IACPM

INTRODUCING

# "SRT" Securitisation

BY IACPM

## Background

The financial industry and its regulators use several different names for the same transactions: synthetic risk transfer (SRT), synthetic transactions, credit risk sharing (CRS), credit risk transfer (CRT) and on balance-sheet securitisation (OBS). Significant Risk Transfer (also SRT) is also a regulatory concept, setting out the conditions for banks to calculate capital based on retained securitisation exposures. However, not all risk sharing transactions are securitizations, not all securitizations achieve Significant Risk Transfer (SRT), and not all securitizations achieving SRT are synthetic.

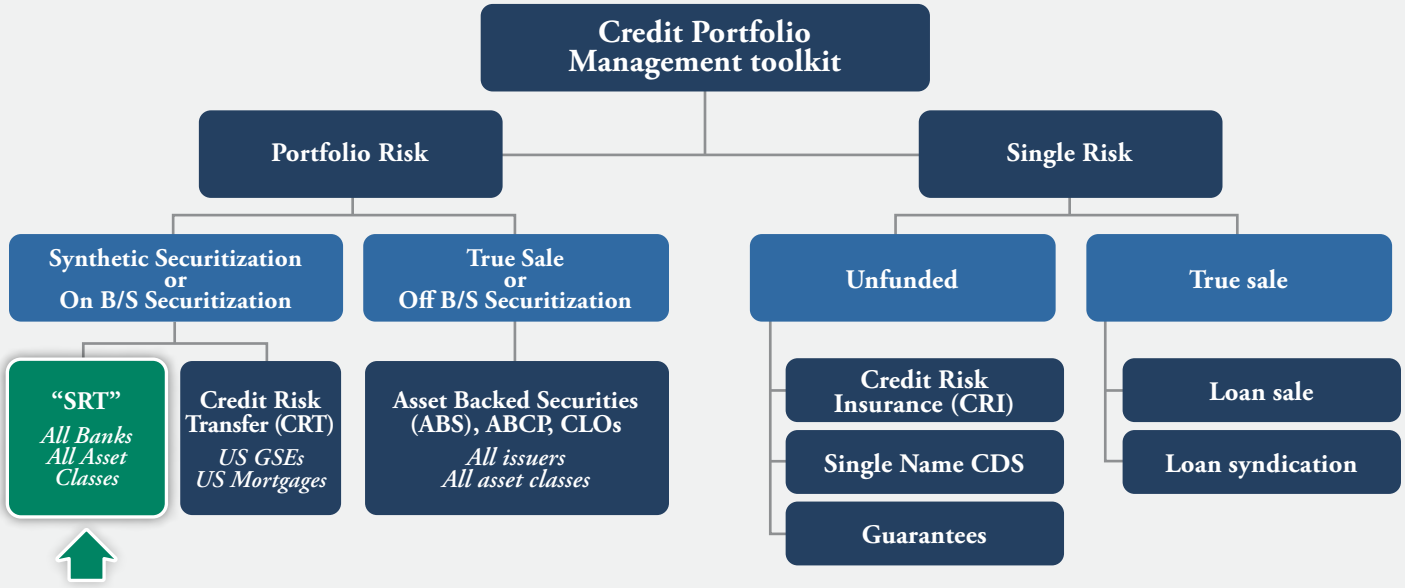
Using different names for the same transactions and the same acronym for different transactions create unnecessary confusion.

## Purpose

This paper provides clarity around the scope of instruments covered under the term "SRT" that IACPM will use in communications for these types of transactions.

We do intend to prescribe what the acronym stands for. While the R and T (Risk Transfer) are clear, the market has varying preferences for the meaning of the S, with the majority (according to a poll) preferring either Synthetic or Significant. Technically, following the scope and taxonomy, "Synthetic" is the most factually correct, however it is still considered stigmatizing by some in the market. "Significant" is an alternative but has a meaning in the regulatory bank capital framework that does not align with the market taxonomy. Therefore, we have left the "S" as undefined, allowing institutions to retain their preference.

The following diagram defines the scope of **"SRT"** within the broader credit portfolio management toolkit, setting out clear criteria for inclusion and exclusion in the broader scope of IACPM's communications.




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# Scope of the instruments covered under "SRT"

The proposed "SRT" terminology covers the structured private and public **transactions** which comply with **all** the below features:

| | |
|---|---|
| 1 | Issued by a **bank** |
| 2 | Eligible to be classified as **Securitization** under any regulatory Securitization framework (e.g., Basel III), whereby the credit risk associated with an exposure, or a pool of exposures, is sliced/tranched (*), having all the following characteristics:<br>• payments in the transaction are dependent upon the performance of the exposure or of the pool of exposures<br>• the subordination of tranches determines the distribution of losses during the ongoing life of the transaction<br>(*) Tranche = contractually established segment of the credit risk associated with an exposure or a pool of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in another segment. |
| 3 | Where **expected and/or unexpected losses** on the underlying exposure are transferred. Expected losses might be retained by the originator. |
| 4 | Achieving **credit risk mitigation** with or without regulatory **capital release.** |
| 5 | Referring to a pool of multiple **credit exposures** originated by a **bank** through its business with clients, i.e. – but not exclusively<br>• Loans and credit facilities granted to SMEs and corporates<br>• Residential mortgages, consumer loans, student loans, car loans<br>• Asset-based finance, project finance, receivables finance, fund finance, capital calls, etc<br>but excluding<br>• Securitizations |
| 6 | Where the **mechanism used by the bank for credit risk transfer** is a **synthetic** risk transfer<br>• whatever the instrument used for risk transfer (CDS, Guarantee, Credit Risk Insurance)<br>• with or without a SPV<br>True sale transactions are excluded from the scope. |
| 7 | Whatever the **mechanism used to protect the issuer** against **counterparty risk**, i.e.<br>• Funded Credit Protections (Credit Linked Notes)<br>• Unfunded Credit Protections (Credit Default Swaps, Guarantees, Credit Risk Insurance), with or without collateralization |

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