FRENCH BANKING FEDERATION RESPONSE TO THE BCBS 269 CONSULTATIVE DOCUMENT RELATIVE TO THE REVISION OF THE SECURITIZATION FRAMEWORK

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 appreciates the opportunity to comment on this second set of proposals and welcomes the work accomplished by the Basel Committee in this proposed revised framework for securitization exposures. In particular, we support the development of a simple and risk-sensitive Internal Ratings-Based Approach (IRBA) at the top of the hierarchy, as well as the preservation of the Internal Assessments Approach (IAA).

However, we believe that some issues need further consideration, such as the re-calibration of the underlying models particularly as it pertains to traditionally structured (i.e. minimum risk transfer) AAA-rated senior tranches with high-quality underlying assets, and imposition of higher floor levels, compared with the existing framework, regardless of the quality of the assets and structure. These excessive capital requirements will discourage banks from investing in or otherwise acquiring exposure to securitization transactions. Together with the many other recent, pending and proposed regulatory measures affecting securitization, they are likely to impede the redevelopment of this secure form of finance which many policy makers including the President of the ECB are willing to promote.

We therefore recommend specific changes to some of the modeling assumptions and parameters used in formulating and calibrating the approaches. In particular, we recommend the following:

1. A simple and transparent recalibration of the SSFA to achieve a capital charge that is commensurate with the risk of the underlying assets;
2. The introduction of differentiated floors in relation to the quality of underlying assets;
3. To that effect, engage joint work between industry and policy makers to come-up with internationally common and consistent definition of high quality securitizations not backed by external ratings;
4. An adjustment of the definition of Tranche Maturity taking into account more precisely the maximum maturity of securitized assets for static and revolving transactions;
5. A definition of attachment and detachment points that better reflect the credit loss allocation.

These changes, if adopted, will serve the goals of the revisions by helping to create a simpler, more transparent framework, while better aligning securitization risk weights with empirical data, competing products and underlying risks.

I. Introduction: does the capital treatment of securitization positions deserve a significant tightening?

High-level assessment of the BCBS 269 proposals and their likely consequences

We believe that the new proposals issued by the Committee in BCBS 269, while clearly improved compared to their former version, remain inappropriate as far as the calibration levels envisaged for securitization positions are concerned. The Committee is proposing capital requirements that are:

(1) Substantially increased compared with the present situation,

(2) Often many times in excess of similarly rated assets,

(3) Significantly higher than those of the securitized assets (double, when p factor is 1), and

(4) Not justified by empirical evidence on historical losses on most assets.

This will very effectively discourage the use of securitization by banks to finance clients, and monetize or de-risk their own portfolios: the competitiveness of securitization vs other financing tools, such as unsecured funding, secured funding, covered bonds, factoring, ultimately depends on the respective regulatory treatments imposed on the holders of the assets, capital being one of the most important. The use of this tool will be severely handicapped despite its many advantages tailored to specific situations.

A useful economic tool

Securitization is first and foremost a tool designed to enable investors/lenders to fund portfolios of receivables (trade receivables, loans...) in a legally highly-secure fashion. But by far most of the volumes, and the object of our main focus here, are concentrated on senior positions structured to leave the seller/borrower with the quasi-totality of the foreseeable risk of the portfolio it has originated. Securitization is primarily the technique enabling investors/lenders to provide precisely-crafted financing of that portfolio, while avoiding most of the risk both on the portfolio itself and the seller.

Securitization of clients' receivables portfolios, as can be found for example in bank-sponsored conduits, most often procures these clients a very attractive source of working capital precisely tailored to their level of activity. Structured to effectively remove the seller's risk, this type of funding presents the great advantage for both the banks and the borrowers to avoid tapping the limited market appetite for the borrower's general corporate risk. This is a key consideration for more highly-levered companies or companies in difficult situations. Lenders also achieve well-diversified and -secured exposures.

While such structures could transfer more portfolio risk to the banks/lenders (e.g. increasing the percentage of funding by lowering the attachment point), the bulk of the supply and demand resides in the highest-possible rating tranches. The tool works at its best if it can be provided cheaply by the lender. Doubling (or more) minimum capital will put in danger the economics of many of these conservatively-structured financings.

For a bank, securitizing some of its portfolios of loans could either be used as a risk transfer tool or as a funding tool. As a risk transfer tool, synthetic securitization can be an efficient way for bank to seek credit protection at a lower price than the CDS market whilst targeting investors willing to be on a specific risk / reward bucket. However, the proposed framework, by more than doubling the RWA on the retained senior tranche, will greatly penalize this use of securitization, leading to potentially inefficient risk management. When used as a funding tool, securitization allows a bank to tap the market and obtain funding precisely structured to its assets: maturities, amortization schedule (including pre-payment risk), often also interest basis. Such funding can be raised specifically for subsidiaries, avoiding the need for parent support or central group funding. Comparing the respective advantages and drawbacks of securitization and covered bonds when envisaged as potential sources of funds by a bank's treasury shows why securitization is a useful tool.

A bank issuing a securitization on its assets for funding purposes will not directly be affected by the new proposed weightings: lacking any significant risk transfer, the transaction will not modify the regulatory treatment of the securitized portfolio. However, other banks represent the main investor base for the senior tranche: 40% of the total is a typical level in recent ABS transactions; many bank conduits also fund other financial institutions' portfolios (auto loans, credit cards...). If such investors are themselves hit by much higher capital requirements (and this trend is not limited to banks), they will switch to other investment products and/or considerably increase the pricing they require, significantly shifting the economics of bank funding towards other products, such as covered bonds.

We offer these examples as reminders that securitization is a useful economic tool and most exposures concentrated towards the higher-ratings, most conservative and fairly simple structures. Focusing on these types of exposures would in our view allow a more balanced view of the actual levels of risk involved and the appropriate levels of capital, while the volatile thin tranches and aggressive structures associated with the financial crisis are mostly irrelevant today.

A constant flow of new regulations

Securitization remains tarnished today by its association with the real estate credit bubble in the US prior to the 2007 financial crisis.

Effective rules have been put in place in terms of retention by originators ensuring a full alignment of interests, disclosures, rating agency supervision, increase in regulatory capital (notably for banks' trading books), significant risk transfer, and many other aspects of securitization.

Despite the very comprehensive nature of these new safeguards, securitization is still the incidental target of a continuous stream of new financial legislation: specific anti-securitization features were included for example in the EU's new Solvency 2 prudential framework for insurers and in proposed regulations on monetary funds and on structural separation of banks. These latest efforts seem to reflect nothing more than a general view that securitization is bad in itself. It is as if none of the reforms had been implemented, and all actors in the market were still confronted to, or promoting the behaviours that were widespread in 2007.

What is the current reality of the securitization market?

All available statistics point to a considerable reduction in volumes compared with the pre-crisis years, for most or all structures and categories of underlying assets, and particularly evident in Europe (despite a much better credit-performance record on average during the crisis than the US). Banks have considerably reduced both their overall exposures to securitization and their use of this tool for funding purposes.

It seems today that this continuous wave of regulation is not only becoming quite disproportionate given the state of the securitization market and the numerous safeguards that have been already put in place, but also an important source of instability for the market. As a consequence, regulation risk and the prospect of ever-increasing regulatory constraints have become one of the main reasons behind the market's continuing decrease in size (together with competing sources of liquidity provided by central banks).

Context of the Committee's new BCBS 269 consultative document

We understand that the existing weightings for securitization positions have been introduced 7 years ago and can usefully be re-assessed in the light of the credit performance of securitizations during the financial crisis. We fear however that the assessment of that performance is biased by (1) a focus on the exceptionally high level of losses on certain complex products and pre-crisis vintages (2005-2007) of US RMBS and (2) a lack of differentiation between securitization model risk and portfolio performance.

The securitization has been comprehensively addressed by implementing numerous new regulatory measures, which need to be focused on the future and not systematically on the past.

Moreover, securitization is not directly responsible for the massive losses experienced on the portfolios of assets: it is only a tool to apportion the risk of these portfolios between different tranches. Losses on portfolios of 2005-2007 US mortgages happened regardless of whether these portfolios were actually securitized or not. The risk remains for the future that the credit quality of portfolios can be overestimated, leading to higher than expected losses for their holders, whether they are originators or securitization investors. This risk is best addressed at the level of the portfolio analysis itself, not by adding punitive regulatory weightings on securitization.

We believe it is not appropriate to have a calibration heavily influenced by outliers (US subprime), when the quality of the underlying portfolio, the familiarity of the investor with the portfolio, the simplicity and seniority of the structure should be by far the main factors, and the risks specific to securitization (dilution, model risk due to correlation) properly assessed for themselves.

II. **Securitization recommendations**

1. Summary of recommendations

- Recalibration of the IRBA and SA approaches. Support the industry proposal for the recalibration of both SSFA for IRBA and SA approaches based on the Conservative Monotone Approach (CMA).
- Apply distinct p values by asset classes;
- Apply distinct and lower floor values for High Quality Securitizations;
- Adjustment of the definition of Tranche Maturity for static and revolving transactions;
- High Quality Securitizations would need to be defined as a function of pool risk, simplicity of structure (plain vanilla) and level of credit enhancement.

2. Discussion of comments

2.1. **Recalibration of the approaches by improving the risk sensitiveness of the framework while enhancing its simplicity and transparency.**

The French Banking Federation' members consider that the proposed increase in capital requirements are not justified and put a significant threat on the revival of the securitization as a useful funding tool[1]:

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[1] The sample of transactions used to performed calculations for the graphs is presented in the Annex1

- **The capital levels remain punitive, especially for retail assets:**

We have used the same sample of 10 transactions as last year for the answer to BCBS 236 to test the impact of BCBS 269. The sample includes typical transactions across retail and corporate pools: French auto ABS, UK prime RMBS, 2 Benelux RMBS, US Subprime RMBS, French SME, Italian SME, CLO of high grade corporates, CLO of US leveraged pre crisis and CLO of US leveraged loans post crisis. We find that, taking caps and floors into account, the sum of capital requirements on the tranches is on average around two times the capital requirement on the pool. This level of capital surcharge scaling factor, which can be compared to 1+p (p in SSFA), remains elevated. It is particularly punitive for retail pools for which the capital surcharge scaling factor is 2.6 under the SSFA KIRB.
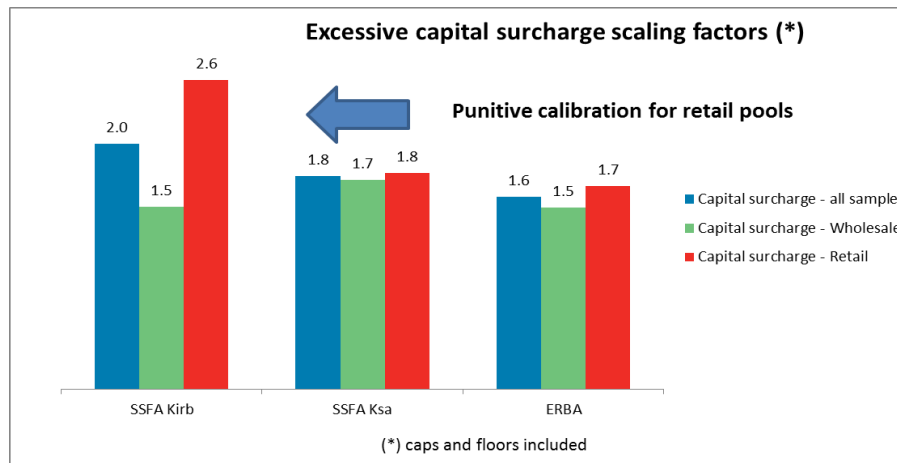
- **Given the excessive conservative layer for model risk embedded into the calibration, the capital levels lead to cap being hit for a significant number of cases**

We find that in many cases the caps are hit. This is explained by the overly punitive capital surcharges used to calibrate the SSFA formula (both Kirb and SA) and for the calibration of the ERBA formula. For instance, under the SSFA SA formula, 30% of the deals in our sample hit the cap for the senior tranche RW and 50% of the junior tranches are hitting the overall cap.
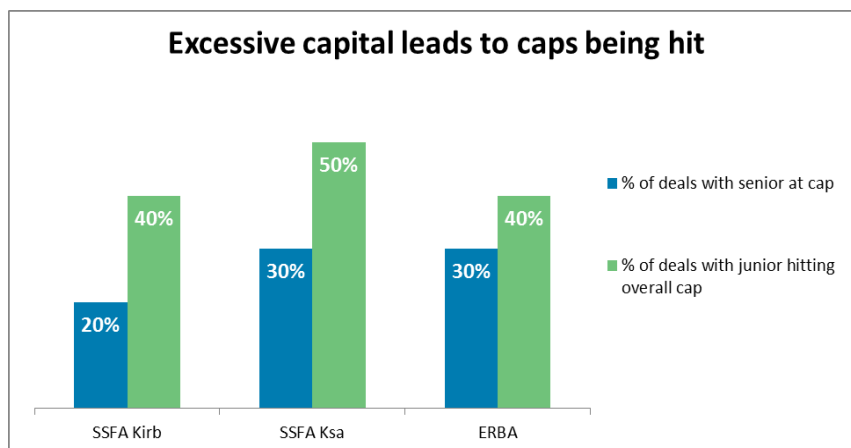
- **Due to its limited risk sensitivity, the proposed calibration will not apply to a large part of low risk securitization transactions**

For the vast majority of prime European RMBS, the senior tranche attaches in a range from around 8% to 25% and the range of IRBA approved PD is between 0.3% and 3%. We show in the following graph that for these ranges of senior attachment points and IRBA approved PD, the SSFA KIRB will not apply as the senior tranche will be at the 15% RW floor.
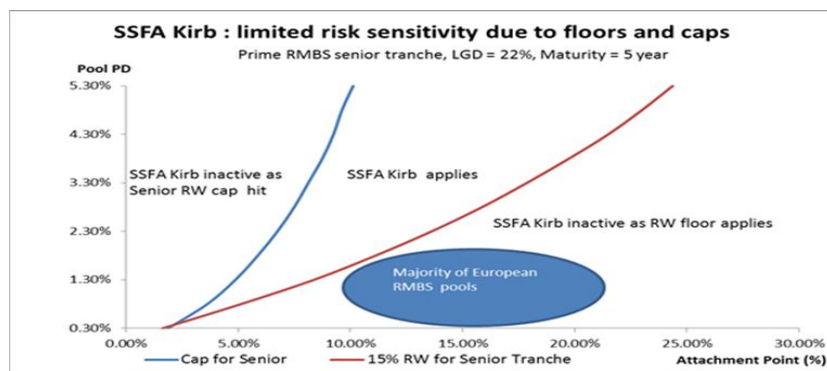
An in-depth calibration analysis and the limits of using a one-size-fits-all SSFA employed by the BCBS is presented in the document "Calibration of the Simplified Supervisory Formula Approach" (G. Duponcheele, W.Perraudin, D. Totouom-Tangho, March 2014).

In a nutshell, the SSFA formula proposed by BCBS has three fundamental drawbacks which explain to a large extent the limited risk sensitivity and the arbitrage opportunities that its application would create:

- Oversimplification, due to reliance on a single unique *p* parameter, regardless of asset type and maturity, and risk profiles,

- The *p* value of 1.0 for the SA SSFA is very high: the p value is not justified for corporate exposures (where p is around 0.3 for short term corporate exposures and 0.6 for long term corporate exposures), and not correctly calibrated for retail exposures,

- The 1250% risk weight below K IRB or SA remains a structural feature of the securitization regulatory framework since Basel II, however this 1250% threshold implies substantial regulatory arbitrage.

The SSFA calibration is based on a modified MSFA formula as the SSFA is not a risk model. To reach the BCBS' stated objectives, the FBF supports the recalibration of SA SSFA and IRBA SSFA based on a simple, transparent risk model, named Conservative Monotone Approach[2].

The Conservative Monotone Approach is a variant of the Arbitrage Free Approach (AFA) explained in a series of technical papers.[3]

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[2] Calibration of the Conservative Monotone Approach and Regulatory capital for Securitizations, March 2014
[3] Please refer to the website www.riskcontrollimited.com

The AFA is a rigorous, closed-form formula for securitization tranche capital. Entirely, consistent with the Internal Ratings Based capital charges under Basel II for loan pools held on balance sheet. The AFA is arbitrage free in the sense that total capital for all the tranches of a securitization equals the Basel II IRBA capital for the underlying pool.

The CMA departs from capital neutrality in a simple, transparent way in that it includes, within the notion of capital, tranche Expected Loss (EL). The inclusion of EL implies that capital is monotonic in the seniority of the tranche, a desirable feature in the view of regulators. By restricting non-neutrality to an EL component (rather than introducing non-neutrality, for example, through inconsistent assumptions as was done in BCBS 236), the CMA preserves transparency and facilitates sensible, conservative calibration.

The CMA calibration approach is based on representative transactions in different regulatory asset classes. Representative asset-class-specific values are employed for PDs, LGDs, maturities and conditional asset correlations, providing an appropriate risk sensitive capital framework applicable by investor as well as originator banks. The CMA calibration approach has the additional important advantage that it consistently deals with IRBA and SA inputs and hence deals appropriately with mixed pools.

On the calibration of the Internal Ratings-Based Approach (IRBA)

The IRBA relies on a SSFA calibration whose main parameters are the IRBA Kirb (including one year expected loss) and the p value that depends linearly on several deals characteristics.

The p value used by SSFA is supposed to accomplish many roles including:

- Appropriately determining the allocation of capital across mezzanine and senior tranches,

- Determining the level of non-neutrality, i.e., the ratio of capital for all tranches of a securitization transaction to the capital a bank would hold against the underlying pool of assets.

The p value alone fails to adequately accomplish these objectives. The French banking industry supports the slight modification of the SSFA (Modified SSFA or MSSFA) proposed by the above mentioned academic study, and based on two regulatory parameters, p_1 which is a capital arbitrage-reducing factor for mezzanines, and p_2 which affects the tail of the capital distribution. While the capital surcharge in the SSFA equals p, in the MSSFA s (p_2- p_1). The MSSFA calibration is very close to the SSFA calibration while reducing the arbitrage possibilities. For more details, see response to question 2.

In addition to the aforementioned drawbacks, the operational requirements for IRBA application will limit the possibility for investors to apply it. Consequently, for the rated position held by investors the ERBA will apply, otherwise the SA will apply. **Therefore, it becomes of an utmost importance that ERBA and SA' calibrations allow for a proper differentiation of assets, transactions and underlying risks.**

On the calibration of the External Ratings-Based Approach (ERBA)

The ERBA needs to be recalibrated in line with the modifications we support for the recalibration of the IRBA and SA approaches.

The risk weight values for investment grade tranches appears to be still very high (the RW are multiplied 3.5 to 6 times compared to current rules). The European banks investing in third party deals are likely to use the ERBA while the approach unduly penalizes high-quality securitizations (for 5 years senior AAA rated tranche: 25% RW versus 7% in the current rules). For instance, a 25% RW is far too conservative for highly rated ABS or ABCP transactions and not in line with the underlying risk.

We urge the BCBS to adequately recalibrate ERBA approach.

On the calibration of the Standardized Approach (SA)

The calibration of the SA seems to capture hypothetical outliers while it has been designed to be used by a significant number of securitization market 'participants and for a significant number of different assets and transactions. The SA's calibration should be revisited to properly address the high quality securitizations or low risk assets.

The FBF supports a more differentiated SA-style MSSFA, using more appropriate p values (p1 and p2) for different fully observable sub-sectors of the securitization market based on regulatory asset classes. For the calibration of the SA-SSFA we propose to use the same approach as for the IRBA, i.e. the MSSFA. This would provide consistency within the regulatory framework and consistent treatment of mixed pools.

For more details, see response to question 2.

Finally, it is worth repeating that the above-mentioned recalibrations should respect the overarching principle that advanced methods should lead to lower risk weights than standardized ones to keep banks' incentives to develop risk-sensitive approaches that are embedded in day-to-day risk management.

2.2 Differentiated floors in relation of the underlying quality (see also Annex 2)

We note that the Basel Committee has revised its floor proposal which is now set at 15%. While this is an improvement versus the former version of the consultative paper, it remains way too punitive and negatively affecting the securitization market for the best assets classes and high quality assets.

As mentioned, the uncertainty of risk models for the underlying asset pools should be addressed at the level of the asset pools themselves, not at the securitization level and does not justify a floor. We agree that the multi-layering of models which may not be consistent or over simplified may bring uncertainty in the estimate of unexpected losses at the tail of the loss distribution (i.e. senior tranches) and thereby may justify a floor.

Basically, we think that a unique floor of 15% RWA is not appropriate for all securitized assets. For example 15% cannot be appropriate for an hypothetical tranche with high attachment point (such as 80%) and a low risk weight on the underlying pool (for example 20%). In general, a unique 15 % floor introduces a buffer that is too punitive for the senior tranches of the high quality – low risk weight assets, and less so for the other assets.

For entire asset classes, there has been so far no loss at all on the senior tranches, including during the recent crisis (e.g. good quality European RMBS, consumer loans, trade receivables, etc.). This is explained by the protection of the senior tranches which has been resilient even in the downturn.

With the recent developments of models such as the CMA, which provide a more comprehensive and consistent approach to capital for securitized portfolio, we believe that the model risk has been decreased, especially with additional layers conservatism included in these models.

Results of stress scenarios changing inputs and parameters of these models show that in some asset classes, the marginal VaR (MVAR) would still not reach the proposed 15% floor for some of the asset classes (good quality RMBS, SME, consumer loans, trade receivables in our sample). Please see Annex 2 for more details.

The structures which are the most robust follow a pattern of low risk on the underlying asset (low risk weight) and high protection of the senior tranche (high attachment point, distance between attachment point and KIRB /KSA).

Our proposal: we therefore propose the Committee to consider a floor structure which better discriminates between securitized assets on the basis of observable historical data and objective criteria:

- **For low risk assets** (e.g. senior tranches of low RW RMBS, consumer loans, trade receivables,…), and when KIRB parameters are known (or when applying the approach at the top of the hierarchy), **the floor would be 7 % and also for self-originated transactions; objective criteria to define "low risk assets" should be defined jointly by the industry and the regulators to ensure a common and consistent implementation of the rules**
- **For low risk assets when only KSA is known, the floor would be 10%.**
- **For all other assets (higher historical default rates such as CMBS, subprime RMBS, as well as for assets that have only been recently securitized), the floor would be 15%.**

Specific treatment for self-originated and sponsored securitization

Calibration of the SSFA and the floor should depend of the role of the bank in the securitization. Specifically in a securitization (both cash and synthetic) **where the bank has either originated the assets or acted as sponsor to the transaction by setting it up and defining the origination criterion**, the position held by the bank should be seen as a retained tranche rather than an investment and **should bear a lower capital charge.**

For a self-originated securitization, the objective should be to get close to strict capital neutrality (securitization should generate little additional capital charge) in order to be fully consistent with the risk position of the bank. The bank's initial position by originating the assets is equivalent to holding all the tranches.

By buying protection on one or more tranches the bank reduces its credit risk, and is in a better position than if there was no securitization. The bank's position in a self-originated senior tranche being the result of the sale of other tranches in the capital structure rather than the result of an investment decision in one specific tranche, a breach of the capital neutrality principle for self-originated transactions, instead of being an incentive "not to invest" will become an incentive "to sell" all the tranches (and especially the senior tranches).

For sponsored transactions, the bank is setting up the securitization transaction together with a third party or related party originator and is defining precisely the scope of this origination, conducting thorough due-diligence and therefore is much more able to asses precisely the risks than when being a mere investor in a third-party sponsored transaction. This is the case for example of trade receivable financing transactions, rental car fleet securitizations, leveraged loans warehousing lines, credit card and auto-loan warehousing lines etc.

We recognize that the proposal above does not achieve the committee's objective of "increasing the risk-weight of highly-rated exposures". **We believe however that this objective should not apply to self-originated and sponsored transactions**. During the crisis, the only highly-rated exposures that performed badly were exposures held by investors (not originators) on risky assets. There is no reason to increase the risk-weight on quality assets whose securitization positions performed well. The latest proposal would massively increase the capital charge of senior tranches of quality pools, both because of the 15% floor and because of the high values of the supervisory parameter p.

The committee justifies the floor by (i) "incorrect model specifications" and (ii) "error from banks' estimates of inputs to capital formulas" i.e. error on the pool's risk weight. The floor should be unchanged as the rationale for its existence for originating banks is questionable: (i) the model risk is already captured by the p parameter (capital surcharge) and (ii) any error on the pool's risk weight where the bank has the assets on its balance sheet is not aggravated by the securitization.

An "error from banks' estimates of inputs to capital formulas" is potentially a problem on any asset pool prior to securitization and is not exacerbated by the purchase of protection; a securitization does not make it worse and should not be penalized with an additional capital charge.

We view the sensitivity of the risk weight of the senior tranche to the risk-weight of the pool as a potential issue only if the senior tranche is sold to a third party. While a risk-weight floor reduces the sensitivity to the risk weight of the pool, it also incentivizes the originating or sponsor bank to sell the senior tranche or not to securitize at all. In both cases, this is not compatible with the Committee's objective of financial stability:

- Risk transfer to third parties on senior tranches potentially creates a dissemination of systemic risk;
- Preventing the bank from using securitization to buy protection can lead to inefficient risk management.

Our Proposal: to keep the risk-weight floor at 7% when using the IRBA for securitization positions on assets originated or sponsored by the bank.

There would be a quantitative test to complement the categorization of the asset (such as level of KIRB and Attachment Point compared to KIRB of KSA which may depend on asset classes).

2.3 Treatment of exposure extended to ABCP programs (see also annex 3)

Cash securitization using ABCP conduits is a simple tool for banks to provide financing for a wide range of clients and assets. Using conservatively-sized credit enhancement, ABCP programs enable banks to extend low-risk secured financing to their clients, and clients to monetize their assets rather than depend solely on their credit status to raise financing. The tranching technique used here by the securitization process enables banks to leave most foreseeable credit risk with the originator of the assets and play their traditional role of providing funding to the real economy. The quality of the credit enhancement is always dependent on a thorough analysis of the underlying assets.

In Europe, assets financed in ABCP conduits are of good quality, essentially trade and auto receivables. Securitization structures highly mitigate risks on the portfolio and on the sellers. Current regulatory capital immobilized by these transactions already seems to exceed that warranted by their level of risk. That is why we would like to express our deep concerns about the impact that the new securitization framework proposed by the Committee would have on these transactions.

Our proposals for the exposures to ABCP programs are:

1– It is important to preserve the possibility of using the Internal Assessment Approach "IAA" approach, as proposed in BCBS269

2-The IAA should at a minimum benefit from the ERBA recalibration proposed earlier. Since the IAA is an advanced method, the Committee should also consider solutions to apply to it weightings more in line with the IRBA

3- IRBA: Clear guidelines should be given to use top down approach for conduits deals

4- Any floor should be more risk sensitive and adapted to the asset type. The current floor of 7% already seems more than adequate for ABCP portfolios.

1- It must be clear that the current conditions to apply the IAA are not changed by the revised framework as the IAA is a proven, operationally-workable solution for eligible (and approved) banks. ABCP conduit sponsor banks have found the IAA to be a useful, appropriate and risk-sensitive method of calculating their capital requirements for such transactions. The IAA, like the SFA or IRBA, also requires a great deal of detailed information and analysis and is subject to a high level of regulatory supervision.

It would be useful to clarify that, as is the case today, a bank is not required to have a certified IRB model for the predominant share of the underlying portfolio in order to use the IAA, but is only to consult with its national supervisor on the scope of application of the IAA.

2- Hierarchy and calibration : Considering that the IAA is more sophisticated and incorporates more risk drivers (and many structural and contractual features in a securitization transaction) than the IRBA, which is based on a simple formula, placing the IAA in second rank in the hierarchy seems counterintuitive and incents banks to be less refined in risk evaluations. It is also regrettable in our view that, through its ultimate tie to a rating level, which is not central to the methodology, the IAA seems to be penalized by weightings designed for investors with limited information on the portfolio.

We would therefore recommend to the Committee to consider linking the IAA weightings more closely to the recalibrated IRBA: this could be achieved either through a specific IAA table different from the general ERBA table, or a haircut applied to the ERBA weightings or even by developing a methodology to tie IAA outputs to the IRBA methodology instead of a rating equivalent.

Furthermore, we would also recommend considering an extension of the IAA methodology to sponsored securitization transactions financed directly on IAA-approved banks' balance sheets, instead of restricting its use to ABCP-funded vehicles.

3- Using the IRBA for ABCP conduits: We understand the regulators' drive towards simplicity and comparability in terms of operational setup.

A general alignment of practices among market participants towards the IRBA appears the path to achieve: at this stage, several aspects of the future application of the new IRBA need to be clarified. We would in particular appreciate more clarity that banks applying or seeking to apply the IRBA approach to ABCP transactions will be able to do so based on specific top-down information related to these portfolios, without the need to generalize IRBA to all similar assets on their books.

4- Floor on ABCP transactions : The risk taken by the bank via the liquidity line given to the ABCP conduit is low, mainly because:
   o Assets financed in ABCP conduits are typically asset classes such as trade and auto receivables, which are by nature low-risk;

- o Credit enhancements are conservatively sized to reduce the risk for the bank and, for trade receivables deals, this credit enhancement is dynamic, which ensures the bank keeps a continuously controlled low level of risk;
- o Only eligible assets are financed;
- o Transactions are structured with triggers, with for some of them the possibility to amortize the deal if a trigger is breached;
- o The EAD is equal to the liquidity line amount which is sized at the level of the purchase limit. This is usually conservative with respect to the amount effectively at risk, i.e. the used amount of the program.

We think that the floor should be kept at 7% for ABCP conduits transactions.

2.4 Definition of the Tranche Maturity

In the current proposal either the final legal maturity or the weighted average contractual cash flows of the tranche have to be used to determine the Tranche Maturity. However, it is very unusual for a securitization tranche to have unconditional contractually fixed payments (i.e. fixed amounts on fixed dates). Therefore, the second alternative is hardly applicable and almost always the final legal maturity, which is only very vaguely connected to the actual maturity, would have to be used. Given the high impact of maturity in the proposed calibration the current definition would lead to a significant overestimation of risk weights for many transactions. Therefore, consistent with the Basel Committee's proposal to use the underlying pool's parameters to assess the risk of a securitization exposure, **we propose to rely on the contractual maturity of the underlying portfolio:**

Tranche Maturity of static pool transactions

While contractually fixed tranche payments are very rare, in static pool transactions the cash flows of the underlying portfolio are often contractually fixed and available during the whole life of the transaction. For such transactions we propose to use the contractual maturity profile of the pool and mapping those contractual cash flows to the securitization tranches in order of priority, and, in the case of time-tranched securities, for each tranche, using the most conservative assumption as to order of payment. This approach would allow using a definition which is close to the actual maturity while still being conservative and free of any model risk.

Furthermore, in the case where the full amortization profile of the pool is not available a senior maturity cap could be used. It would be similar to the risk-weightcap currently proposed for senior securitization exposures, and would limit the maturity of the most senior tranche to the weighted average maturity of the underlying pool (which does not rely on a model). Since the senior tranche amortizes faster than the overall pool this is also a conservative approach free of assumptions.

Tranche Maturity of replenishing transactions

Similar to static pool transactions the proposed definition of Tranche Maturity for replenishing transactions would be very conservative. In the current proposal the longest contractually possible remaining maturity of any asset that might be added to the pool during the replenishment phase has to be added to the end date of the replenishment period. Understanding the uncertainties in the calculation of the Tranche Maturity in replenishing transactions, we propose to take into account contractual safeguards where existing. If for example the weighted average maturity of the replenished pool is contractually limited to a certain value, this term should be used instead of the longest maturity of any single asset. This definition would follow the idea that only contractually documented limits can be used, but the resulting value for the Tranche Maturity would be much closer to the actual maturity. Since the limit is only a maximum value, this definition still would be conservative.

In some replenishing transactions there are structural features such as dynamic credit enhancement with respect to realized pool performance, asset eligibility criteria and/or performance triggers that permit to adequately frame the debtors' loss risk the bank is exposed to, for the course of the commitment duration. In those circumstances, the replenishment period does not add to the risk horizon of the securitization exposure and should not be taken into account. Exposure to transactions that include such criteria should be treated the same as static pools, and then the maturity should be the weighted average life of the underlying pool.

Tranche Maturity of synthetic transactions

For synthetic transactions, when determining the Maturity Mismatch banks should use the actual values of the pool on a loan by loan basis, if data is available, instead of just taking the longest exposure. This would more adequately reflect the true maturity of the exposures and be aligned with the proposed framework that relies on the underlying pool risk characteristics rather than on the securitization exposure itself.

Take in account prepayment rates in addition to contractual cash-flows of the underlying portfolio

We understand that the Committee wishes to avoid opportunities for regulatory arbitrage or inconsistent treatment that could result from banks using their own assumptions and models to calculate the prepayment rate. Nevertheless, the Committee could adopt a definition of maturity that allows for calculation of maturity using specified, conservative assumptions of prepayment rates according to asset class.

2.5 Attachment point and Detachment point

The Basel framework definition for the credit enhancement (L) is the following: "L is measured (in decimal form) as the ratio of (a) the amount of all securitization exposures subordinate to the tranche in question to (b) the amount of exposures in the pool".

This definition is unsatisfactory, as the numerator of the ratio is not an assessment of how many assets are available to support the tranche (the traditional meaning of credit enhancement) but an assessment of the subordination of the tranche.

Indeed the large majority of the securitization market, across jurisdictions, legally do not allocate losses by reverse order of priority (the concept of loss waterfall), but instead allocate only asset proceeds by order of priority (the concept of cash waterfall). The concepts of credit enhancement and subordination are distinct.

As a consequence, we propose the following definition for the Attachment point and Detachment (inspired by the BCBS 269 definition, the US Rule securitization definition and the Nth-to-Default definition): "The values of A and D denote the attachment and detachment points, respectively, for the tranche.The Attachment point (A) defines the credit enhancement and (D-A) will define the thickness of a tranche.

Specifically, A is the attachment point for the tranche that contains the securitization exposure and represents the threshold at which credit losses will first be allocated to the exposure. *This input is the ratio, as expressed as a decimal value ~~between zero and one~~, of the dollar amount of the **underlying exposures** that **provide full credit enhancement** to the tranche that contains the securitization exposure held by the banking organization to the current dollar amount of all underlying exposures.*

Parameter D is the detachment point for the tranche that contains the securitization exposure and represents the threshold at which credit losses allocated to the securitization exposure would result in a total loss of principal. *This input, which is a decimal value ~~between zero and one~~, equals the value of parameter A plus the ratio of the current dollar amount of the securitization exposures that are pari passu with the banking organization's securitization exposure (that is, have equal seniority with respect to credit risk) to the current dollar amount of all underlying exposures.*

Adjustment of attachment point for write-downs

The vast majority of US RMBS tranches are designed with the capacity to extinguish the notes, maintaining a perfect match between the principal of the assets and the principal of the outstanding notes. In essence, the write-downs on the assets side are matched by writing down of the notes within the SPV. The outstanding principal of the assets is then the same as the outstanding principal of the notes. This mechanism to extinguish notes from within the SPV, is equivalent to passing credit-related write-downs (to use US accounting terminology) on a tranche outside the SPV.

However, such a mechanism to extinguish the notes is not part of the European securitization framework for cash securitization where the notes will only cease to exist following redemption or at legal final maturity. In Europe, financial institutions will pass credit-related specific provision (to use European accounting terminology) to have the same effect as the credit-related write-downs. Credit-related specific provisions in Europe have the same economic effect as the mechanism to extinguish the notes in US RMBS. But, by not distinguishing the treatment of credit-related provisions from the treatment of discounts in the new Basel proposals (2013c), an asymmetry will be created in the capital framework in favour of US securitizations.

To maintain a level playing field, one must follow the principle of economic substance. When the SPV does not generate a write-down of the tranche, the attachment point A must be adjusted by the specific provision that a bank investor has registered for credit-related issues. In effect, this is equivalent to calculating a pool EAD net of credit-related tranche provisions, and considering that the provision is a junior position within the provisioned tranche. This would replicate the US RMBS write-down mechanism.

2.6 Due diligence requirements

The subject of due diligences has been introduced in European directive CRD2 (applicable since January 2011) and had been completed with CEBS guidelines (2010) and EBA technical standards (2013). Numerous exchanges/consultation and thorough analysis have thus permitted banks to distinguish between the different roles (originator, sponsor, investor) and strategies (banking, trading), and also to introduce a progressive penalty that incentivizes bank to improve their practices.

In comparison Basel proposal seems to incriminate investors only, without differentiating trading activities, and to apply overly excessive penalty regardless of the infringement.

We recommend better alignment between Basel proposal and CRR[4] rules.

2.7 On the risk weight of the mixed pools

The requirement for applying 1250% RW to residual exposures in the underlying pool for which k(irb) cannot be calculated seems very punitive, especially for investing or sponsoring banks (ex. Warehousing transactions).

For the calibration of the SA-SSFA we propose to use the same approach as for the IRBA SSFA, i.e. the MSSFA calibrated per regulatory asset classes. This would provide consistency within the regulatory framework and consistent treatment of mixed pools. With this approach, there is no need to have a 1250% RW on standardized assets within the mixed pool.

2.8 Adjust calibration for high quality securitization exposures(QHS) and promote a regulatory definition for HQS not based on external ratings

We invite BCBS to take into considerations proposal put forward by the European Insurance and Occupational Pensions Authority (EIOPA) and label definition criteria used by Prime Collateralized Securities (PCS) for defining high quality securitizations. HQS need to be correctly addressed by the proposed calibrations and floor proposals; under the current proposals, this aspect concerns all approaches, and especially the SA and the ERBA for some asset classes (such as ABCP transactions of trade receivables).

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[4] Regulation n° 575/2013 of the European Parliament and the Council.

III. Answers to specific questions

Question 1: The Committee seeks input as to whether the proposed treatment of derivatives other than credit derivatives achieves an appropriate balance between risk sensitivity and simplicity; and welcomes respondents' views on how to improve upon the proposed treatment.

We see the proposed treatment of derivatives as a good compromise and we noted that the proposal on derivatives contracts was clarified in the QIS to use a method more consistent with capital charges on swaps.

For sake of clarity, we suggest to the committee, in its final paper to describe explicitly the treatment of derivatives (other than credit derivatives) as follows :

K_{irb} (swaps) = Positive Swap PV x $RW_{counterparty}$ x 8%

With :

- Swap PV = value provided by the swap counterparty. If the swap PV is not available, we propose to use a proxy swap PV as follows:

	Proxy PV (SPV perspective)
Float/Float currency swap	Notional x (1- FX current / FX inception)
Fixed/Float, Float/Float	Notional x WAL x (Current Rate - Initial Swap Rate)

- The data required to calculate the proxy PV can usually be accessed through different sources available to investors: offering circular, trustee, widely used valuation models such as Intex. Any cash collateral posted by the swap counterparty to the SPV needs also to be taken into account to reduce the swap PV resulting from the formula.

- $RW_{counterparty}$ = RW of the swap counterparty according to the IRBA or Standard approach

NB : If the counterparty of the swap is the institution itself, the RW should be null since the institution cannot calculate a capital requirement on itself.

In addition, we suggest to the Committee to consider the case of cash collateral received for positive value of swaps. Indeed, the Current Exposure Method as described in the Basel framework (§186) and that the Basel Committee propose to use for securitization swaps, allows institutions to deduct the collateral received from the positive swap PV.

Securitization structures often require derivative solutions to risk manage mismatch between assets and liabilities. To infer a rating, the ERBA framework looks to the rating of the most senior position that is subordinated to the swap position (so, in a typical transaction, an interest rate or currency swap that ranks pari passu with Class A notes will have a risk weighting based on the Class B notes). We think this makes no sense from a credit risk perspective and, as, such from credit risk capital requirements perspective.

We would request / recommend that the committee considers allowing inferred ratings from notes rated pari passu or junior to the derivative.

Question 2: While the formulation of the Internal Ratings-Based Approach is much simpler than the MSFA, the Committee recognizes that there may be opportunities to make further simplifications by, for example, eliminating one or more of the four variables proposed to calculate "p," while achieving a degree of risk sensitivity similar to that of the MSFA. The Committee is interested in respondents' views on ways to simplify the parameterisation of "p".

The maturity of the tranche Mt should be removed as a parameter in the proposed IRBA SSFA and instead one should use the maturity concept in the calibration of capital surcharge and correlation per regulatory asset classes.

Similarly the granularity parameter N should be removed as a parameter and only be used as a parameter for non-granular pools.

Both maturity and granularity concepts could be taken into account as part of a calibration per regulatory asset classes.

The pool parameters for granular pools would then be only K(IRBA) and LGD in an SSFA using only one p.

However, In line with the previous comments, we would support the MSSFA (SSFA with two p values) and the following inputs:

<table>
<tr><td rowspan="2" colspan="2">Securitisation Regulatory Asset Class</td><td colspan="3">Senior</td><td colspan="3">Non-Senior</td></tr>
<tr><td>p_2</td><td>p_1</td><td>$(p_2\text{-}p_1)$</td><td>p_2</td><td>p_1</td><td>$(p_2\text{-}p_1)$</td></tr>
<tr><td rowspan="11">Wholesale</td><td>Granular Short Term Bank/Corporate</td><td>0.34</td><td>0.28</td><td>7%</td><td>0.37</td><td>0.26</td><td>11%</td></tr>
<tr><td>Granular Low RW Medium to Long Term Bank/Corporate</td><td>0.77</td><td>0.64</td><td>13%</td><td>0.85</td><td>0.58</td><td>26%</td></tr>
<tr><td>Granular High RW Medium to Long Term Bank/Corporate</td><td>0.47</td><td>0.31</td><td>17%</td><td>0.63</td><td>0.22</td><td>41%</td></tr>
<tr><td>Granular Small- and Medium-sized Entities</td><td>0.65</td><td>0.54</td><td>12%</td><td>0.73</td><td>0.49</td><td>25%</td></tr>
<tr><td>Specialised Lending (Commodities Finance)</td><td>0.25</td><td>0.19</td><td>6%</td><td>0.32</td><td>0.14</td><td>18%</td></tr>
<tr><td>Specialised Lending (Project Finance)</td><td>0.98</td><td>0.78</td><td>20%</td><td>1.16</td><td>0.69</td><td>47%</td></tr>
<tr><td>Specialised Lending (Object Finance)</td><td>0.73</td><td>0.47</td><td>26%</td><td>1.03</td><td>0.35</td><td>69%</td></tr>
<tr><td>Specialised Lending (Income Producing Real Estate)</td><td>1.06</td><td>0.93</td><td>13%</td><td>1.16</td><td>0.87</td><td>29%</td></tr>
<tr><td>Specialised Lending (High Volatility Commercial Real Estate)</td><td>0.90</td><td>0.72</td><td>18%</td><td>1.03</td><td>0.65</td><td>37%</td></tr>
<tr><td>Other Granular Wholesale</td><td>1.01</td><td>0.88</td><td>13%</td><td>1.12</td><td>0.81</td><td>31%</td></tr>
<tr><td>Other Non-Granular Wholesale</td><td>1.17</td><td>1.00</td><td>17%</td><td>1.34</td><td>1.00</td><td>34%</td></tr>
<tr><td rowspan="4">Retail</td><td>Low RW Residential Mortgages</td><td>0.62</td><td>0.42</td><td>21%</td><td>0.86</td><td>0.31</td><td>55%</td></tr>
<tr><td>High RW Residential Mortgages</td><td>0.56</td><td>0.29</td><td>28%</td><td>1.03</td><td>0.16</td><td>88%</td></tr>
<tr><td>Revolving Qualifying Retail</td><td>0.27</td><td>0.18</td><td>9%</td><td>0.44</td><td>0.09</td><td>35%</td></tr>
<tr><td>Other Retail</td><td>0.73</td><td>0.57</td><td>16%</td><td>0.90</td><td>0.48</td><td>42%</td></tr>
</table>

In order to complete the remarks already formulated above on p parameter, we suggest to limit the maximum capital surcharge and reduce the minimum capital surcharge.

For the IRBA and SA, based on the results of the MSSFA recalibration with the CMA, we support the following caps and floors for the capital surcharge:

- a cap on the capital surcharge (p_2- p_1) of a maximum 0.3 for senior positions and 0.9 for non-senior positions
- a floor for the capital surcharge (p_2- p_1) of 0.06 for senior positions and 0.11 for non-senior positions.

Question 3: If respondents favoured a pro rata calculation of the maximum capital requirement, the Committee would welcome arguments that justify that a pro rata cap would result in appropriately conservative capital requirements.

We understand that the addition of the overall cap aims to provide with more conservative capital requirements for an originator bank, which should not be required to hold more capital after securitization than before.

The proposal of the Committee of a pro rata calculation of the maximum capital requirement, where a bank determines its maximum capital requirement by multiplying the largest proportion of interest that the bank holds for each tranche by the capital charge of the underlying pool is in our view a positive achievement compared to the BCBS 236 proposal where the cap was simply on the total capital charge of the underlying portfolio.

However, we believe that the idea of capital neutrality for originators, which underlies this proposal, is only partially transcribed by this computation, especially when an originator bank achieves significant risk transfer and net economic interest retention in the transaction at the same time.

We believe that in order to avoid any regulatory arbitrage and to provide with more conservative capital charge for an originator bank the overall cap should be computed as (a) the percentage of economic interest held by the originator bank multiplied by (b) the capital charge of the underlying pool.

CRR Net economic interest retention rules (Art. 405) claims for an overall cap proportional to the underlying portfolio capital charge for originators:

An originator willing to attract investors regulated by CRR has to retain at least 5% of net economic interest in the securitization. Under CRR Art. 405, this can be achieved through vertical retention of 5% of each tranches or through random selection of 5% of the assets to be transferred to the SPV.

If the option of random selection is chosen, the capital charge for the originator after securitization would equal 5% of the portfolio before securitization (assuming a granular pool), whereas the capital charge after securitization would be greater with the vertical retention option.

For instance, let us assume a French RMBS structure aiming risk transfer. The risk parameters of the underlying pool are estimated under the IRB approach and are reflective from the average good quality of the French residential book:

N parameter	10,000
EAD	1,000 M€
WA 1 year PD	1.5%
WA LGD	15.0%
EL	2.3 M€
RWA	100.0 M€
Kirb	10.3 M€

For the purpose of the example, we assume a tranching similar to the one achieved by Orange Lion 2013-10, which is a €2bn Dutch prime RMBS transaction issued in July 2013, where the originator has achieved sale of all credit risk in the underlying portfolio to external investors.

The IRB approach would be applied for the capital charge computation of the securitized exposures (retail parameters). If we assume a vertical 5% retention of all the tranches:

Class	Attachment point	Detachment point	Maturity (Y)	% Retention	p	KSSFA	Tranche RW (%)	Tranche RWA (total)	Tranche RWA (Originator)	Capital charge for Originator
A	9.1%	100.0%	5	5%	123%	0.0%	15.0%	136 M€	7 M€	0.5 M€
B	6.4%	9.1%	5	5%	137%	1.0%	15.0%	4 M€	0 M€	0.0 M€
C	4.1%	6.4%	5	5%	137%	5.6%	70.1%	16 M€	1 M€	0.1 M€
D	2.2%	4.1%	5	5%	137%	24.3%	303.9%	59 M€	3 M€	0.2 M€
E	0.5%	2.2%	5	5%	137%	68.8%	984.1%	162 M€	8 M€	0.6 M€
F	0.0%	0.5%	5	5%	137%	121.1%	1250.0%	63 M€	3 M€	0.3 M€
								441 M€	22 M€	1.8 M€

Under such an example and without the overall cap, the originator would have a capital charge of 1.8 M€ after securitization, equal to 5% of the total capital charge of the tranches, which should reflect 5% of the risks of the underlying portfolio, whereas the 5% share of the portfolio risks would actually equal 0.5 M€ if it was directly computed on the capital charge of the underlying portfolio (5%*10.3 M€).

Despite the transfer of 95% of the net economic interest to external investors, the originator would proportionally have more capital charge after securitization than before if no overall cap based on the underlying portfolio's capital was applied.

This example claims for an overall cap based on the capital charge of the underlying pool since it would create a discrepancy between the two options permitted by the CRR regulation to achieve the net economic interest retention.

This first example leads also to the fact that the overall cap for an originator should be computed as the multiplication of the capital charge of the underlying pool by the economic interest retention proportion instead of the maximum proportion of retention of all the tranches.

Indeed, the proposed overall cap could create an incentive for originator to transfer the riskiest tranches of the structure. For instance, let us consider the same structure as in the first example, but where 20% retention is achieved on the mezzanine tranches C and D:

Retention structure n°1 :

Class	Attachment point	Detachment point	Maturity (Y)	% Retention	p	KSSFA	Tranche RW	Tranche RWA (total)	Tranche RWA (Originator)	Capital charge for Originator
A	9.1%	100.0%	5	5%	123%	0.0%	15.0%	136 M€	7 M€	0.5 M€
B	6.4%	9.1%	5	5%	137%	1.0%	15.0%	4 M€	0 M€	0.0 M€
C	4.1%	6.4%	5	20%	137%	5.6%	70.1%	16 M€	3 M€	0.3 M€
D	2.2%	4.1%	5	20%	137%	24.3%	303.9%	59 M€	12 M€	0.9 M€
E	0.5%	2.2%	5	5%	137%	68.8%	984.1%	162 M€	8 M€	0.6 M€
F	0.0%	0.5%	5	5%	137%	121.1%	1250.0%	63 M€	3 M€	0.3 M€
								441 M€	33 M€	2.7 M€

The overall cap computed as the maximum retention of each tranches multiplied by the underlying pool capital would equal 2.05 M€ (20%*10.3 M€). This overall cap would be exactly the same if the 20% retention was on the most junior tranches E and F as follow:

Retention structure n°2:

Class	Attachment point	Detachment point	Maturity (Y)	% Retention	p	KSSFA	Tranche RW	Tranche RWA (total)	Tranche RWA (Originator)	Capital charge for Originator
A	9.1%	100.0%	5	5%	123%	0.0%	15.0%	136 M€	7 M€	0.5 M€
B	6.4%	9.1%	5	5%	137%	1.0%	15.0%	4 M€	0 M€	0.0 M€
C	4.1%	6.4%	5	5%	137%	5.6%	70.1%	16 M€	1 M€	0.1 M€
D	2.2%	4.1%	5	5%	137%	24.3%	303.9%	59 M€	3 M€	0.2 M€
E	0.5%	2.2%	5	20%	137%	68.8%	984.1%	162 M€	32 M€	2.6 M€
F	0.0%	0.5%	5	20%	137%	121.1%	1250.0%	63 M€	13 M€	1.0 M€
								441 M€	56 M€	4.5 M€

In order to avoid any regulatory incentive, we believe that the overall cap should be computed as the capital charge of the underlying pool (10.3 M€) **multiplied by the percentage of economic interest retained by the originator after securitization. This percentage of economic retention should be seen as the RWA after securitization retained by the originator divided by the total RWA after securitization.**

With the overall cap computation proposed by the Committee, the retention structure n°1 and n°2 would be exactly the same from an originator capital charge point of view: the overall cap would equal 2.05 M€, whereas the retention of risk is not the same. Our proposal to compute the cap on the % of economic retention would lead in our view to more conservative capital charge for the originator and to a more continuous overall cap:

	Retention structure n°1	Retention structure n°2
Kirb (A)	10.3 M€	10.3 M€
RWA retained by originator after securitisation (B)	33.3 M€	56 M€
Total RWA after securitisation (C)	440.5 M€	440.5 M€
% of originator economic interest (D = B/C)	7.56%	12.66%
Overall Cap (A * D)	**0.8 M€**	**1.3 M€**

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ANNEX 1: Sample for impact study: 10 securitization transactions across retail and corporate portfolios.

Name	ALM	RPM	OCTAG7	OCTAG12	HERMES16	CLARIS_11	ARRAN_RMF	PHEDINA11	AUTONORIA	FFML05F9
Category	French SME	CLO Corporate High grade	CLO US pre crisis	CLO US post crisis	Dutch prime RMBS 1	Italian SME	UK prime RMBS	Dutch prime RMBS 2	French Auto	US Subprime RMBS
RETAIL/WHOLESALE	Wholesale	Wholesale	Wholesale	Wholesale	Retail	Wholesale	Retail	Retail	Retail	Retail
Senior Attachment Point	6.1%	4.6%	26.8%	37.7%	8.3%	36.5%	18.2%	6.7%	21.7%	23.8%
Senior Tranche Rating	BBB(*)	BBB(*)	AAA	AAA	AAA	AAA	AAA	AAA	AAA	CCC
Pool RW (SA) estimate	75.0%	95.1%	133.4%	140.7%	35.0%	75.0%	35.0%	35.0%	75.0%	100.0%
Pool RW (IRBA) estimate (**)	68.9%	49.9%	226.3%	215.5%	15.8%	71.2%	10.7%	12.1%	17.0%	413.1%
Tranches maturity assumed	5 (*)	5 (*)	5.0	5.0	5.0	5.0	5.0	5.0	2.8	5.0

(*) rating, tranches maturity and delinquency rate assumed only for the purpose of simulating capital under the proposed formulas

(**) BASED ON VALIDATED IRBA PD AND LGD WHEREVER AVAILABLE

ANNEX 2: Risk Weight Floor

1 – Historical losses on senior tranches

Following are examples of asset classes in which no senior tranche defaults were recorded during the crisis (period 2007-2013)

Asset Class	Senior tranche defaults	Total tranches defaults over 2007-2013 period
European auto loans	0.0%	0.2%
European credit cards	0.0%	0.05%
European SMEs	0.0%	0.41%
European CLOs	0.0%	0.10%
European RMBS	0.0%	0.10%
European Prime RMBS	0.0%	0.0%
European trade receivables	0.0%	0.0%

(Source S&P)

2 - Stresses for RW Floor

In order to assess the Model risk, we have estimated the changes of risk weight of the tranches using the CMA model in various stress scenarios.

We have used the CMA model as it is the only risk published model available. We understand that the revised MSFA (unpublished) as mentioned in the BCBS 269, now takes into account intra-pool correlation and there should be a convergence with the CMA.

We assessed the calculated RWA for the tranches using the CMA under the base case calculation, and also under the following scenarios:

Scenario 1	LGD x 1.5
Scenario 2	Underlying pool RWA x 2
Scenario 3	LGD x 1.5 then Underlying pool RWA x 2 – In effect, RWA x 3
Scenario 4	Pool correlation Rho* x 2
Scenario 5	Pool correlation Rho* x 5
Scenario 6	(Underlying pool RWA x 2) and (Pool correlation Rho* x 5)
Scenario 7	(LGD x 1.5 then Underlying pool RWA x 2 – In effect, RWA x 3) and (Pool correlation Rho* x 5)

The scenarios have been performed on a sample of 10 transactions in various asset classes presented above.

The results of these stress scenarios are presented in the following table.

We have highlighted in yellow the cases where the CMA estimated RW on the tranche below 7% and in light blue the cases with a CMA tranche RW between 7% and 15%.

Stressed Scenarios for parameters and assumptions in CMA

Asset	KIRB (*)	Tranche	Attachment Point	CMA Base calculation	CMA Risk Weight						
					Stress Scenario 1	Stress Scenario 2	Stress Scenario 3	Stress Scenario 4	Stress Scenario 5	Stress Scenario 6	Stress Scenario 7
					LGD x 1.5	RW x 2	RWA x 3 (LGDx1.5 and then RWA x 2)	Rho* x 2	Rho* x 5	RWA x2 and Rho*x5	RWA x 3 (LGDx1.5 and then RWA x 2) and Rho* x5
French SME	5.9%										
		Tranche S	6.1%	16.0%	45.3%	77.4%	154.0%	18.9%	22.6%	81.8%	156.6%
		Mezzanine	3.5%	848.0%	1072.6%	1220.7%	1244.3%	791.3%	727.4%	1138.1%	1202.2%
		Equity	0.0%	1189.3%	1229.7%	1248.7%	1249.8%	1151.9%	1094.0%	1232.6%	1243.2%
CLO Corporate High grade	4.1%										
		Tranche S	4.6%	16.8%	37.5%	57.0%	108.2%	19.5%	23.4%	63.9%	114.6%
		Mezzanine	0.5%	793.1%	937.4%	1112.2%	1177.6%	731.1%	646.1%	964.8%	1045.1%
		Equity	0.0%	1222.0%	1234.8%	1247.9%	1249.1%	1186.5%	1104.9%	1214.5%	1226.1%
CLO US pre crisis	21.2%										
		A-1L	26.8%	18.2%	113.5%	239.2%	575.7%	24.4%	30.3%	243.7%	576.8%
		A-2L	21.0%	769.7%	1110.4%	1250.0%	1250.0%	749.8%	734.8%	1250.0%	1250.0%
		A-3L	16.9%	1006.2%	1190.5%	1250.0%	1250.0%	963.5%	929.4%	1250.0%	1250.0%
		B-1L	11.2%	1159.8%	1230.9%	1250.0%	1250.0%	1121.5%	1086.1%	1250.0%	1250.0%
		B-2L	8.6%	1228.0%	1246.0%	1250.0%	1250.0%	1206.9%	1182.5%	1250.0%	1250.0%
		PREF	0.0%	1247.9%	1249.6%	1250.0%	1250.0%	1244.0%	1237.7%	1250.0%	1250.0%
CLO US post crisis	20.2%										
		A	37.7%	0.4%	29.0%	60.7%	397.0%	1.0%	2.0%	74.0%	403.6%
		B1	31.6%	162.6%	739.8%	1250.0%	1250.0%	204.7%	240.4%	1250.0%	1250.0%
		B2	25.5%	443.0%	960.3%	1250.0%	1250.0%	465.9%	483.1%	1250.0%	1250.0%
		C	20.3%	768.7%	1112.6%	1250.0%	1250.0%	749.8%	735.6%	1250.0%	1250.0%
		D	15.4%	1021.8%	1195.6%	1250.0%	1250.0%	979.5%	945.5%	1250.0%	1250.0%
		E	10.4%	1177.1%	1235.2%	1250.0%	1250.0%	1141.7%	1107.9%	1250.0%	1250.0%
		F	8.4%	1230.8%	1246.6%	1250.0%	1250.0%	1211.4%	1188.4%	1250.0%	1250.0%
		SUBORD	0.0%	1247.9%	1249.7%	1250.0%	1250.0%	1244.1%	1238.1%	1250.0%	1250.0%

(*) Based on validated IRBA PDs and LGDs when available

Asset	KIRB(*)	Tranche	Attachment Point	CMA Risk Weight							
				CMA Base calculation	Stress Scenario 1 LGD x 1.5	Stress Scenario 2 RW x 2	Stress Scenario 3 RWA x 3 (LGDx1.5 and then RWA x 2)	Stress Scenario 4 Rho* x 2	Stress Scenario 5 Rho* x 5	Stress Scenario 6 RWA x2 and Rho*x5	Stress Scenario 7 RWA x 3 (LGDx1.5 and then RWA x 2) and Rho* x5
Benelux RMBS 1	1.4%										
		A	8.3%	0.0%	0.1%	0.1%	1.6%	0.0%	0.0%	0.5%	4.1%
		B	6.9%	1.5%	22.0%	42.0%	233.8%	4.5%	10.0%	89.6%	279.2%
		C	4.4%	15.0%	87.9%	175.2%	485.1%	26.7%	40.9%	225.7%	472.1%
		D	1.6%	212.7%	446.9%	693.3%	968.4%	227.6%	238.8%	632.7%	859.1%
		E	0.0%	975.7%	1109.5%	1205.6%	1236.2%	927.4%	877.4%	1140.1%	1195.5%
Italian SME	5.9%										
		A	36.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%
		B	0.0%	245.8%	368.7%	491.6%	737.1%	245.8%	245.8%	491.6%	734.3%
UK Prime RMBS	0.9%										
		Class-A	18.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		Class-M	14.7%	0.0%	0.0%	0.0%	0.2%	0.0%	0.0%	0.0%	2.8%
		N	13.2%	0.0%	0.0%	0.0%	1.0%	0.0%	0.0%	0.2%	8.5%
		B	0.0%	112.3%	168.4%	224.6%	336.7%	112.3%	112.3%	224.5%	335.0%
Benelux Prime RMBS 2	1.0%										
		A	6.7%	0.0%	0.0%	0.0%	0.7%	0.0%	0.0%	0.2%	2.2%
		B	2.0%	36.9%	131.6%	240.8%	527.6%	49.0%	61.9%	267.5%	508.9%
		C	0.0%	756.2%	953.1%	1118.9%	1203.3%	727.8%	696.9%	1038.9%	1139.5%
French Auto	1.8%										
		Part A	21.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		Part B	1.5%	50.9%	115.6%	183.1%	320.3%	52.9%	54.6%	183.4%	320.4%
		Reserve Fund	0.0%	1179.2%	1233.0%	1249.2%	1249.9%	1151.7%	1128.5%	1244.7%	1249.0%
		Equity	0.0%	1250.0%	1250.0%	1250.0%	1250.0%	1250.0%	1250.0%	1250.0%	1250.0%
US Subprime RMBS	44.0%										
		A	23.8%	280.1%	499.8%	840.1%	1250.0%	282.9%	286.3%	840.1%	1250.0%
		B	0.0%	1250.0%	1250.0%	1250.0%	1250.0%	1249.9%	1249.5%	1250.0%	1250.0%

(*) Based on validated IRBA PDs and LGDs when available

For the following asset classes, the tranche RWA as calculated using the CMA is always far below 7% for senior tranches even in extreme parameter stresses:

- Auto loans
- Prime European RMBS
- Trade receivables
- European SMEs, tranches with high attachment points

ANNEX 3: Focus on Asset-backed commercial paper ('ABCP') conduits

Cash securitization using ABCP conduits is a simple tool for banks to provide financing for a wide range of clients and assets. Using conservatively-sized credit enhancement, ABCP programs enable banks to extend low-risk secured financing to their clients, and clients to monetize their assets rather than depend solely on their credit status to raise financing. The tranching technique used here by the securitization process enables banks to leave most foreseeable credit risk with the originator of the assets and play their traditional role of transferring funding to the real economy. The quality of the credit enhancement is always dependent on a thorough analysis of the underlying assets.

Assets financed in ABCP conduits are of good quality, essentially trade and auto receivables. Securitization structures highly mitigate risks on the portfolio and on the sellers. Current regulatory capital immobilized by these transactions already seems to exceed that warranted by their level of risk. That is why we would like to express our deep concerns about the impact that the new securitization framework proposed by the Committee would have on these transactions.

ABCP conduits assets are "high quality assets"

The assets funded in ABCP conduits are simple assets of good quality and short term pretty much like those we can find in factoring activity. The main part of the underlying assets, funded in multi seller ABCP conduit in EMEA, is trade and auto receivables (70%[5]). These assets are not very risky, but in order to be sure the bank which provides the funding does not take risk with the liquidity facility, the credit enhancement is calibrated in a very conservative way following rating agencies criteria.

Because no public data are available on trade receivables, some statistics collected on French banks' European ABCP conduits have been added in appendix to highlight the quality of this type of asset. The performance data of trade receivables securitizations financed by French banks' multi-seller conduits demonstrate the quality and resilience of credit enhancement provided to these conduits. No losses have ever been registered by French banks in relation to trade receivables securitization transactions financed through their ABCP conduits.

When looking at the graph below, we can see that short term assets share is increasing for ABCP conduits since 2008, whereas other asset types with longer maturity (CLO, Consumer loans and Residential Mortgages) see their share decreasing.

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[5] Source Moody's – EMEA ABCP Market Summary: Q3 2013.
Asset Split by Asset Type – Multi-Seller Portfolios: Trade receivables: 45% + Auto loans: 14% + Auto leases: 11% = 70%.

Outstanding balance of purchased assets by selected asset types
(as % of aggregate balance of purchased assets)
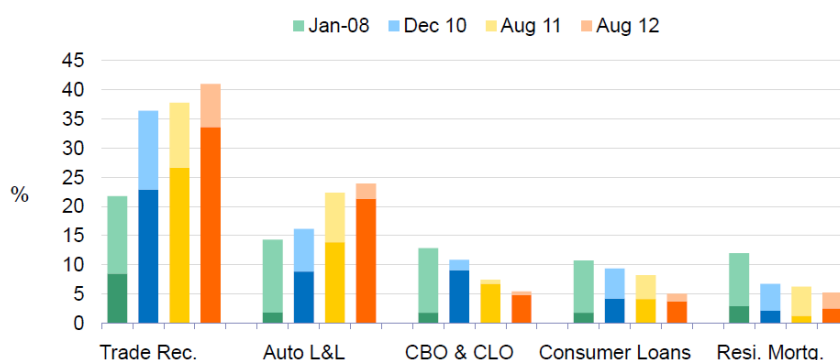
Source: Moody's

A securitization of trade receivables provided a stable funding to the corporate. It's a strong secured funding for banks and, sometimes, the only way for banks to provide also to low credit quality corporate: risks on the assigned receivables is covered by a credit enhancement which highly cover the historical losses and any risk on the sellers are strongly mitigated by several mechanism. That's why final risk taken by banks is very limited and methodology to size the RWA consumption in front of such type of transaction shall take in consideration all protections of which the Banks benefit.

ABCP have proven to be a very efficient tool to finance short term client assets such as trade receivables. It provides access to various markets that clients could not necessarily reach by themselves. Through a very strong structuring which limit or reduce to zero any risk on the corporate who receives the funding, including dynamic credit enhancement, the credit risk is remote. The investors show a real appetite even in difficult periods, as they value the strength of the structuring and the diversification. The strength of the structuring and the very remote credit risk is recognized today as capital charge is low, enabling the clients to benefit from a very competitive price.

Failing to recognize this low risk in corresponding very low capital charge will have a direct consequence: more capital will immediately increase the price for the clients. In some cases, capital applied to ABCP conduits transactions could be higher than if bank were lending on an unsecured basis to the corporate (see example below). In those circumstances, it is obvious that a structure transaction would no longer make sense, and the client would borrow unsecured, increasing the final risk for the banks sector.

For example if we consider a typical trade receivables transaction, closed with a French corporate client (LGD = 40%), financed in an ABCP conduits, for which the characteristics are as follow:
- Attachment point : 20%
- Detachment point : 100%
- Granular (N = 1000)
- Maturity : 1 Y
- Kirb : 10%
- Internal Rating (IAA) : AA

Comparing RW% of an unsecured loan to the client with a securitization transaction we observe that the new securitization framework attracts too much capital, and then to be acceptable for a bank to put in place such a transaction, the client should be rated lower than BBB. Moreover it appears clearly that IAA will require higher capital charge than IRBA formula, even if IAA is a very refined way of assessing the risk of this kind of transaction.

Unsecured loan

Rating	RW
AAA	7%
AA	7%
A	12%
BBB	37%
BB	76%
B	178%
CCC	210%

Securitization transaction

Basel II		BCBS 269	
SFA	IAA	IRBA	new IAA
7%	8%	15%	25%

Since ABCP conduits finance real economy and assets financed through ABCP conduits are of high quality because (i) underlying assets are not very risky (auto loans, short term trade receivables), (ii) credit enhancement are calibrated in a very conservative way (around 2 times the Kirb), we consider that these securitized assets should attract less capital in the new securitization capital framework by:

1- Reducing the floor for these assets to 7% (current Basel II floor)
2- Calibrating the IRBA and IAA to reduce the global level of RW

Appendix: historical performances of trade receivables securitizations based on data of French banks[6]

Trade receivables in particular form an asset class in which banks have a longstanding experience in structuring securitization transactions for corporates in Europe and North America. To illustrate the very good performance of this asset class and the related securitization structures, we have conducted an historical analysis among the FBF bank members.

The perimeter of the study covers all the trade receivables securitizations that have been financed in our conduits (including those already terminated) for which detailed relevant performance information was easily accessible.

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[6] BNPP, Crédit Agricole CIB, Natixis and Société Générale.

This covers a total of 438 Billion Euros of purchased trade receivable.

A total of 83 transactions have been included and their performances analyzed on a monthly basis, back to 1999 for the oldest.

The key outcomes are as follows:

- None of the banks in this perimeter have ever suffered any loss in any of those trade receivable deals.
- We analyzed each of the deals, on a monthly basis, to assess default risk on the portfolio on the one hand, and protection provided (by the loss reserve and by the total credit overcollateralization) on the other hand.
- Those transactions are all revolving, ie we purchase additional receivables (and reconstitute overcollateralization) each month. Then the relevant question risk wise is to assess, if each and any transaction ceases to revolve, whether or not the cumulative defaults during the amortization period will be covered by enough overcollateralization.
- The average Days Sale Outstanding (DSO) of the underlying receivables of those transactions is usually between 45 and 90 days.
- We have back tested all of those deals, **each month**, by cumulating the actual defaulted receivables over a 3 month period, and compare them with the protection available. We thus backtested a total of over 3000 situations.

The outcome is summarized in the table below:

Percentile	Max (Sum of 3M flow of write-off / relevant Loss reserve)	Max (Sum of 3M flow of write-off / relevant CE)
60%	0.8%	0.5%
70%	2.4%	0.9%
80%	4.5%	2.4%
90%	17.7%	6.1%
95%	22.1%	9.4%
98%	30.7%	14.8%
99%	36.8%	22.6%
100%	42.4%	26.7%

Those results are self-explanatory: in 95% of the times, the cumulated defaults did only consume 22.1% of loss reserve, or 9.4% of overcollateralization.

In the worst case scenario (1 deal, and only during 1 three month period out of the over 3000 situations backtested), only 26.7% of overcollateralization was consumed. In other words, in the worst case scenario, banks did not even come close to suffering a loss, as the available protection could have absorbed losses higher by 374%.

With a total of 438 billion of purchase receivables, covering of the years during the crisis, this analysis is reliable and very representative of the actual strength of protection. This demonstrated how secure those trade receivables securitization transactions are.

ANNEX 4

Framework	Proposed Regulatory Asset Class	CALIBRATION UNDER THE STANDARDISED APPROACH						
		(for Senior Tranche) Capital Surcharge CMA (CSSFM-1)	(for Senior Tranche) Capital Surcharge MSSFA (p2-p1)	(for Senior Tranche) Capital Surcharge SSFA (p)	(for Non-Senior Tranche) Capital Surcharge CMA (CSSFM-1)	(for Non-Senior Tranche) Capital Surcharge MSSFA (p2-p1)	(for Non-Senior Tranche) Capital Surcharge SSFA (p)	(for Senior and Non-Senior Tranche) BCBS 269 Capital Surcharge SSFA (p)
Wholesale	Granular Short Term Corporate Exposures	0%	7%	27%	5%	11%	29%	100%
Wholesale	Granular Low RW Medium to Long Term Corporate Exposures	5%	13%	47%	18%	26%	54%	100%
Wholesale	Granular High RW Medium to Long Term Corporate Exposures	10%	17%	36%	36%	41%	52%	100%
Wholesale	Granular SME	5%	12%	43%	17%	25%	49%	100%
Wholesale	Specialised Lending (Commodities Finance)	0%	6%	21%	18%	18%	28%	100%
Wholesale	Specialised Lending (Project Finance)	10%	20%	55%	33%	47%	69%	100%
Wholesale	Specialised Lending (Object Finance)	16%	26%	50%	52%	69%	77%	100%
Wholesale	Specialised Lending (Income Producing Real Estate)	6%	13%	55%	19%	29%	62%	100%
Wholesale	Specialised Lending (High Volatility Commercial Real Estate)	8%	18%	52%	24%	37%	62%	100%
Wholesale	Other Granular Wholesale	7%	13%	54%	23%	31%	62%	100%
Wholesale	Other Non-Granular Wholesale	8%	17%	58%	26%	34%	67%	100%
Retail	Low RW Residential Mortgages	14%	21%	44%	47%	55%	66%	100%
Retail	High RW Residential Mortgages	22%	28%	44%	73%	88%	89%	100%
Retail	Revolving Qualifying Retail	6%	9%	23%	39%	35%	41%	100%
Retail	Other Retail	10%	16%	46%	35%	42%	61%	100%