seller or sponsor be no evidence indicating likely deterioration in the performance status of the credit claim or receivable.

¹⁸ This condition would not apply to borrowers that previously had credit incidents but were subsequently removed from credit registries as a result of the borrowers cleaning their records. This is the case in jurisdictions in which borrowers have the "right to be forgotten".

Further, at the time of their inclusion in the pool, at least one payment should have been made on the underlying exposures, except in the case of replenishing asset trust structures such as those for credit card receivables, trade receivables, and other exposures payable in a single instalment, at maturity.

Rationale

The Committee believes that providing a clear definition of credit-impaired borrowers should facilitate compliance checks.

4. Consistency of underwriting	
Relevant to the conduit level	Relevant to the transaction level
<p>The sponsor should make representations and warranties to investors that:</p> <ul style="list-style-type: none"> it has taken steps to verify that, for the transactions in the conduit, any underlying credit claims and receivables have been subject to consistent underwriting standards, and explain how; and when underwriting standards change, it will receive from sellers disclosure about the timing and purpose of such changes. <p>The sponsor should also inform investors of the material selection criteria applied when selecting sellers (including where they are not financial institutions).</p>	<p>The sponsor should ensure that sellers (in their capacity as original lenders) in transactions with the conduit demonstrate to it that:</p> <ul style="list-style-type: none"> any credit claims or receivables being transferred to or through a transaction held by the conduit have been originated in the ordinary course of the seller's business to materially non-deteriorating underwriting standards. Those underwriting standards should also not be less stringent than those applied to credit claims and receivables retained on the balance sheet of the seller and not financed by the conduit; and the obligors have been assessed as having the ability and volition to make timely payments on obligations. <p>The sponsor should also ensure that sellers disclose to it the timing and purpose of changes to underwriting standards.</p>

Additional requirement for capital purposes

In all circumstances, all credit claims or receivables must be originated in accordance with sound and prudent underwriting criteria based on an assessment that the obligor has the "ability and volition to make timely payments" on its obligations.

The sponsor of the securitisation is expected, where underlying credit claims or receivables have been acquired from third parties, to review the underwriting standards (ie to check their existence and assess their quality) of these third parties and to ascertain that they have assessed the obligors' "ability and volition to make timely payments" on their obligations.

Rationale

This additional requirement improves the consistency of the criterion, as it requires securitised credit claims and receivables to be originated in accordance with sound and prudent underwriting standards in all circumstances, including for granular pools.

If the sponsor of the securitisation did not originate the assets, the additional requirement will ensure that the seller has to check (a) the existence and quality of the standards; (b) that the borrowers to whom the acquired loans are extended have been screened by the lender; and (c) that their ability

and their willingness to repay have been assessed by the original lender. This should not, however, be understood as an obligation for the seller to perform this assessment itself.

5. Asset selection and transfer	
Relevant to the conduit level	Relevant to the transaction level
<p>The sponsor should:</p> <ul style="list-style-type: none"> • provide representations and warranties to investors about the checks, in terms of nature and frequency, it has conducted regarding the enforceability of underlying assets; and • disclose to investors the receipt of appropriate representations and warranties from sellers that the credit claims or receivables being transferred to the transactions in the conduit are not subject to any condition or encumbrance that can be foreseen to adversely affect enforceability in respect of collections due. 	<p>The sponsor should ensure that credit claims or receivables transferred to or through a transaction financed by the conduit:</p> <ul style="list-style-type: none"> (a) satisfy clearly defined eligibility criteria; and (b) are not actively selected after the closing date, actively managed¹⁹ or otherwise cherry-picked. <p>The sponsor should be able to assess thoroughly the credit risk of the asset pool prior to its decision to provide full support to any given transaction or to the conduit.</p> <p>The sponsor should ensure that the transactions in the conduit effect true sale such that the underlying credit claims or receivables:</p> <ul style="list-style-type: none"> • are enforceable against the obligor; • are beyond the reach of the seller, its creditors or liquidators and are not subject to material re-characterisation or clawback risks; • are not effected through credit default swaps, derivatives or guarantees but by a transfer²⁰ of the credit claims or the receivables to the transaction; and • demonstrate effective recourse to the ultimate obligation for the underlying credit claims or receivables and are not a re-securitisation. <p>The sponsor should ensure that, in applicable jurisdictions, for conduits employing transfers of credit claims or receivables by other means, sellers can demonstrate to it the existence of material obstacles preventing true sale at issuance²¹ and should clearly demonstrate the method of recourse to ultimate obligors.²² In such jurisdictions, any conditions where the transfer of the credit claims or receivables is delayed or contingent upon specific events and any factors affecting timely perfection of claims by the conduit should be clearly disclosed.</p> <p>The sponsor should ensure that it receives from the individual sellers (in their capacity either as original lender or as servicer) representations and warranties that the credit claims or receivables being transferred to or through the transaction are not subject to any condition or encumbrance that can be foreseen to adversely affect enforceability in respect of collections due.</p>

¹⁹ Provided they are not actively selected or otherwise cherry-picked, the addition of credit claims or receivables during the revolving periods or their substitution or repurchasing due to the breach of representations and warranties do not represent active portfolio management.

²⁰ This requirement should not affect jurisdictions whose legal frameworks provide for a true sale with the same effects as those described above, but by means other than a transfer of the credit claims or receivables.

²¹ For instance, the immediate realisation of transfer tax or the requirement to notify all obligors of the transfer.

²² For instance, equitable assignment or perfected contingent transfer.

Additional requirement for capital purposes

An independent third-party legal opinion must support the claim that the true sale and the transfer of assets under the applicable laws comply with points (a) and (b) at the transaction level.

Rationale

A legal opinion will provide comfort that a transaction complies with these criteria, in particular in cases where it is issued in accordance with non-domestic legal provisions. To avoid conflicts of interest, the legal opinion should be provided by an independent third party.

6. Initial and ongoing data	
Relevant to the conduit level	Relevant to the transaction level
<p>To assist investors in conducting due diligence prior to investing in a new programme offering, the sponsor should provide to potential investors sufficient aggregated data that illustrate the relevant risk characteristics of the underlying asset pools in accordance with applicable laws.</p> <p>To assist investors in conducting appropriate and ongoing monitoring of their investments' performance and so that investors who wish to purchase commercial paper have sufficient information to conduct due diligence, the sponsor should provide timely and sufficient aggregated data that provide the relevant risk characteristics of the underlying pools in accordance with applicable laws. The sponsor should ensure that standardised investor reports are readily available to current and potential investors at least monthly. Cutoff dates of the aggregated data should be aligned with those used for investor reporting.</p>	<p>The sponsor should ensure that the individual sellers (in their capacity as servicers) provide it with:</p> <p>(a) sufficient asset level data in accordance with applicable laws or, in the case of granular pools, summary stratification data on the relevant risk characteristics of the underlying pool before transferring any credit claims or receivables to such underlying pool; and</p> <p>(b) timely asset-level data in accordance with applicable laws or granular pool stratification data on the risk characteristics of the underlying pool on an ongoing basis. Those data should allow the sponsor to fulfil its fiduciary duty at the conduit level in terms of disclosing information to investors, including the alignment of cutoff dates of the asset level or granular pool stratification data with those used for investor reporting.</p> <p>The seller may delegate some of these tasks, and, in this case, the sponsor should ensure that there is appropriate oversight of the outsourced arrangements.</p>

Additional requirement for capital purposes [New]

The standardised investor reports which are made readily available to current and potential investors at least monthly should include the following information:

- materially relevant data on the credit quality and performance of underlying assets, including data allowing investors to identify dilution, delinquencies and defaults, restructured receivables, forbearance, repurchases, losses, recoveries and other asset performance remedies in the pool;
- data on the cash flow generated by the underlying assets, including balances of newly acquired receivables as well as scheduled, prepaid and due principal and interest, and on the outstanding liabilities;
- the form and amount of credit enhancement provided by the seller and sponsor at transaction and conduit levels, respectively;
- relevant information on the support provided by the sponsor; and

- the status and definitions of relevant triggers (such as performance, termination or counterparty replacement triggers).

Rationale

Adequate investor disclosure is a key pillar in ensuring appropriate governance of the sponsor and performance of the ABCP structure. Investors should have appropriate information on the performance of the underlying assets and available credit enhancements. Key metrics of interest to the investor include delinquencies, dilution, statistics on deal triggers and available credit enhancements.

B. Structural risk

7. Full support	
Relevant to the conduit level	Relevant to the transaction level
The sponsor should provide the liquidity facility (facilities) and the credit protection support ²³ for any ABCP programme issued by a conduit. Such facilities and support should ensure that investors are fully protected against credit risks, liquidity risks and any material dilution risks of the underlying asset pools financed by the conduit. As such, investors should be able to rely on the sponsor to ensure timely and full repayment of the commercial paper.	(-)

Additional requirement for capital purposes [New]

Under the baseline approach, an exception is granted for Criterion B7 (full support) solely for a sponsor, whose exposures to the ABCP structure arise from the sponsoring arrangement provided. In this case, such exposures may qualify for STC capital treatment only if the sponsor provides support covering 100% of the notional value of the notes, notwithstanding that the support contains any provisions that preclude the ability to fund against defaulted assets (ie “partial” support). To be more specific, partial support provides full protection against all losses,²⁴ except any credit losses arising from assets in default at the time the support facility is drawn (ie excess losses would have to be absorbed by the holders of the issued notes).²⁵

The full support provided should be able to irrevocably and unconditionally pay the ABCP liabilities in full and on time. The list of risks provided in Criterion B7 that have to be covered is not comprehensive but rather provides typical examples. An exception would be allowed in the case of a sponsor’s exposures to the ABCP structure. Such exposures resulting from the support provided may qualify for STC capital treatment even if the sponsor only provides liquidity support covering 100% of

²³ A sponsor can provide full support both at ABCP programme level and at transaction level, ie by fully supporting each transaction within an ABCP programme.

²⁴ The “partial support” would need to cover risks unrelated to the credit risk of underlying assets, including interest rate risk, foreign exchange risk, commingling risk, dilution risk, seller and servicer risk and legal risk.

²⁵ For example, consider an ABCP conduit with \$100 of issued ABCP notes backed by underlying assets of \$120 and supported by a liquidity facility of \$100 (where coverage excludes assets that are in default at the time the support facility is drawn). In a situation where a significant and unexpected rise in default results in \$30 of credit losses, the support provided by the liquidity facility would cover only \$90 (\$120 – \$30) out of the \$100 of issued ABCP notes, leaving investors in the notes to absorb losses of \$10 (\$100 – \$90).

the notional value of the notes (net of defaulted assets) against losses. Such support must include risks related to interest rate, foreign exchange, commingling,²⁶ dilution²⁷ and legal issues.²⁸

Under the terms of the liquidity facility agreement:

- Upon specified events affecting its creditworthiness, the sponsor shall be obliged to collateralise its commitment in cash to the benefit of the investors or otherwise replace itself with another liquidity provider.
- If the sponsor does not renew its funding commitment for a specific transaction or the conduit in its entirety, the sponsor shall collateralise its commitments regarding a specific transaction or, if relevant, to the conduit in cash at the latest 30 days prior to the expiration of the liquidity facility, and no new receivables should be purchased under the affected commitment.

The sponsor should provide investors with full information about the terms of the liquidity facility (facilities) and the credit support provided to the ABCP conduit and the underlying transactions (in relation to the transactions, redacted where necessary to protect confidentiality).

Rationale

In order to provide sufficient protection to investors in the notes issued by the ABCP conduit, the liquidity facility (facilities) provided to the ABCP conduit shall be sufficient to redeem in full the outstanding notes in case the paper cannot be rolled over so that the investors do not retain any exposure to the credit risk of the underlying securitised assets. The liquidity facility providing full support should cover all the risks that prevent the full repayment from the proceeds of underlying securitised assets of the notes at maturity.

To ensure that investors in the notes issued by the ABCP conduit are fully protected by the facility (facilities) provided to the ABCP conduit, if the creditworthiness of the liquidity providers deteriorates or if a commitment is not renewed, the liquidity provider shall be required to fully collateralise the facility (facilities) in cash to ensure the payment of maturing notes. As an alternative, a backup facility provider could be used in case the creditworthiness of the current provider is no longer sufficient. The facility should also be drawn down and used to redeem the outstanding notes in case it is not renewed at least 30 days prior to its expiration. This requirement aims to ensure that the full support is available to investors at any point in time.

Information about the support provided to the ABCP structure, at conduit and transaction level, as well as the maturity of the facility (facilities) provided to the ABCP structure, shall also be disclosed to investors. This will enable investors to assess the liquidity risks associated with their exposures to the ABCP structure.

8. Redemption cash flow	
Relevant to the conduit level	Relevant to the transaction level
(-)	The sponsor should ensure that the credit claims or receivables underlying any of the individual transactions

²⁶ Commingling risk in the context of ABCPs arises in cases where the seller, acting as a servicer, becomes bankrupt and the collections due to the conduit are commingled with its general funds. As such, the amounts due to the conduit are at risk.

²⁷ Dilution risk arises primarily in trade receivable and credit card transactions and is the risk that non-cash adjustments are made to the receivables, due to, but not limited to, discount incentives for early payment, errors in invoice amounts and returned goods.

²⁸ Legal risk includes the risk to achieve or maintain the legal transfer of the assets and the risk that assets are consolidated or clawed back into the bankruptcy estate of the seller.

	do not need to be refinanced over a short period of time in order to repay the conduit, unless the underlying pool of credit claims or receivables is sufficiently granular and has sufficiently distributed repayment profiles, and that such repayment does not primarily rely on the drawing of an external liquidity facility provided to this transaction.
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Additional requirement for capital purposes [New]

For capital purposes, sponsors cannot use support provided by their own liquidity and credit facilities towards meeting this criterion. For the avoidance of doubt, the requirement that the repayment shall not primarily rely on the drawing of an external liquidity facility does not apply to exposures in the form of the notes issued by the ABCP conduit.

Rationale

The criterion allows some of the refinancing risk to be met by an external liquidity facility. However, the additional requirement clarifies that, for capital purposes, the criterion must be met without reference to a sponsor's own support provided. This helps to ensure that sponsors are adequately protected against the redemption risk of underlying assets.

9. Currency and interest rate asset and liability mismatches

Relevant to the conduit level	Relevant to the transaction level
<p>The sponsor should ensure that any payment risk arising from different interest rate and currency profiles:</p> <ul style="list-style-type: none"> not mitigated at transaction level; or arising at conduit level <p>are appropriately mitigated. The sponsor should also ensure that derivatives are used for genuine hedging purposes only and that hedging transactions are documented according to industry-standard master agreements.</p> <p>The sponsor should provide sufficient information to investors to allow them to assess how the payment risk arising from the different interest rate and currency profiles of assets and liabilities is appropriately mitigated, whether at conduit or transaction level.</p>	<p>To reduce the payment risk arising from the different interest rate and currency profiles of assets and liabilities, if any, and to improve the sponsor's ability to analyse cash flows of transactions, the sponsor should ensure that interest rate and foreign currency risks are appropriately mitigated. The sponsor should also ensure that derivatives are used for genuine hedging purposes only and that hedging transactions are documented according to industry-standard master agreements.</p>

Additional requirement for capital purposes

The term "appropriately mitigated" should be understood as not necessarily requiring a completely perfect hedge. The appropriateness of the mitigation of interest rate and foreign currency risks through the life of the transaction must be demonstrated by making available, in a timely and regular manner, quantitative information including the fraction of notional amounts that are hedged, as well as sensitivity analysis that illustrates the effectiveness of the hedge under extreme but plausible scenarios.

The use of risk-mitigating measures other than derivatives is permitted only if the measures are specifically created and used for the purpose of hedging an individual and specific risk. Non-derivative risk mitigation measures must be fully funded and available at all times.

Rationale

It is necessary to clarify that “appropriately mitigated” should not necessarily be understood from an accounting point of view, but rather from an economic perspective.

10. Payment priorities and observability	
Relevant to the conduit level	Relevant to the transaction level
<p>The commercial paper issued by the ABCP programme should not include extension options, or other features described above which may extend the final maturity of the asset-backed commercial paper.</p> <p>The sponsor should:</p> <ul style="list-style-type: none"> • make representations and warranties to investors that Criterion B10 is met at transaction level, and in particular that it has the ability to appropriately analyse the cash flow waterfall for each transaction that qualifies as a securitisation position; and • make available to investors a summary (illustrating the functioning) of these waterfalls and of the credit enhancement available at programme and transaction level. 	<p>To prevent the conduit from being subjected to unexpected repayment profiles from the transactions, the sponsor should ensure that:</p> <ul style="list-style-type: none"> • priorities of payments are clearly defined at the time of acquisition of the interests in these transactions by the conduit; and • appropriate legal comfort regarding the enforceability is provided. <p>For all transactions which qualify as a securitisation position, the sponsor should ensure that all triggers affecting the cash flow waterfall, payment profile or priority of payments are clearly and fully disclosed to the sponsor in both the transaction documentation and reports, with information in the reports that clearly identifies any breach status, the ability for the breach to be reversed and the consequences of the breach. Reports should contain information that allows sponsors to easily ascertain the likelihood of a trigger being breached or reversed. Any triggers breached between payment dates should be disclosed to sponsors on a timely basis in accordance with the terms and conditions of the transaction documents.</p> <p>For any of the transactions where the beneficial interest held by the conduit qualifies as a securitisation position, the sponsor should ensure that any subordinated position does not have inappropriate payment preference over payments to the conduit (which should always rank senior to any other position) and which are due and payable.</p> <p>Transactions featuring a revolving period should include provisions for appropriate early amortisation events and/or triggers of termination of the revolving period, notably: (i) deterioration in the credit quality of the underlying exposures; (ii) a failure to replenish sufficient new underlying exposures of similar credit quality; and (iii) the occurrence of an insolvency-related event with regard to the individual sellers.</p> <p>To ensure that debt forgiveness, forbearance, payment holidays, restructuring, dilution and other asset performance remedies can be clearly identified, policies and procedures, definitions, remedies and actions relating to delinquency, default, restructuring or dilution of underlying debtors should be provided in clear and consistent terms, such that the sponsor can clearly identify debt forgiveness, forbearance, payment holidays, restructuring, dilution and other asset performance remedies on an ongoing basis.</p> <p>For each transaction which qualifies as a securitisation, the sponsor should ensure that it receives, both before the conduit acquires a beneficial interest in the transaction</p>

	and on an ongoing basis, the liability cash flow analysis or information on the cash flow provisions allowing appropriate analysis of the cash flow waterfall of these transactions.
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11. Voting and enforcement rights

Relevant to the conduit level	Relevant to the transaction level
To provide clarity to investors, the sponsor should make sufficient information available in order for investors to understand their enforcement rights on the underlying credit claims or receivables in the event of insolvency of the sponsor.	For each transaction, the sponsor should ensure that, in particular upon insolvency of the seller or where the obligor is in default on its obligation, all voting and enforcement rights related to the credit claims or receivables are, if applicable: <ul style="list-style-type: none"> transferred to the conduit; and clearly defined under all circumstances, including with respect to the rights of the conduit versus other parties with an interest (eg sellers), where relevant.

12. Documentation disclosure and legal review

Relevant to the conduit level	Relevant to the transaction level
To help investors understand fully the terms, conditions, and legal information prior to investing in a new programme offering and to ensure that this information is set out in a clear and effective manner for all programme offerings, the sponsor should ensure that sufficient initial offering documentation for the ABCP programme is provided to investors (and readily available to potential investors on a continuous basis) within a reasonably sufficient period of time prior to issuance, such that the investor is provided with full disclosure of the legal information and comprehensive risk factors needed to make informed investment decisions. These should be composed such that readers can readily find, understand and use relevant information. The sponsor should ensure that the terms and documentation of a conduit and the ABCP programme it issues are reviewed and verified by an appropriately experienced and independent legal practice prior to publication and in the case of material changes. The sponsor should notify investors in a timely fashion of any changes in such documents that have an impact on the structural risks in the ABCP programme.	(-)

Additional requirement for capital purposes [New]

To understand fully the terms, conditions and legal information prior to including a new transaction in the ABCP conduit and ensure that this information is set out in a clear and effective manner, the sponsor should ensure that it receives sufficient initial offering documentation for each transaction and that it is provided within a reasonably sufficient period of time prior to the inclusion in the conduit, with full disclosure of the legal information and comprehensive risk factors needed to supply liquidity and/or credit support facilities. The initial offering document for each transaction should be composed such that readers can readily find, understand and use relevant information.

The sponsor should also ensure that the terms and documentation of a transaction are reviewed and verified by an appropriately experienced and independent legal practice prior to the acquisition of the transaction and in the case of material changes.

Rationale

In addition to disclosure to end-investors, each transaction must also have sufficient disclosure and legal review to protect the conduit and provide the sponsor with information on the risks they are supporting.

13. Alignment of interest	
Relevant to the conduit level	Relevant to the transaction level
<p>In order to align the interests of those responsible for the underwriting of the credit claims and receivables with those of investors, a material net economic exposure should be retained by the sellers or the sponsor at transaction level, or by the sponsor at conduit level.</p> <p>Ultimately, the sponsor should disclose to investors how and where a material net economic exposure is retained by the seller at transaction level or by the sponsor at transaction or conduit level, and demonstrate the existence of a financial incentive in the performance of the assets.</p>	(-)
14. Cap on maturity transformation	
Relevant to the conduit level	Relevant to the transaction level
<p>Maturity transformation undertaken through ABCP conduits should be limited. The sponsor should verify and disclose to investors that the weighted average maturity of all the transactions financed under the ABCP conduit is [X]²⁹ year(s) or less.</p> <p>This number should be calculated as the higher of:</p> <ol style="list-style-type: none"> 1. the exposure-weighted average residual maturity of the conduit's contractual obligations resulting from the beneficial interests held or the assets purchased by the conduit in order to finance the transactions of the conduit;³⁰ and 2. the exposure-weighted average maturity of the underlying assets financed by the conduit calculated by: <ol style="list-style-type: none"> (a) taking an exposure-weighted average of residual maturities of the underlying assets in each pool; and then (b) taking an exposure-weighted average across the conduit of the pool-level averages as calculated in Step 2a. <p>Where it is impractical for the sponsor to calculate the pool-level weighted average maturity in Step 2a (because</p>	(-)

²⁹ BCBS-IOSCO are considering that, in light of the maturity definition proposed, "X" should be set at a value between one and three years.

³⁰ Including purchased securitisation notes, loans, asset-backed deposits and purchased credit claims and/or receivables held directly on the conduit's balance sheet

the pool is very granular or dynamic), the sponsor may instead use the maximum maturity of the assets in the pool as defined in the legal agreements governing the pool (eg investment guidelines).	
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C Fiduciary and servicer risk

15. Financial institution	
Relevant to the conduit level	Relevant to the transaction level
The sponsor should be a financial institution that is licensed to take deposits from the public, and is subject to appropriate prudential standards and levels of supervision. ³¹	(-)

16. Fiduciary and contractual responsibilities	
Relevant to the conduit level	Relevant to the transaction level
<p>The sponsor should make representations and warranties to investors that it has undertaken adequate steps to ensure that:</p> <ul style="list-style-type: none"> the various criteria defined at the level of each underlying transaction are met, and explain how; the seller's policies, procedures and risk management controls are well documented, adhere to good market practices and comply with the relevant regulatory regimes; and that strong systems and reporting capabilities are in place to ensure appropriate origination and servicing of the underlying assets. <p>The sponsor should be able to demonstrate expertise in providing liquidity and credit support in the context of ABCP conduits, and that it is supported by a management team with extensive industry experience.</p> <p>The sponsor should at all times act in accordance with reasonable and prudent standards. Policies, procedures and risk management controls of the sponsor should be well documented, and the sponsor should adhere to good market practices and the relevant regulatory regime. There should be strong systems and reporting capabilities in place at the sponsor.</p> <p>The party or parties with fiduciary responsibility should act on a timely basis in the best interests of the investors.</p>	<p>The sponsor should ensure that the seller(s) and all other parties responsible for originating and servicing the asset pools:</p> <ul style="list-style-type: none"> act at all times in accordance with reasonable and prudent standards and have well documented procedures and policies in place to ensure appropriate servicing of the underlying assets; have expertise in the origination of assets that are the same as or similar to those in the asset pools; have extensive servicing and workout expertise, thorough legal and collateral knowledge and a proven track record in loss mitigation for the same or similar assets; have expertise in the servicing of the underlying credit claims or receivables; and, are supported by a management team with extensive industry experience.

Additional guidance for capital purposes

In assessing whether "strong systems and reporting capabilities are in place", well documented policies, procedures and risk management controls, as well as strong systems and reporting capabilities, may be substantiated by a third-party review for sellers that are non-banking entities.

³¹ National supervisors should decide what prudential standards and level of supervision are appropriate for their domestic banks. For internationally active banks, prudential standards and the level of supervision should be in accordance with the Basel framework. Subject to the determination of the national supervisor, in addition to risk-based regulatory capital this may include liquidity, leverage capital requirements and other requirements, such as related to the governance of banks.

Rationale

Banks are subject to an ongoing assessment of their internal reporting systems and capabilities, as outlined in Criterion 7 of Principle 15 of the Basel Core Principles for Effective Banking Supervision. To ensure an assessment that is comparable with that of banking entities, other non-bank originating entities not subject to the Basel Core Principles should provide proof of an independent assessment of their reporting capabilities. Evidence of a suitable third-party review can be based on the supervisory regime applicable to this entity (if such supervision covers internal reporting systems).

17. Transparency to investors	
Relevant to the conduit level	Relevant to the transaction level
<p>To help provide full transparency to investors and to assist them in the conduct of their due diligence, the sponsor should ensure that the contractual obligations, duties and responsibilities of all key parties to the conduit, both those with a fiduciary responsibility and the ancillary service providers, should be clearly defined in both the initial offering and any relevant underlying documentation³² of the conduit and the ABCP programme it issues.</p> <p>The sponsor should also make representations and warranties to investors that the duties and responsibilities of all key parties are clearly defined at transaction level.</p> <p>The sponsor should ensure that the initial offering documentation disclosed to investors contains adequate provisions regarding the replacement of key counterparties of the conduit (eg bank account providers and derivatives counterparties) in the event of failure, non-performance, insolvency or other deterioration of creditworthiness of any such counterparty.</p> <p>The sponsor should also make representations and warranties to investors that provisions regarding the replacement of key counterparties at transaction level are well documented.</p> <p>The sponsor should provide sufficient information to investors about the liquidity facility (facilities) and credit support provided to the ABCP programme for them to understand its functioning and key risks.</p>	<p>The sponsor should conduct due diligence with respect to the transactions on behalf of the investors.</p> <p>To assist the sponsor in meeting its fiduciary and contractual obligations, the duties and responsibilities of all key parties to all transactions (both those with a fiduciary responsibility and the ancillary service providers) should be clearly defined in all documentation underlying these transactions and the information made available to the sponsor.</p> <p>The sponsor should ensure that provisions regarding the replacement of key counterparties (in particular, the servicer or liquidity provider) in the event of failure, non-performance, insolvency or other deterioration of any such counterparty for the transactions are well documented (in the documentation of these individual transactions).</p> <p>To enhance transparency and visibility over all receipts, payments and ledger entries at all times, the sponsor should ensure that for all transactions the performance reports include all of the following: the transactions' income and disbursements, such as scheduled principal, redemption principal, scheduled interest, prepaid principal, past-due interest and fees and charges, delinquent, defaulted, restructured and diluted amounts, as well as accurate accounting for amounts attributable to principal and interest deficiency ledgers.</p>

D. Additional criteria for capital purposes

18. Credit risk of underlying exposures	
Relevant to the conduit level	Relevant to the transaction level
	<p>At the date of acquisition of the assets, the underlying exposures have to meet the conditions under the Standardised Approach for credit risk and, after account is taken of any eligible credit risk mitigation, be assigned a risk weight equal to or smaller than:</p> <ul style="list-style-type: none"> • [40%] on a value-weighted average exposure basis for the portfolio where the exposures are loans

³² "Underlying documentation" does not refer to the documentation of the underlying transactions.

	<p>secured by residential mortgages or fully guaranteed residential loans;</p> <ul style="list-style-type: none"> • [50%] on an individual exposure basis where the exposure is a loan secured by a commercial mortgage; • [75%] on an individual exposure basis where the exposure is a retail exposure; or • [100%] on an individual exposure basis for any other exposure.
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Rationale

The Committee was concerned that inconsistent underwriting practices across jurisdictions could result in different risk characteristics within a single asset class. A criterion based on regulatory risk weights under the Standardised Approach for credit risk has the merit of using globally consistent regulatory risk measures. It also provides the benefit of applying a filter to ensure that higher-risk underlying exposures are not granted an alternative capital treatment as STC-compliant transactions. Careful consideration is needed of whether the risk-weight requirement should be applied on individual exposures or on a portfolio-weighted average basis.

It should also be noted that the draft risk weights included are based on the current Standardised Approach for credit risk. The exact risk-weight cutoffs to be used will need to be revisited once the revisions to the Standardised Approach for credit risk are finalised.

19. Granularity of the pool	
Relevant to the conduit level	Relevant to the transaction level
At the date of acquisition of any assets securitised by one of the conduits' transactions, the aggregated value of all exposures to a single obligor at that date shall not exceed 1% ³³ of the aggregated outstanding exposure value of all exposures in the programme.	

Rationale

The Committee proposes providing a concrete definition of granularity to help ensure that granular asset portfolios would be at a level where concentration risk is sufficiently mitigated.

³³ In jurisdictions with structurally concentrated corporate loan markets, subject to ex ante supervisory approval and only for corporate exposures, the applicable maximum concentration threshold could be increased to 2% if the sellers or sponsor retain subordinated tranche(s) that form loss-absorbing credit enhancement, as defined in paragraph 55 of the December 2014 framework, and which cover at least the first 10% of losses. These tranche(s) retained by the sellers or sponsor shall not be eligible for the STC capital treatment.

Annex 2

Revisions to the standard text added to the July 2016 securitisation framework on treatment of STC securitisations

[Note: The text below describes the treatment under the "baseline approach" and may be amended based on the outcome of Question 2 above.]

1. Scope and identification of STC securitisations for the purposes of alternative capital treatment

109. Only ~~non-ABCP~~, traditional securitisations, ~~exposures to ABCP conduits and exposures to transactions financed by ABCP conduits fall are~~ within the scope of the STC framework. ~~Non-ABCP~~, True sale securitisations that are STC-compliant will be subject to capital requirements as determined by paragraphs [115 to 118].

110. For regulatory capital purposes, ~~the following a securitisation transaction falling within the scope of this section~~ will be considered STC-compliant: ~~provided only that it meets all the criteria in Annex [2] of this framework.~~

- Exposures to ABCP conduits and transactions financed by ABCP conduits, where the conduit and all transactions financed by it meet the criteria in *[Annex 1 of this consultative document, including the additional guidance and requirements for regulatory capital purposes]*.
- Exposures to non-ABCP, traditional securitisations that meet the criteria in Annex 2.