

82 Nassau St. #602  
New York, NY 10038

646-583-0839  
admin@iacpm.org

*www.iacpm.org*

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The International Association of Credit Portfolio Managers (IACPM) appreciates the opportunity to provide comments to the European Banking Authority (EBA) on the revised guidelines for significant risk transfer (“SRT”) under the CRR. IACPM members are focused on managing a bank’s credit portfolio in a way that is consistent with prudential regulatory goals. In particular, credit portfolio managers utilize both traditional and synthetic securitisations as an instrument to manage credit risk as well as capital and liquidity requirements.

IACPM has reviewed the letter from AFME dated July 24, 2020 and fully supports and agrees with their response in its entirety. However, we wish to highlight some important topics below.

After the disruptive COVID-19 lockdown, the STS and SRT policies will be implemented in a **transforming economic and market context** :

- Current credit portfolios are likely to suffer from high credit losses, while possibly being also supported by government guarantees aiming to assist firms in surviving the lockdown period,
- Replenished portfolios may experience changes in their risk/return profile, because of the change in economic context and the priority given to more sustainable and digital finance,
- Banks have in 2020 lower capital requirements (reduction in mandatory capital buffers) that will increase when Basel IV will be implemented, high cost of capital (drop in mark/book of the overall banking sector), and are suffering from low-for-long interest rates,
- The market context for securitisations is expected to change, as securitisation is one of the instruments aiming at broader market-based financing during the after-COVID recovery period (cf European Capital Markets Union proposals),
- The perimeter of investors in securitisations is also expected to broaden materially, with real money investors such as insurers and pension funds taking a larger share in the European Capital Markets Union.

Moreover, all new policies relating to securitisations (SRT, but also STS for synthetics) must be **rapidly effective** to contribute to financing a more sustainable recovery after the COVID-19 crisis, supported by massive national and European recovery plans. In this exceptional context, we expect that securitisations will be more extensively used by banks, and for a variety of different purposes, e.g. increasing capacity in credit limits, reducing concentrations in specific sectors/geographies, or releasing regulatory capital.

Specifically, IACPM would like to highlight the following points in particular:

- Considering the large number of points raised during the roundtable discussion and in the AFME letter, we strongly recommend **a further opportunity for industry discussions** on the EBA proposals on SRT **prior to their being finalised**. This can be via another response round or – better - by seeking targeted feedback through smaller meetings between the EBA and relevant stakeholders for in-depth discussion on specific points. As indicated, speed is still of the essence.
- We strongly recommend to test the SRT proposals against some transactions executed (or rejected) this year, and assess their combined effectiveness in identifying non-significant risk transfers. In this perspective, we propose to define **mandatory** and **non-mandatory triggers**, the latter being tested (qua level and effectiveness), and calibrated in a second phase. This testing phase might also allow to simplify

the list of documents to be provided, and to clarify all calculation methodologies (e.g. Calculation of the “economic value of tranches”)

- Our common goal is to make the assessment process more easy and predictable. The **extension of the 3 months approval has to be avoided** except in very limited cases, where the regulator identifies clear eligibility issues as early as possible during the approval period.

To avoid extension in the 3 months approval period, we recommend:

- using only **indicators with standard and undisputed calculation method** (e.g, clarify methodology for indicators like capital release or cost of capital, and details of the calculation method for regulatory indicators, like e.g. date of calculation, coverage of non-credit risks created after securitization)
- considering if **planning in advance** for expected future transactions could help shortening the approval time
- Regarding **high cost of credit protection**, we strongly recommend to adopt the safe harbour approach proposed in the AFME letter, without triggering ineligibility if the cost of credit protection falls outside of the safe harbour, but rather to trigger a structural review. As outlined in the AFME letter, determining an appropriate cost of credit protection depends on many factors and is therefore not suitable for a strict ineligibility outcome.
- Finally, would any additional information be necessary to jointly achieve eligibility for both **recovery support and significant risk transfer**, it would be great that those data are combined so that the 3 months approval period can be respected in parallel for both objectives.

We thank the European Banking Authority for consulting with industry participants to gain perspective and viewpoints on SRT securitisation guidelines. We welcome the efforts to draft guidelines that are consistent with legislative text as well as transparent and pragmatic for the industry participants. IACPM remains willing to engage in dialogue with the European Banking Authority around the securitisation product.

Sincerely,



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