



European Banking Federation



London Investment
Banking Association



European Savings Banks Group



European Association
of Public Banks and Funding Agencies

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SUMMARY FEEDBACK STATEMENT

**INDUSTRY GOOD PRACTICE GUIDELINES
ON PILLAR 3 DISCLOSURE REQUIREMENTS
FOR SECURITISATION**

18 December 2008

INTRODUCTION

The consultation paper issued on 30 June, with a deadline of 15 September 2008, set out proposed guidance (Guidelines) to practitioners for the implementation of the securitisation disclosure requirements in the Capital Requirements Directive (CRD). This summary feedback statement outlines the key issues arising from the consultation's 15 responses and the outcome of further discussion held in a working group of industry practitioners and trade associations (Working Group).

The objective of the overall disclosure component within the Basel 2 / CRD framework, commonly known as Pillar 3, is to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution. Experience resulting from the financial turmoil that originated from the deterioration of the U.S. subprime mortgage market has further highlighted the importance of disclosure for the securitisation business at the current time.

The Working Group was set up, following discussions with the European Commission, to address one of the transparency and disclosure action points identified by ECOFIN¹ as a result of recent market events. The objective of the Working Group was to achieve sound, consistent and appropriately granular implementation of the securitisation related CRD disclosure requirements². The Working Group proposed to achieve this through the development of Good Practice Guidelines, which were developed primarily on the basis of an Industry Survey of market participants, who provide short-term liquidity, a comparative analysis of CRD implementation in EU states and implementation issues identified by firms. In addition the consultation paper considered the publications of the Financial Stability Forum (FSF) and the Committee of European Banking Supervisors (CEBS). These guidelines are intended to supplement rather than change or replace applicable laws.

The Working Group would like to thank all those who responded to this consultation.

¹ ECOFIN is part of the EU Council of Ministers, dealing with economic and financial affairs.

² The securitisation related Pillar 3 disclosure requirements are set out in paragraph 14 of Annex XII to Directive 2006/48/EC.

CONSULTATION SUMMARY

The 15 responses received were supportive of the development of a guideline. Therefore, the final Guidelines build strongly on the consultative draft. However, there are a few key issues that arose from the responses and the Working Group's discussions that are highlighted below.

Applicable regulatory requirements

In recommending disclosure at the consolidated level, in relation to the discussion on the level of application, the consultation paper had specifically stated that the Guidelines would not override any regulatory requirements requiring disclosures to be made at the entity level in any given jurisdiction. The status of the guidelines as a tool to supplement rather than supplant regulatory requirements more generally was always the intention of the Working Group, but was not directly articulated. Section 1.1 of the Guidelines has been amended to make the status clearer.

Relevance and clarity

While the objective of the Working Group was to develop guidance that promoted convergent application of the Pillar 3 securitisation disclosure requirements, the disclosures made by firms must also be appropriate to the activities of the firm. Consequently relevance and clarity were also deemed to be important considerations in the delivery of disclosures and respectively established as guiding disclosure principles in the introduction of the Guidelines and clarify the status of certain of the examples and illustrative templates.

Scope of application

The responses received highlighted that the Guidelines should make the scope of the requirements more explicit while considering the interrelationship between qualitative and quantitative disclosures as well as the two disclosure dimensions 'exposure securitised' and 'securitisation positions'. Therefore the Working Group clarified the Guidelines as follows:

- Exposures securitised shall be assessed for disclosure purposes where the minimum requirements for recognition of significant credit risk transfer have been fulfilled. This is the case where for the purposes of calculating Pillar 1 capital requirements a significant risk transfer results in de-recognition of the exposure securitised (traditional securitisation) or where a risk transfer is recognised in respect of a synthetic securitisation. For securitisation positions retained or purchased, all retained banking book positions should be disclosed. This includes the counterparty risk associated with FX and interest rate swaps to securitisation transactions regardless whether they are booked in the trading or banking book.

- It is recommended that transactions where the firm has retained no positions need only be reported in the year of inception with the outstanding exposures securitised.
- In order to provide users with a comprehensive view of the firm's total securitisation activity, the qualitative disclosures should go beyond the scope of securitised exposures and securitisation positions above. In particular a firm should also provide information on its trading book and transactions that do not meet the minimum requirements for significant risk transfer.

Relevant roles

The consultation paper had proposed that a firm's activity should be disclosed according to three primary roles: originator, sponsor and investor; and advocated that firms should also provide supplementary qualitative disclosure in relation to other material secondary roles, such as liquidity provider. For these purposes originator and sponsor were defined according to the CRD, except where a firm, in practice, acts as both originator and sponsor in relation to a multi seller conduit. In this situation the consultation proposed that firms should disclose exposures securitised from their own balance sheet as originated and the entire transaction as sponsor. The extent of any resultant double counting would therefore need to be disclosed. Investor was not defined by the consultation, but was a residual category.

Given the varied nature of the roles firms might undertake within the residual category, respondents indicated that using the term 'investor' for this category would be confusing for users. The category of investor has, therefore, been removed from the Guideline. In practice this means that firms would continue to disclose the roles of originator and sponsor according to the CRD definition, with the extension regarding multi seller conduit structures as noted above, and for the qualitative disclosures firms would disclose other material roles according to the common market interpretation. The removal of the 'investor' category has no practical impact on the quantitative disclosures because the CRD does not require disclosure on this basis.

Exposure values

The consultation highlighted that there was a lack of clarity in the CRD as to what exposure values should be used for the various quantitative disclosures. It had generally proposed the use of either financial statement or regulatory values. The responses indicated that such information would not always be available, particularly in the case of sponsored transactions. The Working Group has therefore amended the guideline to indicate that a broader range of exposure values may be used, but has highlighted that it will be essential for the basis of preparation of the disclosure to be explained, to allow users to make informed comparisons.

Exposures securitised

The consultation had discussed the information difficulties that would arise in the case of prior year transactions where a firm had not retained any positions. Footnote 224 of the Basel Accord allows firms to disclose such transactions in the year of inception only. However, this footnote has not been re-produced in the CRD and therefore the treatment of these transactions was less clear in the EU. The responses received confirmed the informational problem. As a result the Working Group decided that it would raise this issue with the Commission and in the meantime take a purposive interpretation of the CRD in the guidelines by following Basel Footnote 224.

Securitisation positions retained and purchased by risk weight bands

One area where the consultation had not recommended a preferred approach was the basis for determining the appropriate risk weight bands for the disclosure of securitisation positions held. Responses received endorsed an approach based risk weights used in the calculation of capital requirements, for example less than or equal to 10 %, greater than 10 %, but less than or equal to 20 %. The Guideline now includes an example band structure on this basis.

In addition the consultation had recommended that in addition to the requirements, firms should disclose the aggregate amount of capital requirements associated with their securitisation positions, to make the disclosures closer to the Basel requirements in this area. As the information on capital requirements should be readily available within firms, the final guideline goes further and recommends that a split should be provided by risk weight band.

Reviewing the guidelines

The consultation recognised that the guidelines should be a living document and should be updated to reflect developments, for example the forthcoming Basel consultation, and implementation experience. As a result the Working Group is proposing to review the guidelines in the 2nd quarter of 2009.