



### Pillar 3 Disclosure Questionnaire

Name	
Organisation name	
Organisation type (e.g. Commercial bank, investment firm, Pension Fund, Insurance company, etc.)	
Head office location	
Position, Department	
Telephone number	
Email	

#### Introduction

This questionnaire has been prepared in response to the European Commission’s request for industry input in addressing the issues that have been identified by ECOFIN (i.e. the EU Economy and Finance Ministers) following the recent market turmoil. One area on which ECOFIN has specifically identified is firm disclosure/pillar 3 for securitisation under the CRD. A number of trade associations, and their members and other interested parties, have joined together to form an industry working group to address this issue with a view to developing industry guidance on these disclosures. This questionnaire is one of the inputs into that process. Other trade associations (including some whose members may not be affected by the CRD disclosure requirements) have also agreed to sponsor this questionnaire by asking their members to complete it.

**This questionnaire is intended to clarify which Pillar 3 type information would have positively influenced your decision to provide funding to banks and full scope investment firms either directly or through the money markets during the second half of 2007.** The details of the disclosures required under pillar 3, market discipline, are outlined in Questions 8 to 21 below.

**The individual responses to the questionnaire will be kept confidential.** A summary of the results will be prepared for and shared with the Commission and possibly other interested regulatory bodies.

**Please complete this questionnaire by 10 April 2008 and return it to Diane Hilleard at the London Investment Banking Association ([diane.hilleard@liba.org.uk](mailto:diane.hilleard@liba.org.uk), +44 (0)20 7367 5512) and Wilfried Wilms at the European Banking Federation ([w.wilms@ebf-fbe.eu](mailto:w.wilms@ebf-fbe.eu), +32 2 508 37 31).** If you have any questions regarding the completion of this questionnaire please contact, either Diane or Wilfried by email or phone. .

The survey has been designed so that most questions can be answered by merely marking the appropriate box. However, comment sections have been provided to allow you to note any assumptions, queries or other comments regarding the questions or your answers. Comment sections do not need to be completed.

Thank you for taking the time to complete this questionnaire.

## Part 1 - Current position

This section of the questionnaire seeks to find out the drivers behind the decisions as to the level of funding you provided to banks and investment firms (either directly or indirectly) and your views on the relevance of the information you currently receive from these entities either publicly or through bilateral contact to your decision-making.

1. What were the key factors that influenced your decision on the level of funding that you provided (or the reduction in the level of funding you would have provided) to the bank and investment firm sector during the second half of 2007? Please include both internal and external (general market and idiosyncratic) factors and please rank in order of importance.

<b>Ranking</b>	<b>Factor</b>
1	
2	
3	
4	
5	

**Comment**

2. What aspect of firms' exposures to securitisation is most important to you when making your funding decision? Please rank in order of importance

<b>Exposure type</b>	<b>Ranking</b>
Assets originated and securitised	
Securitisation positions the firm holds	
Securitisation arranging activities on behalf of third parties	

**Comment**

3. Where do you get most of your information on firms' exposures to securitisation currently? (e.g. annual accounts, investor reports, rating agency reports, bilateral information provided by counterparty, etc)

<b>Ranking</b>	<b>Factor</b>
1	
2	
3	
4	
5	

**Comment**

4. Do you think that the level of information you receive at the moment on firms' exposures to securitisation (public and bilateral information) is generally

<b>More than necessary</b>	<b>appropriate</b>	<b>Slightly less than necessary</b>	<b>Inadequate</b>

**Comment**

5. If you ticked 'slightly less than necessary' or 'inadequate', please specify what additional information you think should be produced.

6. Is the (public and bilateral) information you receive produced at an appropriate frequency?

<b>Yes</b>	<b>No</b>

7. Is the information received in a timely fashion?

<b>Yes</b>	<b>No</b>

## Part 2 - Basel II/CRD disclosures

Under Pillar 3 of Basel II/CRD firms will be required to disclose certain information about their exposure to securitisation in the non-trading book. This information will be disclosed annually either in the annual accounts or by some other method that allows easy access.

In this section of the questionnaire each of the CRD disclosures is taken in turn and you are asked to indicate how useful you would find each element of the disclosure package. The questions, therefore, are intended to be read from the perspective of the usefulness of the information on a firm's exposure to securitisation (e.g. as originator, sponsor or investor) to you as a provider of funding, either directly (to a bank or investment firm) or indirectly (through funding vehicles). **In making the determination of usefulness, you should consider whether the Pillar 3 disclosures made by the bank or investment firm would have encouraged you to provide more funds in the second half of 2007.**

Questions 8 to 13 relate to the **qualitative** disclosures required by the CRD, and questions 14 to 22 relate to the **quantitative** disclosures. Questions 15, 16 and 18 relate to specific footnotes that are included within the Basel pillar 3 requirements but were not transposed into the CRD

8. A description of the firm's objectives in relation to securitisation activity (BCD Annex XII, para 14(a))

<b>Role<sup>1</sup></b>	<b>Not useful</b>	<b>Slightly useful</b>	<b>Useful</b>	<b>Very useful</b>
Originator				
Sponsor				
Investor				
Other				

### Comment

<sup>1</sup> The CRD defines the terms of originator and sponsor but does not define other roles. The definitions of originator and sponsor are as set out below:

Originator means either of the following:

- (a) an entity which, either itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposure being securitised, or
- (b) an entity which purchases a third party's exposures on to its balance sheet and then securitises them.

Sponsor means a credit institution other than an originator credit institution that establishes and manages an asset backed commercial paper programme or other securitisation scheme that purchases exposures from third party entities.

9. The roles played by the firm in the securitisation process (BCD Annex XII, para 14(b))

<b>Role<sup>1</sup></b>	<b>Not useful</b>	<b>Slightly useful</b>	<b>Useful</b>	<b>Very useful</b>
Originator				
Sponsor				
Investor				
Other				

**Comment**

10. An (*qualitative*<sup>2</sup>) indication of the extent of the firm's involvement in each role (BCD Annex XII, para 14(c))

<b>Role<sup>1</sup></b>	<b>Not useful</b>	<b>Slightly useful</b>	<b>Useful</b>	<b>Very useful</b>
Originator				
Sponsor				
Investor				
Other				

**Comment**

11. The approaches to calculating risk weighted exposure amounts that the firm follows for its securitisation activities (BCD Annex XII, para 14(d))<sup>3</sup>

<b>Not useful</b>	<b>Slightly useful</b>	<b>Useful</b>	<b>Very useful</b>

**Comment**

12. A summary of the firm's accounting policies for securitisation activities including (BCD Annex XII, para 14(e)):

- a. whether the transactions are treated as sales or financing

<b>Not useful</b>	<b>Slightly useful</b>	<b>Useful</b>	<b>Very useful</b>

<sup>2</sup> 'Qualitative' has been inserted into this question to aid clarity.

<sup>3</sup> The CRD disclosure requirements do not set out the methodologies. For information these are the ratings based approach (RBA) where capital charges are attributed according to the rating agency rating, supervisory formula approach (SFA) which attributes capital based on the firm's own assessment of the underlying portfolio under the internal ratings based approach; and the internal assessment approach (IAA), which is only available for liquidity facilities and credit enhancements or other exposures to ABCP conduits and attributes capital based of the firm's use of an rating agency methodology.

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b. the recognition of gains on sales

<b>Not useful</b>	<b>Slightly useful</b>	<b>Useful</b>	<b>Very useful</b>

c. the key assumptions for valuing retained interests; and

<b>Not useful</b>	<b>Slightly useful</b>	<b>Useful</b>	<b>Very useful</b>

d. the treatment of synthetic securitisations if this is not covered by other accounting policies

<b>Not useful</b>	<b>Slightly useful</b>	<b>Useful</b>	<b>Very useful</b>

**Comment**

13. The names of the credit rating agencies used for securitisations and the types of exposure for which each agency is used (BCD Annex XII, para 14(f))

<b>Not useful</b>	<b>Slightly useful</b>	<b>Useful</b>	<b>Very useful</b>

14. The total outstanding amount of exposures securitised by the firm and subject to the securitisation framework broken down by traditional and synthetic, and by asset type (BCD Annex XII, para 14(g))

<b>Not useful</b>	<b>Slightly useful</b>	<b>Useful</b>	<b>Very useful</b>

**Comment**

15. How useful to you would it be if securitisation transactions in which the originating firm does **not** retain any exposures were disclosed separately, but only reported in the year of inception as part of the disclosures in question 14?

<b>Not useful</b>	<b>Slightly useful</b>	<b>Useful</b>	<b>Very useful</b>

**Comment**

16. In relation to the disclosures in Q14, the Basel Accord includes the following footnote: ‘Where relevant, banks are encouraged to differentiate between exposures resulting from activities in which they act only as sponsors, and exposures that result from all other bank securitisation activities that are subject to the securitisation framework.’ How useful would it be to you to have this information disclosed?

Not important	Slightly helpful	Helpful	Very important

**Comment**

17. for exposures securitised by the credit institution and subject to the securitisation framework, a breakdown by exposure type of the amount of impaired and past due exposures securitised, and the losses recognised by the firm during the period (BCD Annex XII, para 14(h))

Not useful	Slightly useful	Useful	Very useful

**Comment**

18. In relation to the disclosures in Q17, the Basel Accord also includes the footnote: ‘Where relevant, banks are encouraged to differentiate between exposures resulting from activities in which they act only as sponsors, and exposures that result from all other bank securitisation activities that are subject to the securitisation framework.’ How useful would it be to you to have this information disclosed?

Not useful	Slightly useful	Useful	Very useful

**Comment**

19. the aggregate amount of securitisation positions retained or purchased, broken down by exposure type (BCD Annex XII, para 14(i))

Not useful	Slightly useful	Useful	Very useful

**Comment**

20. the aggregated amount of securitisation positions retained or purchased, broken down into a meaningful number of risk weight bands. Exposures that have been risk weighted at 1250% or deducted should be disclosed separately (BCD Annex XII, para 14(j)),



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25. In particular how useful would it be to have common definitions for exposure type

Not important	Slightly helpful	Helpful	Very important

26. In questions 14, 17, 19, and 22 where disaggregated information is required by asset type, exposure type or risk weight band, what level of granularity would you find relevant to your decision making? Please express as a materiality percentage and indicate the appropriate denominator.

	Disclosure	Granularity
	the total outstanding amount of exposures securitised by the firm and subject to the securitisation framework broken down by traditional and synthetic, and by <b>asset type</b> (BCD Annex XII, para 14(g))	
	for exposures securitised by the credit institution and subject to the securitisation framework, a breakdown by <b>exposure type</b> of the amount of impaired and past due exposures securitised, and the losses recognised by the firm during the period (BCD Annex XII, para 14(h))	
	the aggregate amount of securitisation positions retained or purchased, broken down by <b>exposure type</b> (BCD Annex XII, para 14(i))	
	the aggregated amount of securitisation positions retained or purchased, broken down into a meaningful number of <b>risk weight bands</b> . Exposures that have been risk weighted at 1250% or deducted should be disclosed separately (BCD Annex XII, para 14(j))	
	a summary of the securitisation activity in the period including the amount of exposures securitised ( <b>by exposure type</b> ) and recognised gain or loss on sale by exposure type (BCD Annex XII, para 14(l))	

27. Is there any information that you think would be very useful to you but is not covered by the CRD disclosure requirements?

28. Any other comments on the role of firms' disclosure of securitisation activities in the current market conditions

29. Overall, do you think the disclosures outlined in Questions 8 to 14, 17 and 19 to 22 would have positively influenced you to provide more funding to banks and investment firms in the second half of 2007?

<b>Not influenced</b>	<b>Possibly influenced</b>	<b>Probably influenced</b>	<b>Definitely influenced</b>



## **CRD-Pillar 3 Securitisation Disclosure Requirements in the Context of the Recent Market Turmoil**

### **Survey of Market Participants**

#### **Introduction**

Further to the October ECOFIN meeting, and the discussions between the industry and the Commission regarding the EU roadmap, the European industry set up a number of work streams to address disclosure and transparency. One of these working groups is focussing on Pillar 3 securitisation disclosures and the development of industry good practice guidelines, which will be published for consultation by the end of June 2008. As an input into this process, the working group decided to undertake a survey of market participants to determine the factors that influenced their decision to fund the bank and investment firm sector during the second half of 2007, the appropriateness of the information that is currently received and the likely usefulness of the various securitisation disclosures required by the CRD<sup>4</sup> and where they may require further elaboration to ensure that relevant and useful information is produced.

The report is structured in two sections, an executive summary of the key findings and an analysis of each of the questions. The questionnaire is contained as an Annex.

#### **Executive Summary**

This report summarises the findings from the 32 responses received. Of these, 18 responses were from banks (including commercial, public, savings and development banks); 4 from investment managers; 4 from investment firms; 3 from insurers; 2 from trade associations (representing members from the banking industry); and, 1 from a building society. Respondents come from firms with their head offices in 10 countries: France, Germany, Italy, Netherlands, Slovenia, Spain, Sweden, Switzerland, UK and USA. Not all respondents answered all questions.

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<sup>4</sup> Since the Pillar 3 disclosures were generally not available at the time of the questionnaire, the results therefore reflect firms' views on the likely usefulness of these disclosures in their decision-making.

The number of responses received was lower than anticipated particularly as many industry associations, who had strongly encouraged their membership to respond, supported the initiative. In the absence of further responses it is obviously not possible to determine with certainty whether this is due to a perception that the Pillar 3 disclosures are of low significance, or a lack of understanding of what they might deliver (the questionnaire could only ask about expected usefulness, since actual Pillar 3 disclosures were not available). However, we believe that the results of the questionnaire still provide a useful input into the development of the good practice guidelines and possibly provide support for its role as an educational tool for users.

Overall, the survey results demonstrate that there is room for improvement in the current disclosures, even when recognising the improvements in disclosures made as a direct response to recent market events. In particular the expressed desire for more consistent and granular disclosures does demonstrate that there is a role for the good practise guidelines on Pillar 3 securitisation disclosures.

### **Current disclosures**

The questions in this section were to determine the value that counterparties place on the current information provided. The majority of respondents believed that the current disclosures are slightly less than necessary, although just over a quarter thought that they were adequate and only a fifth thought that they are inadequate. There was recognition by some that current disclosures had responded to recent market events. Frequency of current disclosures was an issue for a slight majority, although generally participants thought that the information was provided in a timely manner.

The key drivers of information used to determine the level of funding provided to the bank and investment firm sector in the second half of 2007 fell into three broad categories: financial strength of the bank or investment firm counterparty; liquidity and funding issues in respect of the counterparty or the liquidity provider itself; and, general market conditions.

In respect of the type of involvement a firm has in securitisation, participants were most interested in the level of investment, followed by origination and then sponsoring.

Key information sources currently (in order of importance<sup>5</sup>) were: investor reports, rating agencies, annual accounts and bilateral information.

### **Pillar 3 disclosures**

These questions were aimed at assessing the likely usefulness of the forthcoming Pillar 3 securitisation disclosures (which were not available during the second half of last year or at the time of the questionnaire) and identifying the areas where guidance might be necessary to ensure sound and consistent implementation.

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<sup>5</sup> Determined on a weighted average basis.

The results of the survey provide support for the development of industry good practice guidelines on the Pillar 3 securitisation disclosures. Although only a small percentage of respondents thought that these disclosures would have 'definitely influenced' their decision on the level of funding they would have provided the market in the second half of 2007, over half thought that they 'probably' or 'possibly' would have influenced their behaviour.

In addition respondents indicated a strong desire for consistency of presentation of the disclosures and for a consistent definition of 'exposure type' (which underpins many of the disclosures).

Of the specific CRD Pillar 3 disclosures the top 3 items considered most useful (based on weighted average responses) were:

- breakdown of securitisation positions held by exposure type (Q19)
- role as investor (Q9),
- role of originator (Q9),

The fact that participants viewed the breakdown of securitisation positions held by exposure type (Q19) as being the most important disclosure mirrors the feedback received on the relevant importance of current disclosures. Notably, the survey results accorded the qualitative disclosure on a firm's role as investor and originator the 2<sup>nd</sup> and 3<sup>rd</sup> rank, respectively, in terms of usefulness.

Based on a weighted average of responses, the next 5 disclosures considered as useful were:

- outstanding amount of securitised exposures (Q14),
- qualitative indication of the extent of investor activity (Q10),
- impaired and past due information on exposures securitised (Q17),
- objectives as investor (Q8)
- objectives as originator (Q8)

Looking at the bottom of the list, the items considered least useful were:

- originators' and investors' interest in revolving securitisations (Q21)
- disclosure of securitisations in the year of inception only where the originator retains no further interest (Q15)
- qualitative indication of the extent of involvement in other roles, i.e. not originator, investor or sponsor (Q10)
- information on other roles performed (Q9)
- objective of the firm in relation to other roles (Q8)

Only a minority of respondents indicated that there were terms that needed to be defined, although, as noted above, there was a strong desire for consistency of interpretation of exposure type.

Approximately half of the participants responded to the question on granularity of information desired. However, it has not been possible to draw any meaningful conclusions from the information provided because of the dispersion of results. The working group will consider this issue further as part of the development of the guidelines.

As to whether there were perceived gaps in the Pillar 3 requirements, the majority of respondents either did not comment or indicated that there were no significant deficiencies. Some respondents, however, did provide some disclosure suggestions.

In relation to the role of disclosure, global consistency was highlighted as an important issue. It was also emphasised that securitisation disclosure is only one aspect of the information necessary for firms to make funding decisions and that information needs vary between counterparties. In relation to the current market environment it was noted that there is a difference between the information needs now and those in a future steady state and that the market will find its own level in terms of the amount of disclosure it requires.

## Detailed Results of the Questionnaire

### Question 1

**What were the key factors that influenced your decision on the level of funding that you provided (or the reduction in the level of funding you would have provided) to the bank and investment firm sector during the second half of 2007? Please include both internal and external (general market and idiosyncratic) factors and please rank in order of importance.**

Although the precise language of the submissions varied, three broad drivers<sup>6</sup> underpinned the majority of factors listed in determining the level of funding provided to bank and investment firm counterparties: financial strength of the bank or investment firm; liquidity and funding issues in respect of the counterparty or the funding firm itself; and, general market conditions/liquidity. Overall, financial strength was the primary driver across all the rankings. Liquidity and funding and market factors were the second and third most important factors at Rank 1.

Also mentioned were the availability of hedging instruments such as collateral; transaction specific issues; existing relationships with the counterparties, the location of the counterparty, the importance of the counterparty to that location and the economic environment in which it operates. Interestingly only two respondents indicated that the level of disclosure was a factor in their decision making (both at Rank 4).

Many firms directly cited financial strength or financial standing. Other factors that were cited that are illustrative of this driver include:

- 'share price'
- 'external rating'
- 'latest reports about profitability'
- 'detailed exposure by asset class'
- 'significance of exposure to securitisation markets'
- 'earnings diversification'
- 'business model (retail bank, wholesale bank, broker)'
- 'capital ratios (tier 1 particularly)'

In relation to liquidity/funding issues, examples of factors cited include:

- 'liquidity position and cash-flow'
- 'sources of funding (diversification/stability)'
- 'maturity profile'
- 'liquidity facilities/commitments'
- 'own liquidity position and forecast'

Factors cited in relation to market conditions included:

- 'perception of market liquidity'
- 'pricing'

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<sup>6</sup> Some factors cited were attributed to more than one driver.

- ‘general market cds/cash spread levels’
- ‘economic conditions’

In answering this question, several participants pointed out that the factors that influenced decisions would depend on the type of business being undertaken i.e. the blend of factors of importance will vary between different businesses within a firm. For example one firm indicated that from a liquidity providers’ point of view it was very important to know how much the counterparty relies on securitisation for funding. For that reason several respondents either did not or only partially ranked the factors. Other participants highlighted that securitisation is only a part of the information necessary to make funding decisions. As a result there are always likely to be follow up questions from any data provided.

One respondent highlighted that the funding tensions were caused not only to multilateral mistrust between banks but also the closure of all major primary markets. Another indicated that recent events had not materially changed the amount of funding that they had provided to the market. Yet another highlighted the importance of the ongoing relationship with the counterparty in determining funding decisions.

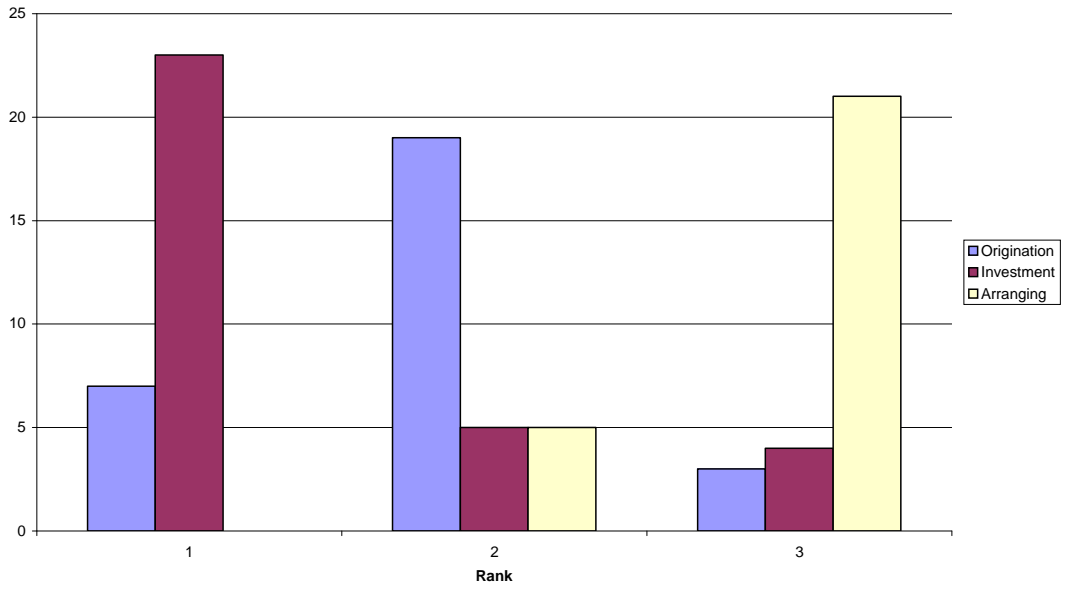
## **Question 2**

**What aspect of firms’ exposures to securitisation is most important to you when making your funding decision: origination, investment or arranging?**

The graph below illustrates that when looking at securitisation information as part of the funding decision, the extent of securitisation investments is the most important factor: In the comments received with this question, one respondent noted that investment positions will vary over time. Another indicated that information on holdings should include liquidity facilities provided to conduits and SIVs.

Origination and sponsorship are quite clearly of second and third order importance respectively.

Question 2



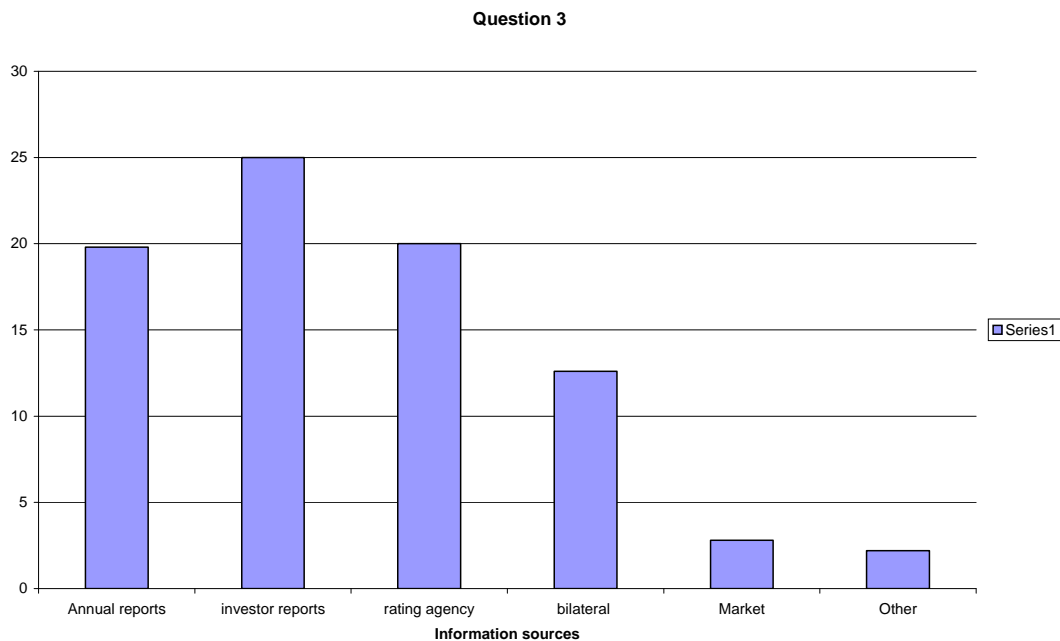
### Question 3

**Where do you get most of your information on firms' exposures to securitisation currently? (e.g. annual accounts, investor reports, rating agency reports, bilateral information provided by counterparty, etc)**

In weighted average terms, investor reports were the most important source of information for users currently, followed by annual accounts/firm publications of results and rating agency reports<sup>7</sup>.

In absolute terms, annual reports and investor reports scored equal top for rank 1. Rating agencies scored highest at ranks two and three. Bilateral information scored evenly across the rankings, but was highest ranking at rank 5. One firm highlighted that it was difficult to provide a ranking for information because different things will be relevant to different departments of the firm depending on the transactions being undertaken. Several respondents cited more than one information source in a particular ranking.

Although bilateral information did not feature that strongly in the rankings, one respondent indicated that where the nature of the transaction is time critical, bilateral information is crucial. Another respondent also noted that at the start of the market turmoil information gathering was difficult. Yet another indicated that there is no one source of information about a firm's exposure to securitisation, the closest information source that provides this is the rating agencies.



### Question 4

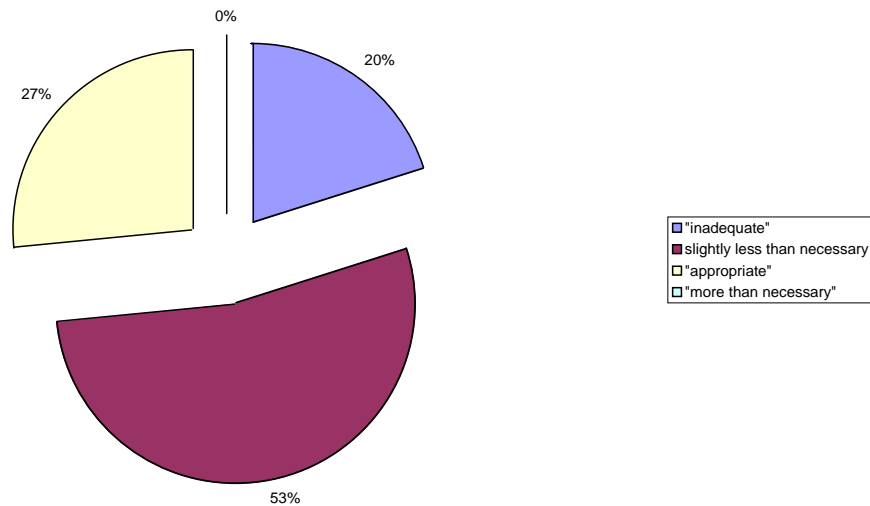
**Do you think that the level of information you receive at the moment on firms' exposures to securitisation (public and bilateral information) is generally inadequate, slightly less than necessary, appropriate, or more than necessary**

<sup>7</sup> Not all respondents provided five factors or ranked them.

The fact that the majority considers the current level of disclosure to be slightly inadequate indicates that there is room for improvement. One market participant did note, however, that disclosure had increased in response to recent events

One respondent noted that the level and content of information provided did vary from firm to firm, whilst another observed that more consistency of presentation would be helpful. This comment is supported by the answer to question 23 below. Several respondents did note that the level of information provided on exposure to securitisation could be improved.

Question 4



### Question 5

**If you ticked 'slightly less than necessary' or 'inadequate', please specify what additional information you think should be produced.**

The majority of market participants responding to this question (i.e. a subset of respondents) indicated that they are seeking greater granularity in the information provided in terms of investments and origination, but there were also a number of references to valuation information. However, although greater granularity came through as a theme, the precise detail varied between respondents, examples below:

- asset type underlying the securitisations positions held
- the products themselves – traditional, synthetic
- ratings/risk of positions held
- vintages
- seasoning of portfolios
- exposure to conduits and SIVs including liquidity provision
- whether SPVs are consolidated or not
- third party insurance and guarantees
- risk assessment and stress testing of securitisations originated

- where profit is generated in the value chain
- impairment levels

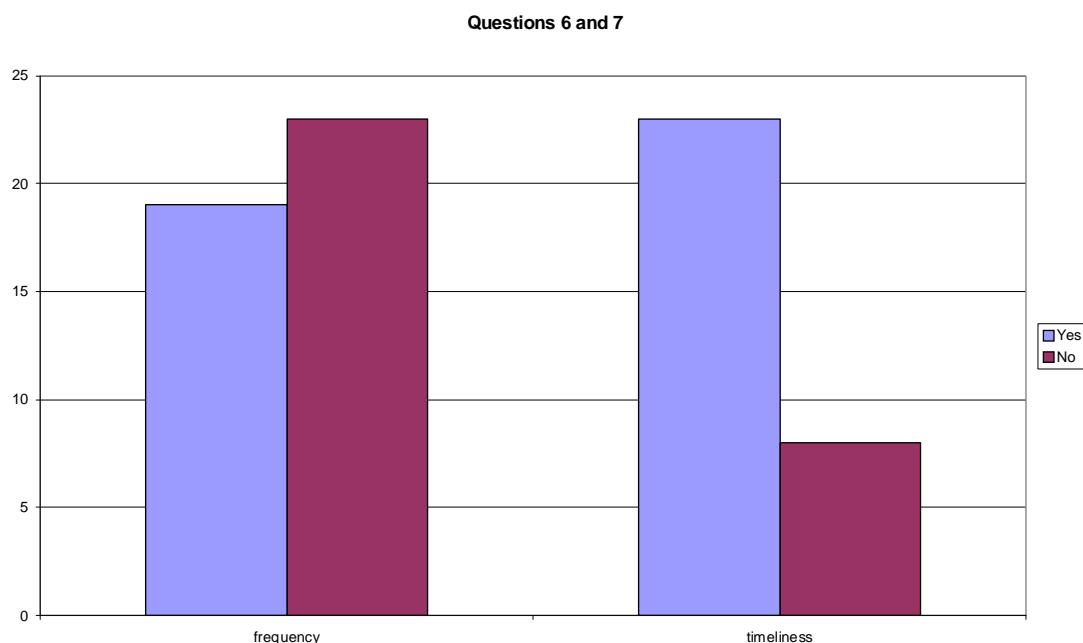
Two respondents indicated that information should be provided on the trading book, although one respondent commented that investments obviously change over time. A further two respondents commented on frequency of provision of data, but it was not clear as to whether this related to ongoing frequency of data production or availability of information during the current market turmoil. They also did not specify the frequency that they were seeking.

### Questions 6 and 7

**Is the (public and bilateral) information you receive produced at an appropriate frequency?**

**Is the information received in a timely fashion?**

The results to questions 6 and 7 would tend to suggest that frequency of disclosure is an issue for a marginal majority of respondents. However, a significant majority of participants are content that information is provided in a timely manner.



### Question 8

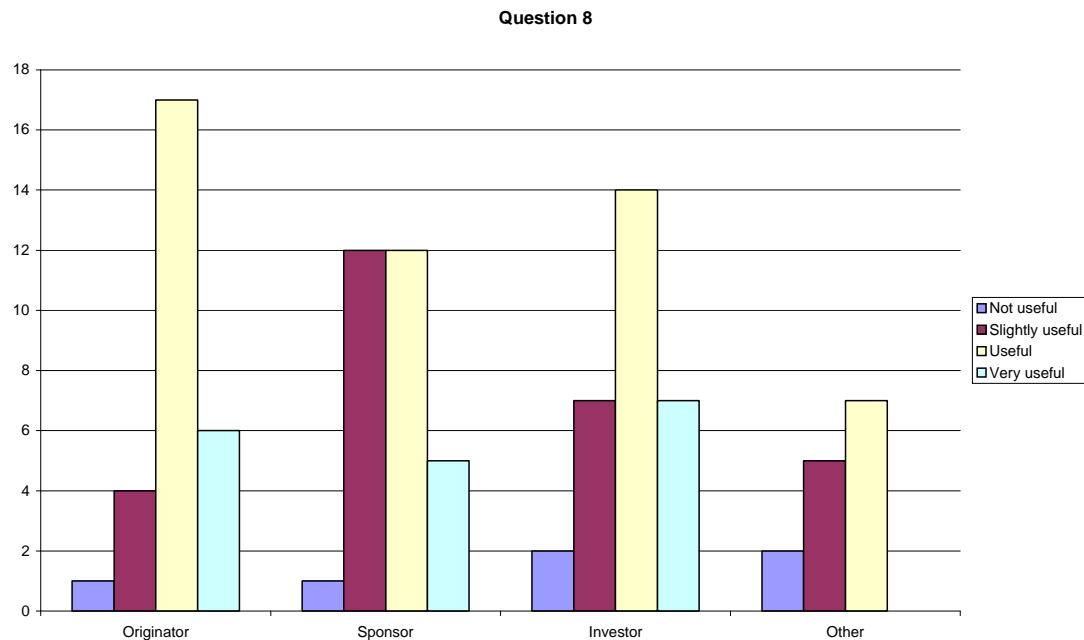
**A description of the firm's objectives in relation to securitisation activity (BCD Annex XII, para 14(a))**

On a weighted average basis, the most useful disclosure as regards objectives was for the firm as investor. However this was closely followed by originator and then sponsor. Objectives regarding other roles were considered less useful. The dispersion of responses is shown in the chart below.

Some respondents indicated that information on objectives was already available (for example as part of the general corporate strategy) or could be obtained bilaterally. One respondent indicated that it was not clear how useful it would be to separately identify securitisation objectives from the overarching corporate objectives. Another thought that the objectives would be very similar between firms.

One participant indicated that it is important to have a clear understanding of the roles (and other terms). This was supported by the answer to Question 24 where several participants indicated that definitions of roles would be helpful.

Two respondents indicated that they thought there should be differentiation between originators who securitise their own assets and those that purchase assets to securitise. However, this was not suggested by other respondents.



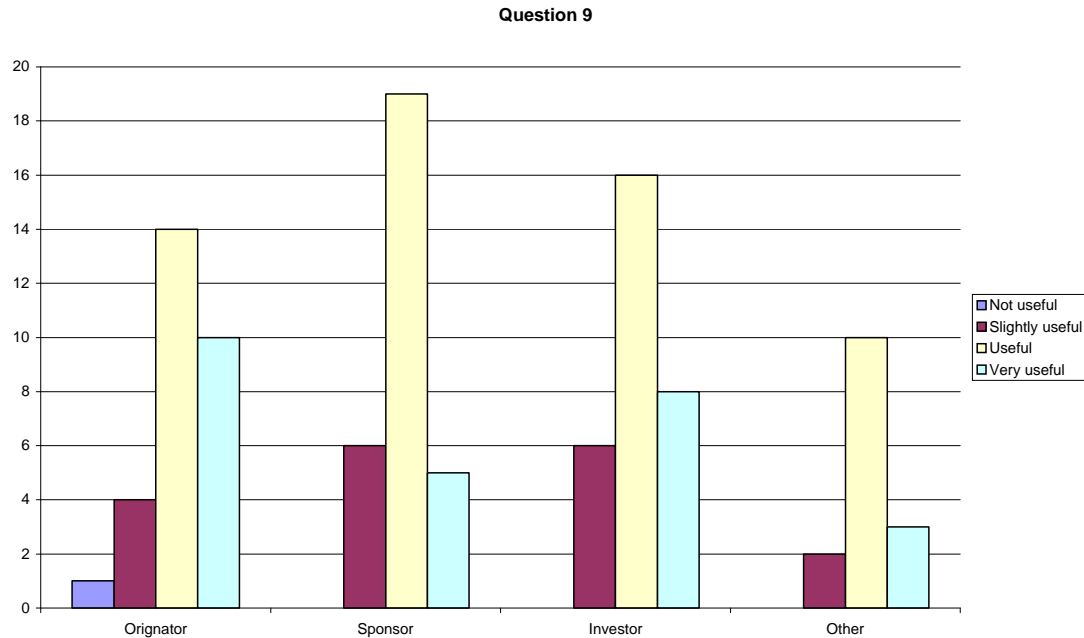
### Question 9

#### The roles played by the firm in the securitisation process (BCD Annex XII, para 14(b))

On a weighted average basis, the results for information on the roles followed those for the objectives, i.e. in order of usefulness: investor, originator, sponsor other. However the weighted averages for investor, originator and sponsor were even closer than for objectives. The dispersion of results is shown in the graph below.

As with question 8, the definition of roles was identified as an important consideration by one respondent, which is supported by the answers to Question 24. Two respondents commented that – within or outside these roles - disclosures should be made on the provision of liquidity facilities or on whether liquidity provision was taken up as a separate role.

One participant indicated that this information is already available bilaterally if requested. However, another thought that the information provided here would be more useful than the objectives as it would be institution specific (objectives are more likely to be generic across institutions).



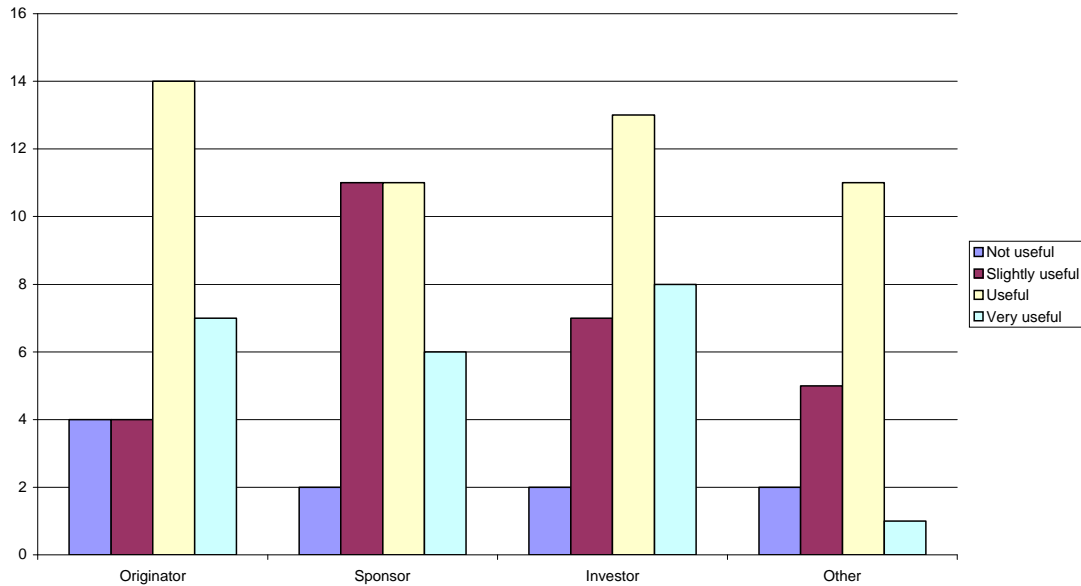
### Question 10

**An (qualitative) indication of the extent of the firm’s involvement in each role (BCD Annex XII, para 14(c))**

On a weighted average basis the order of usefulness of the disclosures was the same as for Questions 8 and 9, i.e. investor, originator, sponsor and other. The scores between investor and originator were slightly less close than for Questions 8 and 9.

Although the majority of respondents indicated that qualitative disclosure regarding a firm’s involvement in the roles would be useful, some respondents indicated that this information will be difficult to interpret without quantitative details. As with objectives and roles, one respondent indicated that this information is already available bilaterally, i.e. the information is available if the counterparty asks.

### Question 10



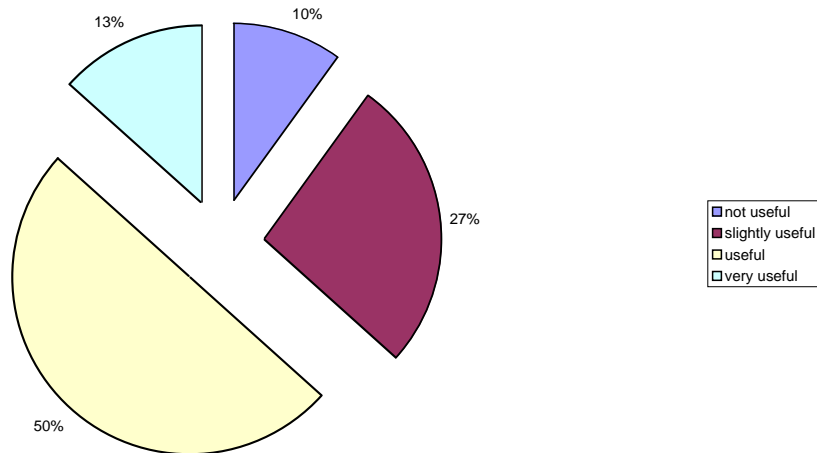
### Question 11

#### **The approaches to calculating risk weighted exposure amounts that the firm follows for its securitisation activities (BCD Annex XII, para 14(d))**

Nearly two thirds of respondents thought that information on the risk weighting approach used for securitisation exposures would be either useful or very useful. One respondent explained this score by highlighting that this information was not available elsewhere.

One respondent did note that in relative terms, this information was much less useful than the quantitative information on the securitisation exposures themselves. Another respondent indicated that information on the risk weighting approach would only be useful if it was accompanied by detailed information on how the capital requirement was calculated.

#### Question 11



#### Question 12

A summary of the firm's accounting policies for securitisation activities including (BCD Annex XII, para 14(e)):

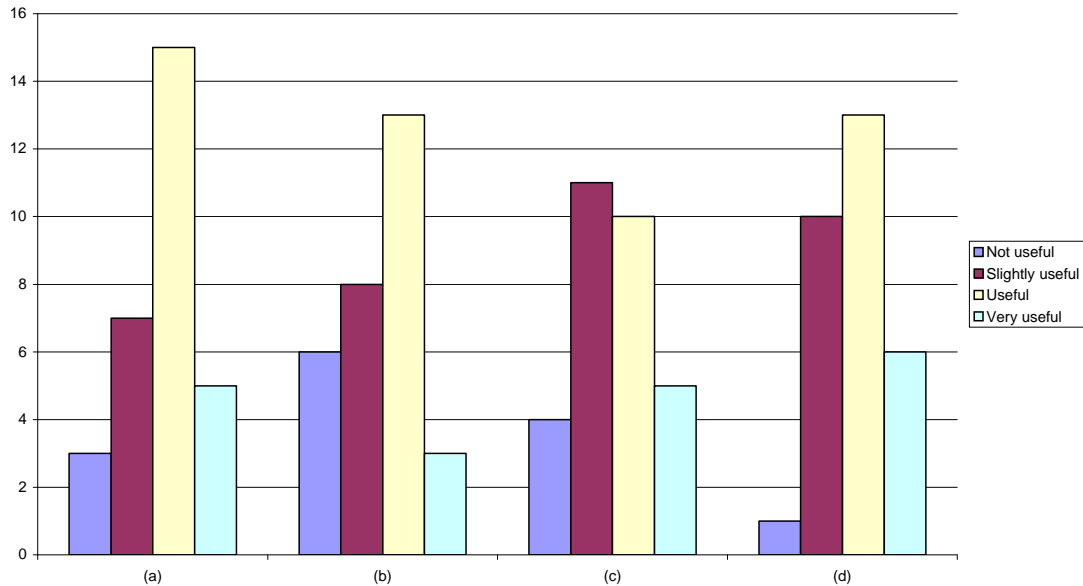
- (a) whether the transactions are treated as sales or financing
- (b) the recognition of gains on sales
- (c) the key assumptions for valuing retained interests; and
- (d) the treatment of synthetic securitisations if this is not covered by other accounting policies

On a weighted average basis disclosure of the treatment of synthetic securitisations was considered to be the most useful, followed by whether transactions are treated as sales or financing; the key assumptions for valuing retained interests; and, lastly, the recognition of gains on sales. The dispersion of results is set out in the graph below.

There were relatively few comments on this question. They observed the following:

- the information is already available bilaterally;
- further clarity would be helpful in respect of what disclosures (a) and (b) were intended deliver;
- it is important to understand if the transaction is treated as a standard securitisation or for synthetics the treatment of the derivative;
- requirements set by the local regulator need to be explained;
- distinction was sought between those transactions sold to the market and those retained as part of a warehousing arrangement.

Question 12

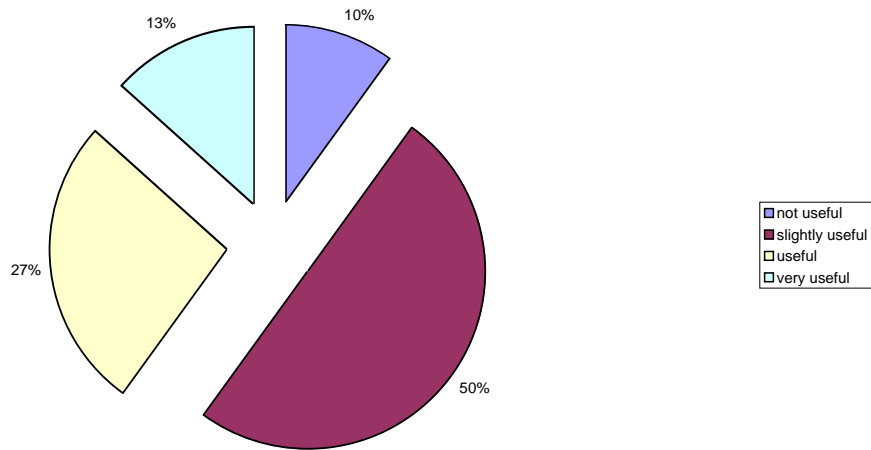


Question 13

The names of the credit rating agencies used for securitisations and the types of exposure for which each agency is used (BCD Annex XII, para 14(f))

Information on the rating agencies used by the firm is considered by respondents to be one of the less useful disclosures, with nearly 60% of respondents considering it to be only 'slightly useful' or 'not useful' at all. This is perhaps because structured finance transactions tend only to be rated by the major players.

Question 13



Questions 14 and 15

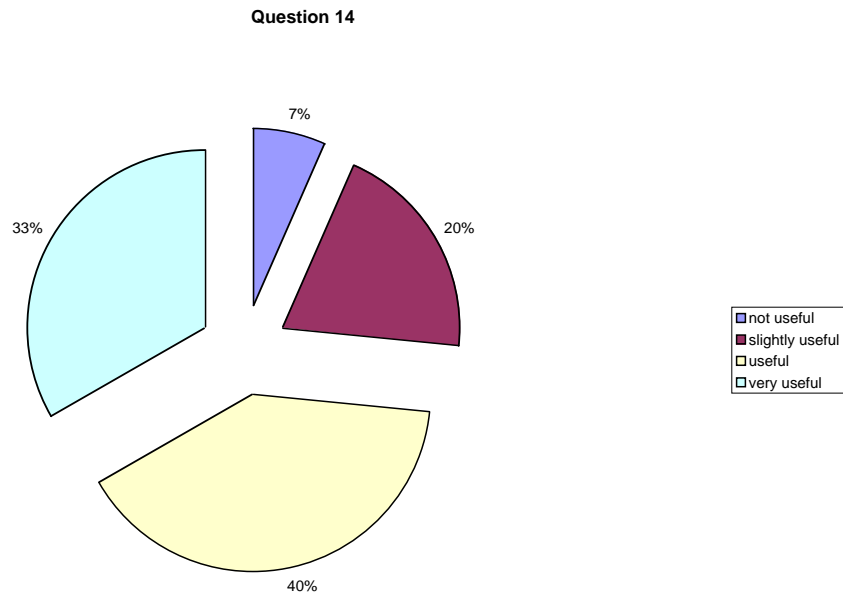
**The total outstanding amount of exposures securitised by the firm and subject to the securitisation framework broken down by traditional and synthetic, and by asset type (BCD Annex XII, para 14(g))**

**How useful to you would it be if securitisation transactions in which the originating firm does not retain any exposures were disclosed separately, but only reported in the year of inception as part of the disclosures in question 14?**

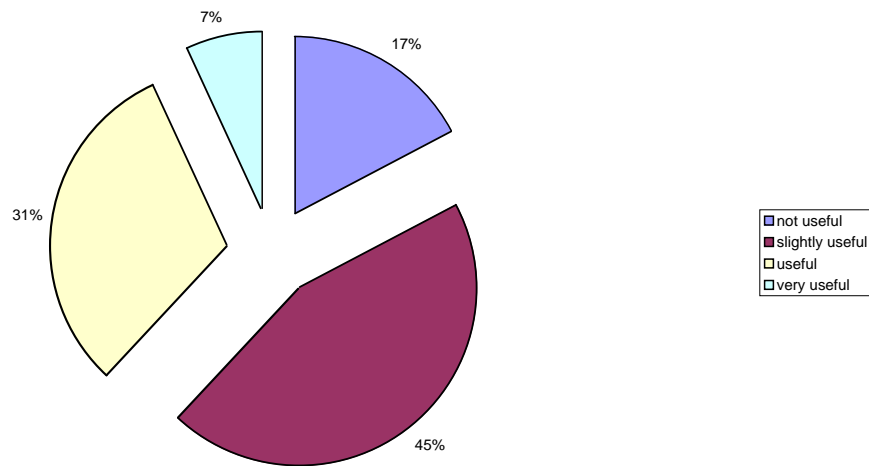
Disclosure of exposures securitised is considered by respondents to be one of the more important aspects of the securitisation disclosure requirements with nearly three quarters of respondents indicating that this information is either 'very useful' or 'useful'.

Common definitions were noted by two recipients as being important for the usefulness of the disclosures made. One participant indicated that the split between traditional and synthetic is the less important element of this disclosure. Another indicated that information about financing structures would be helpful

The disclosure of those transactions where the originator retains no further interest in the year of inception was not considered that helpful. Some respondents think that the outstanding stock of securitised exposures should be disclosed on an ongoing basis. Another respondent, in contrast, took the view that disclosing those transactions where originators retain no interest in the transaction merely creates noise.



#### Question 15

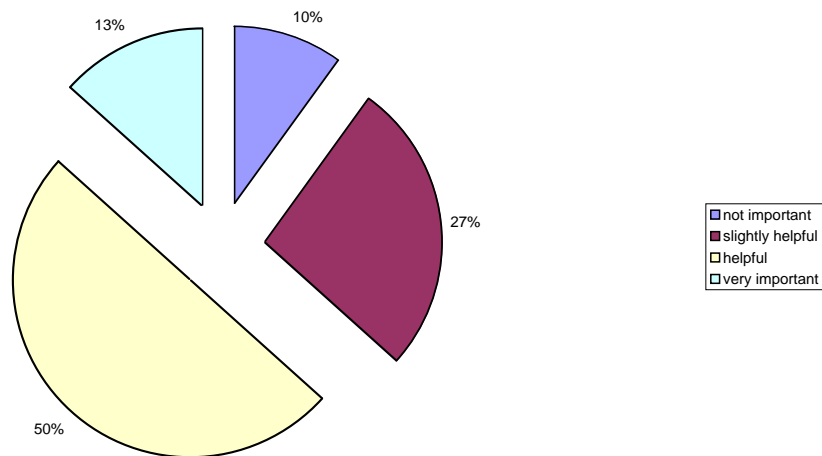


#### Question 16

**In relation to the disclosures in Q14, the Basel Accord includes the following footnote: ‘Where relevant, banks are encouraged to differentiate between exposures resulting from activities in which they act only as sponsors, and exposures that result from all other bank securitisation activities that are subject to the securitisation framework.’ How useful would it be to you to have this information disclosed?**

The separate disclosure of sponsored transactions from own originated transactions was also regarded by participants as useful, with approximately two thirds of respondents indicating that this is either ‘very useful’ or ‘useful’. Two participants who commented on this question raised the issue of how firms who sponsor transactions that include some of their own assets would be treated for the purposes of this disclosure.

#### Question 16



#### Questions 17 and 18

**For exposures securitised by the credit institution and subject to the securitisation framework, a breakdown by exposure type of the amount of impaired and past due exposures securitised, and the losses recognised by the firm during the period (BCD Annex XII, para 14(h))**

**In relation to the disclosures in Q17, the Basel Accord also includes the footnote: ‘Where relevant, banks are encouraged to differentiate between exposures resulting from activities in which they act only as sponsors, and exposures that result from all other bank securitisation activities that are subject to the securitisation framework.’ How useful would it be to you to have this information disclosed?**

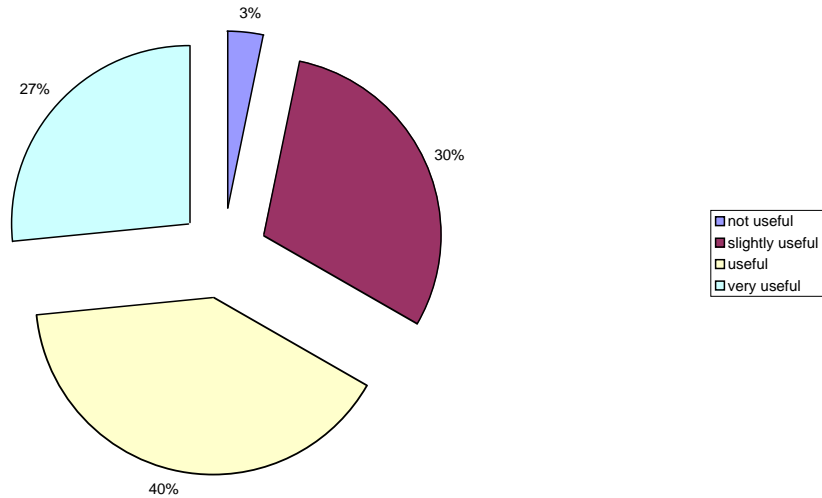
The breakdown of securitisations by exposure type of the amount of impaired and past due exposures is also considered useful with approximately two thirds of respondents indicating that it would be ‘useful’ or ‘very useful’.

One respondent indicated that this information is only really meaningful if impairment details are provided at the transaction level. However we note that such an approach would be inconsistent with the general premise of data aggregation that underpins the Pillar 3 disclosure requirements. Such transaction level disclosures are already available, as another participant pointed out, in the trustee and rating agency reports. Another respondent suggested that impairment information is only useful if the firm is retaining exposures to an originated securitisation. Definition of impaired and past due was raised as an issue, which accords with the answers received to Question 24.

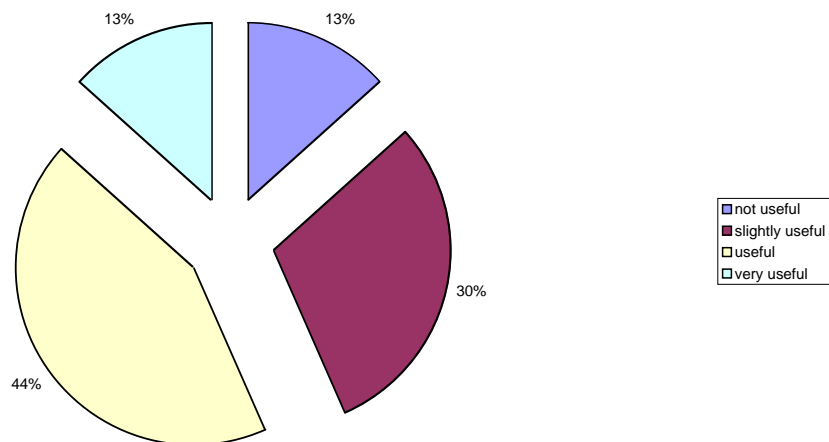
The disclosure of the distinction between transactions sponsored and own originated for impaired and past due, as provided for in the Basel footnote set out in Question 18, was considered by respondents to be slightly less relevant than the original CRD requirement,

although the majority of respondents still indicated that they would find this ‘very useful’ or ‘useful’.

Question 17



Question 18

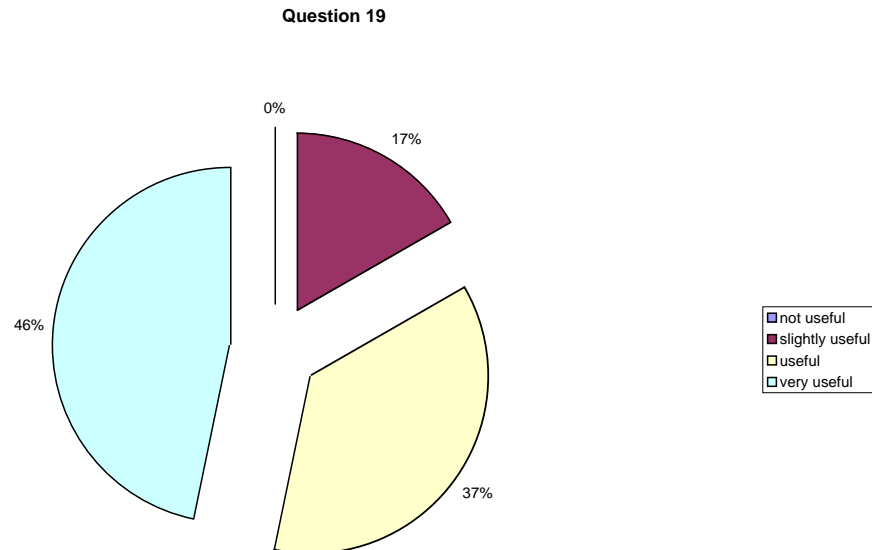


### Question 19

**The aggregate amount of securitisation positions retained or purchased, broken down by exposure type (BCD Annex XII, para 14(i))**

Given the response to question 2, it is hardly surprising that the breakdown of securitisation positions held by the firm is regarded to be most important element of the CRD requirements, with in excess of 80% of respondents indicating that this information would be ‘very useful’ or

'useful'. One respondent indicated that it would be helpful to provide a further breakdown of positions held between those that are retained and those that have been purchased. However, we note that this would raise the issue of how to allocate positions in own securitisations purchased at a later date. Definitions were again raised as an issue for further consideration.

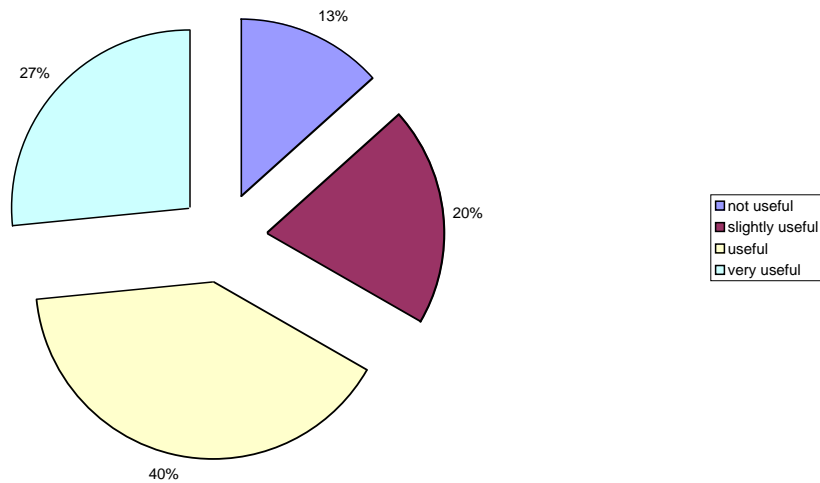


### **Question 20**

**The aggregated amount of securitisation positions retained or purchased, broken down into a meaningful number of risk weight bands. Exposures that have been risk weighted at 1250% or deducted should be disclosed separately (BCD Annex XII, para 14(j))**

Since the breakdown of securitisation positions held by risk weight bands give an indication of the perceived risk in the portfolio (from a regulatory perspective) it is surprising that the percentage of respondents who thought that this information would be very useful or useful falls to 67%. This is perhaps because regulatory risk weight bands are a less well understood concept than rating grades. One participant did suggest that the disclosures in 19 and 20 would be more useful if they were to be combined.

#### Question 20

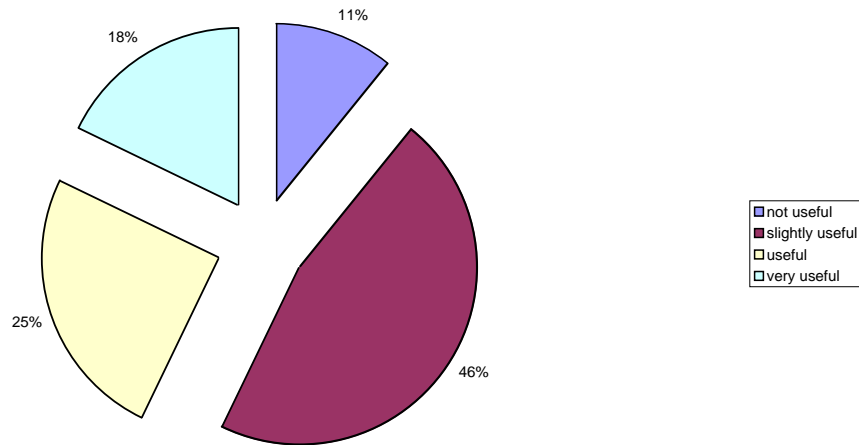


#### Question 21

##### **The aggregate outstanding amount of securitised revolving exposures segregated by the originator's interest and the investor's interest (BCD Annex XII, para 14(k))**

The disclosure of originators' and investors' interest in securitisations of revolving assets is regarded by participants as being one of the least useful disclosures, with over half of respondents indicating that it would be 'slightly useful' or 'not useful'. This is possibly because, as indicated by one of the respondents, there is a lack of clarity as to what this disclosure would entail. Another respondent indicated that this disclosure would not deliver meaningful risk information. This participant thought that size and type of structure would be more helpful information.

### Question 21

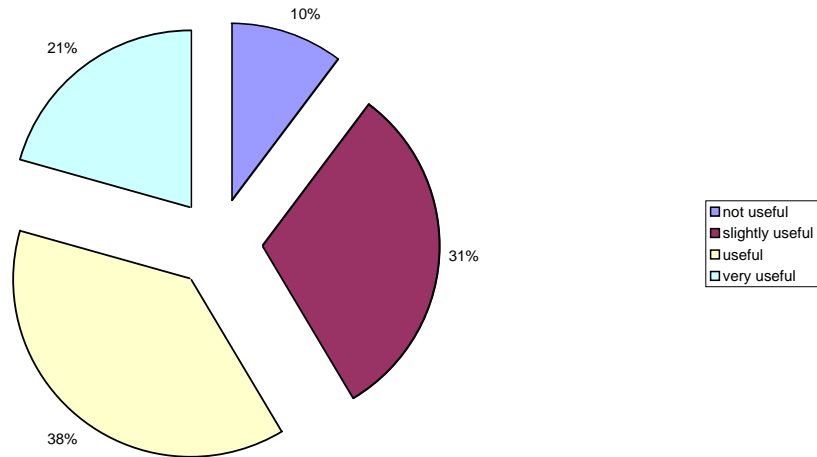


### Question 22

**A summary of the securitisation activity in the period including the amount of exposures securitised (by exposure type) and recognised gain or loss on sale by exposure type (BCD Annex XII, para 14(I))**

The responses to this question demonstrate that market participants are more interested in the stock of outstanding transactions than they are in the activity during the period. That said, however, over half of respondents thought that this information would be 'very useful' or 'useful'. Although one commentator indicated that trend data would be more useful than a one period 'snapshot'. Recognised gain or loss on sale was identified as a definitional issue.

Question 22

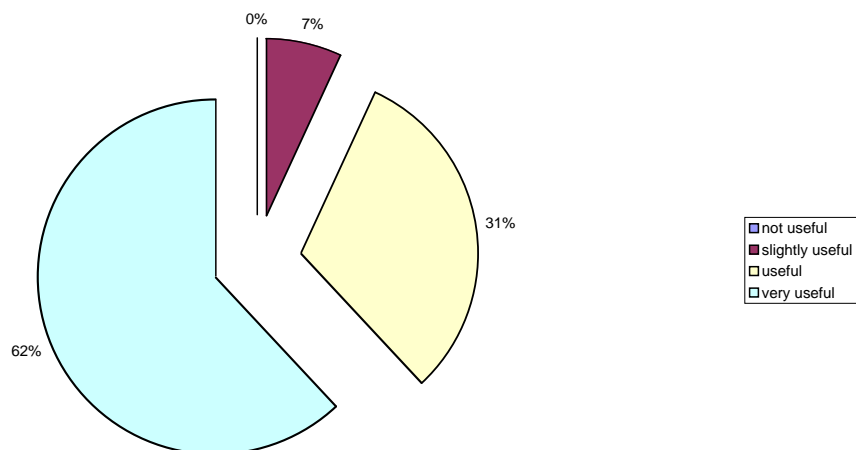


### Question 23

**How important is it to you that the information you find ‘useful’ or very useful (in questions 8 to 21 above) be presented in a common format?**

As can be seen below common format, and therefore consistency of presentation, was viewed as important by over 90% of respondents. Support for the development of industry guidelines enhancing convergence in the presentation of Pillar 3 disclosures is therefore evident.

Question 23



### Question 24 and 25

**From questions 8 to 14, 17 and 19 to 22, are there any terms for which you think it would be helpful to have common definitions?**

**In particular how useful would it be to have common definitions for exposure type**

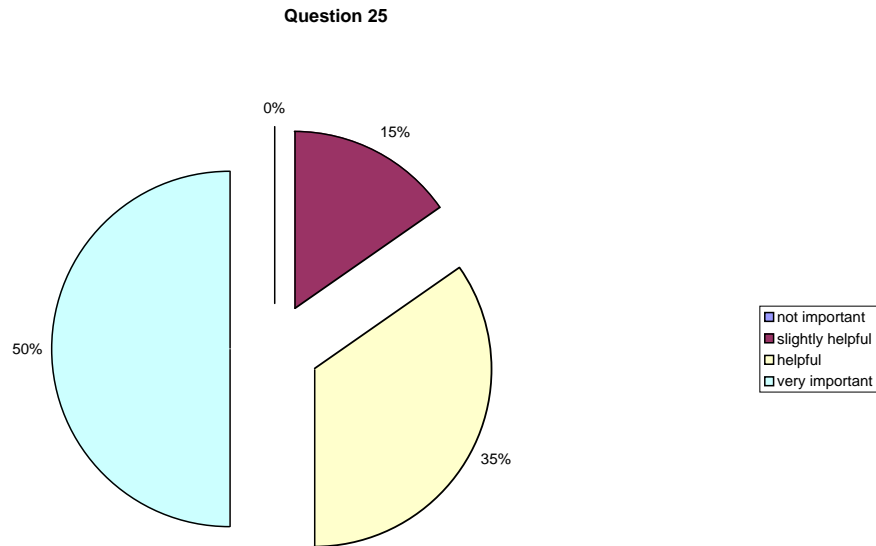
Given the response to question 23 regarding formats, surprisingly few participants identified terms that they thought required defining (approximately one third). However consistency of definition of exposure type, was considered to be ‘very important’ or ‘helpful’ by over 80% of respondents to question 25.

Of those that responded to question 24 the most popular terms for which definitions were sought were:

- originator, sponsor, investor and other roles
- ‘asset type’
- ‘impaired’ and ‘past due’

The second most popular terms were: :

- ‘synthetic securitisation’;
- ‘meaningful number of risk weight bands.’



### **Question 26**

**In questions 14, 17, 19, and 22 where disaggregated information is required by asset type, exposure type or risk weight band, what level of granularity would you find relevant to your decision making?**

Approximately half of respondents provided comments on this question. However, it has not been possible to develop any meaningful conclusions from the answers provided given the range of responses provided because the answers ranged from 0% to 100%. The Working

Group proposes to consider this issue further as part of the development of the guidelines and will consult with market participants as part of that process.

#### **Question 27**

**Is there any information that you think would be very useful to you but is not covered by the CRD disclosure requirements?**

The majority of respondents either did not comment or indicated that there were no significant gaps in the disclosure requirements outlined in Pillar 3. Those that did respond suggested the following areas where more information would be helpful:

- disclosure of liquidity arrangements
- re-securitisations (particularly of own originated transactions)
- synthetic securitisations of securitisations
- own securitisations repo'd
- use of off balance sheet vehicles
- breakdown of securitisation positions by asset class and geography
- valuation methodologies used for pricing securitisation positions held
- securitisation positions in the trading book
- distinction between positions retained and purchased
- qualitative information on investments, for example how much relates to originated securitisations
- qualitative information on the disclosure of impaired and past due securitisations, for example in relation to geography
- consistency between the disclosures in question 14 and 22, with respect to total outstanding securitisations and the activity during the period
- information on hedging
- whether SPEs are consolidated or not and the volume of exposure to them
- credit support arrangements (e.g. indemnities provided)
- capital savings from securitisation

#### **Question 28**

**Any other comments on the role of firms' disclosure of securitisation activities in the current market conditions**

From the responses received<sup>8</sup> and subsequent commentary we have received from other firms, the need for consistency at a global level is considered important (particularly if there are going to be changes to the Pillar 3 framework). It has been emphasised that securitisation disclosures are only one element in the decision making process. There is also a balance to be struck between the information provided (there are different appetites between counterparties as to the amount of information desired), the delicacy of the current market situation and the cost benefit associated with expanded disclosure. In respect of the current market situation, one respondent did comment that since the market is undergoing a period of dramatic change, it is important to re-consider the relevance of the Pillar 3 disclosures in the context of both the current position (where increased disclosure is necessary) and the future steady state (where the relevant

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<sup>8</sup> The majority of respondents did not answer this question.

information may be different). Additionally the market is likely to find its own level as to the amount of disclosure that it requires.

### Question 29

**Overall, do you think the disclosures outlined in Questions 8 to 14, 17 and 19 to 22 would have positively influenced you to provide more funding to banks and investment firms in the second half of 2007?**

Although only a small percentage of participants indicated that the Pillar 3 disclosures would have ‘definitely influenced’ their decision on the level of funding that they provided to the market in the second half of last year, a significant proportion thought that it would ‘probably’ or ‘possibly’ have influenced their behaviour.

