

5 October 2017

Secretariat of the Basel Committee on Banking Supervision
c/o Bank of International Settlements
CH-4002 Basel
Switzerland

via uploading to recipient's internet site

Dear Sir/Madam

Comments on the “Consultative document: Capital treatment for simple, transparent and comparable short-term securitisations” released on 6 July 2017

The Securitization Forum of Japan (SFJ) welcomes the opportunity to comment on the proposals released by the Basel Committee on Banking Supervision (BCBS) in the “Consultative document: Capital treatment for simple, transparent and comparable short-term securitisations” dated July 2017. The members of SFJ include banks and other market participants such as finance companies, insurance companies and securities firms, as well as major law firms, accounting firms, and credit rating agencies. We provide our comments below, which are based on our discussion among members of our International Regulatory Affairs Committee and feedback and comments from our members.

General Comments:

1. Alternative Approach 2

Of the three approaches considered by the BCBS in Question 2, namely the baseline approach, alternative approach 1, and alternative approach 2, we are of the view that the “alternative approach 2” is the most adequate.

2. Other Bank Exposure to an ABCP Structure

As for other bank exposure to an ABCP structure, in the case where risk characteristics do not qualitatively differ from those of exposures of undrawn liquidity facilities or credit support

facilities to conduits which have already issued CPs, we would like to confirm that such exposures shall be treated as sponsor's exposure subject to short-term STC capital criteria.

3. Granularity

As for granularity, we hope that BCBS allows a granularity requirement of 3% or less, if it is approved by the national authorities based on the actual situations in each country.

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 securitizations?

Response to Question 1:

With respect to proposed individual short-term STC criteria, we propose to make the revisions described in our response to Question 5 are desirable.

Question 2:

What are respondents' views on the baseline and alternative approaches being considered by the Committee?

Response to Question 2:

Among the 3 approaches considered by the BCBS in Question 2, namely the baseline approach, alternative approach 1, and alternative approach 2, we are of the view that the "alternative approach 2" is the most appropriate for the following reasons.

First, the most conservative "alternative approach 1" requires full support even for sponsors' exposures. However, if a credit support provider provides full-support towards the exposure held by the same credit support provider, in the end the relevant sponsor is merely taking the same credit risk, and especially if there is only a single sponsor, such full-support is meaningless, and therefore, we are of the view that "alternative approach 1" which requires full-support on sponsors' exposures is not adequate.

Next, with respect to "the baseline approach" and "alternative approach 2", they differ in that the "baseline approach" requires that the STC capital criteria be satisfied at both the program level and the transaction level except for full support towards exposures held by the sponsor,

where as “alternative approach 2” requires satisfying such criteria only at the transaction level. We are of the view that “(3) alternative approach 2” is desirable for the following reasons.

1. When a sponsor adds a transaction to a conduit, the sponsor assesses the relevant risks for each individual transaction, and bears the risk for each individual transaction as provider of a liquidity support facility and credit support facility which complies with the “full support” requirement proposed in criteria B7. Under the capital adequacy requirements, the sponsor’s exposure towards the conduit will be treated as comprising multiple individual transactions. Regarding individual transactions included in the same conduit, there is a possibility that some transactions will meet the short-term STC capital criteria where as other transactions will not. In such cases, the sponsor is bearing the credit risk related to individual transactions, and there is only a weak relationship between whether the short-term STC capital criteria are met at the conduit level on the one hand, and the credit risks borne by the sponsor on the other. Therefore, from the perspective of calculating a sponsor’s capital ratio, we believe it is more appropriate to require satisfying short-term STC capital criteria only at the individual transaction level.

2. Furthermore, when short-term STC capital criteria are not satisfied at the conduit level, in the case of the baseline approach, the short-term STC capital criteria will not be satisfied, even if they are met at the individual transaction level. Therefore, when the short-term STC capital criteria are not satisfied at the conduit level, there will be no incentive to satisfy the short-term STC capital criteria for individual transactions. On the contrary, in the case of the alternative approach 2, even if the short-term STC capital criteria are not satisfied at the conduit level, an incentive to meet the short-term STC capital criteria at the transaction level will still remain. For example, even if the short-term STC requirements are not met at the conduit level, it is conceivable that many transparent individual transactions which satisfy short-term STC capital criteria will be executed, which is desirable.

3. Also, even if alternative approach 2 is adopted, the sponsor will still have an incentive to satisfy the short-term STC requirements at the conduit level. In other words, in a typical ABCP program which provides a means of funding for the sponsor bank’s customers, the CP issue cost of such ABCP conduits which satisfy short-term STC capital criteria at the conduit level are usually lower (i.e. CPs can be issued at lower yields) than the CP issue cost of such conduits which do not meet such STC requirements at the conduit level. Therefore, when taking into consideration the benefit of lower CP issue costs for the sponsor’s business, even if the alternative approach 2 is adopted, the incentive for sponsors to meet the STC requirement at the conduit level will continue to exist and such incentive will not necessarily be lost. Given the above mentioned reasons, we support “alternative approach 2”.

Question 3:

What are respondent's 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?

Response to Question 3:

Under the ABCP programs currently practically managed in Japan, in most cases there is only a single sponsor; however, there is still a possibility that in the future, ABCP programs may arise with “full support” where liquidity support facilities are provided jointly by multiple parties, in other words which have more than one sponsor. We believe that even in such case, there is no essential difference with the case where there is only one sponsor. Therefore, we are of the view that there is no reason to treat programs with multiple sponsors in a discriminatory manner.

It is not necessary to differentiate between the cases where a single ABCP program has multiple sponsors from inception, or the case where initially there was only one sponsor but other sponsors are added later. In the case where there are multiple sponsors, one could consider adding a requirement that the liabilities of each sponsor are joint and several, but not several.

Therefore, upon interpretation of criterion B7, we request that it is clearly stated in the final document that the case of multiple sponsors are included.

Question 4:

What is the respondents' view on the options being considered by the Committee for determining STC compliance?

Response to Question 4:

When taking into consideration the information held by the sponsors and investors, we believe it is adequate to determine compliance with short-term STC capital criteria as described below.

For notes issued by the ABCP conduit, the assessment of compliance with the short-term STC capital criteria should be performed by both the sponsor and the investor.

For other exposure 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.

Question 5:

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

Response to Question 5:

1. Other Bank Exposures

With respect to other bank exposure to an ABCP structure, it is pointed out that the capital treatment would follow the treatment for STC term securitisations in the July 2016.

However, of “other bank exposure to an ABCP structure”, there may be cases where there is no qualitative difference between the risk characteristics of such loan and the credit risk of an exposure under undrawn liquidity support or credit support facilities provided to a conduit, for example where a conduit which has acquired underlying assets but has not yet issued CPs and a loan has been extended by the sponsor to the conduit etc. In such case, upon determining compliance with STC capital criteria, we would like to confirm that such case will be treated as sponsor’s exposure subject to short-term STC capital criteria.

2. Granularity of the pool

With respect to granularity, the current proposal is 1% or less. However, the current situation for ABCP programs in Japan is that almost all of them have granularity of 3% or more. If granularity of 1% or less is required, almost all of the ABCPs issued in Japan would fail to meet the short-term STC capital criteria at the conduit level.

It comes from the following market conditions and practices in Japan. The receivables purchased in Japan’s ABCP programs are mostly trade receivables arising under transactions between companies. Due to Japanese business practice, the obligor concentration ratio in Japan tends to be higher than in Europe since Japanese corporates tends to enter into commercial transactions with counterparties who belong to the same corporate group. However, on the other hand the creditworthiness of each obligor tends to be higher. When taking into consideration this trend in business practice in Japan, it is not necessary to require granularity of 1% or less in order to protect ABCP investors. If the requirement is made to be 1% or less, it will be pretty much impossible for Japanese ABCP programs to satisfy the short-term STC capital criteria. Therefore, considering the individual market conditions and practices of each country, we would like to request that BCBS allows granularity of 3% or less at the discretion of each country, if the national authorities of each country admits based on criteria established by such authorities that the investor protection would be sufficient.

We would like to express our gratitude for taking our comments into consideration. Should you have any questions, please do not hesitate to contact us.

Yours sincerely,

/s/

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Managing Director,
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About the Securitization Forum of Japan

The Securitization Forum of Japan (SFJ) was founded as a voluntary association in 2005 and established as a corporation in 2007.

SFJ aims to contribute to the sound development of the asset securitisation market and carry out the following operations: (1) research and study associated with asset securitisation; (2) exchanges and cooperation with internal and external organisations concerned, etc. associated with asset securitisation; (3) diffusion and enlightenment of asset securitisation; (4) policy recommendations concerning asset securitisation; and (5) any other operations incidental or relevant to operations of the above items. SFJ operates Experts Committees on a steady basis to discuss issues on securitisation, share practical intelligence among members and make policy proposals based on the discussions.

Some of the committees run a Subcommittee or Working Group to further address crucial topics on securitisation such as Basel III securitisation framework. SFJ also deliver high-quality educational system to members, providing opportunities to attend seminars on securitisation or to take professional development programs.

Website: <http://www.sfj.gr.jp/>