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March 15, 2013

Basel Committee on Banking Supervision
Centralbahnplatz 2
CH-4002 Basel, Switzerland
Via email: baselcommittee@bis.org

Re: BCBS236 - Revisions to the Basel Securitization Framework

To the Members of the Basel Committee:

The International Association of Credit Portfolio Managers[1] (the "IACPM") appreciates the opportunity to comment on the Basel Committee's consultative document, "Revisions to the Basel Securitization Framework". The IACPM recognizes the importance of adjusting the framework to reflect the experiences of the past several years, and to provide a strong regulatory foundation for continued global economic recovery.

Below we offer our views and comments in two parts. In the first part, we provide context for the IACPM's views and describe the important role of securitization tools in the management of bank credit portfolios. In the second part, we provide our support of views articulated by other groups as part of the consultative process.

I. Background and Context

The IACPM's institutional member firms comprise the world's largest financial institutions, and as such overlaps the membership of several other financial industry associations. Our perspective is different, however, in that the IACPM represents the teams within those institutions who have responsibility for managing credit portfolios. IACPM members are the group responsible for managing the bank's loan portfolio, including actively controlling concentrations, adding diversification and managing the return of the portfolio relative to the risk, and managing counterparty risk related to derivatives exposure.

In carrying out these responsibilities successfully, credit portfolio managers contribute to maintaining the safety and soundness of their respective financial institutions. Effective credit portfolio management is critically important to our prudential supervisors and to policy makers more broadly because of its role in supporting financial institutions' ability to lend.

Banking regulators in many jurisdictions have long recognized securitizations (both cash and synthetic) as an effective risk transfer tool. Importantly, properly structured securitizations that are recognized as risk mitigants for regulatory capital purposes "free up" financial institutions' regulatory capital, enabling them to make more credit available to their customers, which is so vitally important in the current environment.

The IACPM's interest in securitizations is in preserving their utility as risk management tools. It is critically important that the proposed new securitization framework not reduce the ability of portfolio managers to mitigate balance sheet risk through securitizations of credit (very broadly "bank balance sheet securitizations"). This is especially true for less liquid categories of credit risk, such as middle market, SME and emerging markets credit, where securitization is often the only available tool for risk transfer.

The volume of securitization transactions supporting risk management activities is significant. Recently, we commented to the U.S. Securities and Exchange Commission (SEC) in regard to their proposed Rule 127B (part of the Dodd-Frank Act), which would have curtailed synthetic securitization (although both cash and synthetic securitizations are used by portfolio managers, the vast majority of transactions for credit portfolio management are synthetic). As part of that comment process, the IACPM surveyed its members to estimate the gross volume of these bank balance sheet securitizations that are used by portfolio managers to transfer risk. The gross volume currently outstanding is over USD$180Bn, and we suspect this is an underestimate. This likely translates directly into additional lending capacity made available to the firms transferring this risk. (Please see the more detailed results in Annex I). Our full responses to the SEC are available at this link on the SEC's web site:
http://www.sec.gov/comments/s7-38-11/s73811-18.pdf
http://www.sec.gov/comments/s7-38-11/s73811-51.pdf
http://www.sec.gov/comments/s7-38-11/s73811-53.pdf

Very importantly, several investors in these securitizations also wrote to the SEC in support of maintaining these transactions. Their comments demonstrate the willingness of sophisticated investors to accept bank balance sheet securitizations if properly structured to align interests (it would be virtually impossible to execute such a transaction if not structured in this way). The most detailed comments came from the Dutch pension fund PGGM, and BlueCrest Capital and Orchard Management also commented.
PGGM letter: http://www.sec.gov/comments/s7-38-11/s73811-49.pdf
BlueCrest letter: http://www.sec.gov/comments/s7-38-11/s73811-47.pdf
Orchard letter: http://www.sec.gov/comments/s7-38-11/s73811-50.pdf

These transactions are examples of securitizations working at their best, providing mutual benefit for both buyers and sellers. Banks can use these tools to transfer risk, manage concentrations, and free lending capacity. Investors can gain exposure to asset classes otherwise unavailable to them, and at yields that are very attractive relative to alternatives.

We do not believe bank balance sheet securitizations are the target of the proposed Basel framework, but nevertheless, they will be affected by them, and we are concerned that the effect will be negative. It seems likely that the increased capital charges for both the most senior tranches and longer dated tranches will curtail the ability of portfolio managers to use bank balance sheet securitizations to prudently manage and transfer risk.

Importantly, the level of capital that would be applied to bank balance sheet securitizations appears overly conservative from two perspectives. Firstly, the empirical performance of bank balance sheet securitizations has been well within even current capital levels, even through the recent downturn. Feedback from IACPM members who have had deals in place through the financial crisis provides support that the structures have performed well, and have been overseen by local regulators in regard to the capital relief provided by these transactions, Secondly, the assets in a bank balance sheet securitization are the bank's own lending assets. These assets have been originated through a bank's existing credit process, have been rated internally, and are to entities to which banks retain a level of exposure. This is fundamentally different from the transaction driven products that caused problems in the downturn, where assets are purchased for securitization.

II. Response to Proposed Framework

In coordinating with other industry groups to draft a response, we concluded that we are largely in agreement with many of the ideas being developed by other groups. While the underlying reason for our stance comes from a different perspective (as noted above), the conclusion we reach is the same: the proposed framework is unnecessarily conservative in its calibration and structure.

Thus we support the views presented by both the Institute of International Finance and the Global Financial Markets Association, in their respective letters to you in regard to BCBS236 and related papers. In particular, we highlight the following points as being particularly important for credit portfolio managers using bank balance sheet securitizations as a risk management tool (citing the source letter and the relevant section within that letter):

- **Calibration of the framework is overly conservative for many asset classes, relative to historical performance.** Both the IIF (section: *Unduly conservative calibration*) and the GFMA (section: *Outside certain well-known and defined sectors, securitisations have performed well since the financial crisis*) support this view with examples that are relevant to bank credit portfolio managers.

- **Capital levels for securitized positions exceed underlying assets, leading to disincentives to use securitization**. The GFMA (section: *Main themes*) provides several useful numerical examples in *Annex 1, 2 & 3,* and the IIF (section: *Proposed approaches in the securitization framework*) provides similar examples.

- **The maturity adjustment, floor and structure of the MSFA creates overcapitalization.** Both IIF (section: *Modified Supervisory Formula Approach*) and

GFMA (section: *Maturity and market risk adjustments, Annex 6 & 7*) provide numerical analyses that are relevant to members of IACPM. The floor is too high, and maturity adjustments should be limited.

- **The proposals do not appear to take into account regulatory changes already implemented since the crisis**. This is well articulated in both the IIF letter (section: *Motivations for revising the securitization framework*) and the GFMA letter (section: *The existing regulatory and industry response*).

We suggest that carving out a different capital treatment for bank balance sheet securitizations would be one way to preserve the use of the risk management use of securitization. The parameters defining what constitutes this type of transaction can be similar to the definitions we suggested to the U.S. SEC in relation to Rule 127B:
http://www.sec.gov/comments/s7-38-11/s73811-51.pdf
http://www.sec.gov/comments/s7-38-11/s73811-53.pdf

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The IACPM appreciates your attention to our thoughts and concerns. The IACPM's Board of Directors and I would welcome the opportunity to discuss these issues with the Basel Committee.

Sincerely,

Som-lok Leung
Executive Director
International Association of Credit Portfolio Managers

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[1] The IACPM is an industry association established in 2001 to further the practice of credit exposure management by providing an active forum for its member institutions to exchange ideas on topics of common interest. Membership in the IACPM is open to all financial institutions that manage portfolios of corporate loans, bonds or similar credit sensitive financial instruments. The IACPM represents its members before legislative and administrative bodies in the US and internationally, holds conferences and regional meetings, conducts research on the credit portfolio management field, and works with other organizations on issues of mutual interest relating to the measurement and management of portfolio risk. Currently, there are 86 financial institutions worldwide that are members of the IACPM. These institutions are based in 17 countries and include many of the world's largest commercial wholesale banks, investment banks and insurance companies, as well as a number of asset managers. More information about the IACPM may be found on our website: www.iacpm.org.

Annex I

-- Annex 1 --

Assessment of Synthetic Bank Balance Sheet Securitization volume at IACPM bank member firms (May 2012)

Synthetic bank balance sheet securitizations are defined as synthetic securitizations which are done to hedge risk or manage regulatory capital for a bank's portfolio of customer credit risk. Typically, these are loans (especially illiquid ones such as emerging market or SME), but sometimes other types of credit risk such as counterparty/CVA.

1. Does your firm currently have synthetic bank balance sheet securitization deals outstanding?		
Yes	21	60%
No	14	40%
Don't know	0	0%
Total	**35**	**100%**

2. Within the firms that currently have synthetic bank balance sheet securitization deals outstanding …

Total number of deals currently outstanding	**More than 132 deals**
Total current approximate notional deal value	**$ 183 billion notional value**

3. What asset types do you securitize in these transactions? (Please check all that apply.)		
Investment grade large corporate loans	16	76%
SME/ middle market loans	14	67%
Non-investment grade large corporate loans	9	43%
Counterparty/ CVA risk	5	24%

Comments
Non Agency portfolio Bonds (some of these are in reference to historic trades)
Project Finance
Residential Mortgages

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4. Excluding outstanding deals, has your firm executed these transactions (that have since matured) in the last 10 years?		
Yes	25	71%
No	9	26%
Don't know	1	3%
Total	**35**	**100%**

5. Within the firms that executed these transactions (that have since matured) in the last 10 years …

Total number of deals executed in the last ten years (but now matured and not currently outstanding)	**More than 168 deals**
Total approximate notional deal value over the last 10 years	**$ 411 billion notional value**

6. Looking ahead to the next three years, how likely is your firm to execute these transactions?		
Definitely yes	11	31%
Very likely	9	26%
Maybe	9	26%
Very unlikely	4	11%
Definitely no	0	0%
Don't know	2	6%
Total	**35**	**100%**

7. Within firms that will definitely, very likely, or maybe executed these transactions over the next three years ...

Total approximate number of deals per year over the next three years	**More than 58 deals**
Total approximate notional deal value (yearly average over the next three years)	**$ 75 billion notional value**

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