

September 29, 2017

Comments on the Consultative Document
Capital treatment for simple, transparent and comparable short-term securitisations
issued by the Basel Committee on Banking Supervision

Japanese Bankers Association

We, the Japanese Bankers Association (“JBA”), would like to express our gratitude for this opportunity to comment on the consultative document: *Capital treatment for simple, transparent and comparable short-term securitisations*, issued by the Basel Committee on Banking Supervision (“BCBS”) on July 6, 2017.

We respectfully expect that the following comments will contribute to your further discussion.

[Executive Summary]

We welcome the BCBS’s new proposal of the STC criteria for short-term securitisations such as asset-backed commercial papers (“short-term STC criteria”) and the capital treatment for short-term securitisations qualifying for STC status, reflecting our comments provided for “*Capital treatment for “simple, transparent and comparable” securitisations*” issued in November 2015.¹ We are grateful to the BCBS for discussing the criteria and the framework by taking account of the characteristics of ABCP conduits.

On the other hand, there are still requirements practically difficult to comply with and those that need further clarification in the consultative document. We therefore expect that such requirements will be further reviewed to establish a better balanced framework from perspectives of cost and benefit.

In the following Specific Comments, we would like to comment on those matters which need to be considered in terms of practical business in order to take actions in line with the purposes of the consultative document.

¹ JBA’s Comment on the Consultative Document: *Capital treatment for “simple, transparent and comparable” securitisations*, issued by the Basel Committee on Banking Supervision
<https://www.zenginkyo.or.jp/fileadmin/res/abstract/opinion/opinion280235.pdf>

[Specific Comments]

1. Payment status

The additional requirement for capital purposes in Criterion A3 requires the original sellers or sponsors to verify that the obligor of the underlying assets has not been the subject of insolvency. It would however be very difficult for an original seller or a sponsor to verify that the obligor has not been insolvent or has not experienced debt restructuring process in the three years prior to the date of origination. In practice, the sponsor pays attention to the likelihood of default or other similar events at the time of or after the transfer of the underlying assets. Therefore, this requirement should be modified to “the original seller or sponsor should, to the best of their knowledge, verify that it is unlikely that there will be default, debt restructuring or other similar events for underlying assets at the time of the transfer of the underlying asset.”

2. Asset selection and transfer

The additional requirement for capital purposes in Criterion A5 states that an independent third-party legal opinion must support the true sale of assets. Under a multi-seller programme, assets are purchased from a number of originators. Therefore, it is difficult to obtain a legal opinion for each contract in practice if a legal opinion is required for each contract. Whereas, an agreement on the transfer of assets generally uses a template. Given this, we would like to confirm if the requirement is satisfied by obtaining a legal opinion for this template.

3. Granularity of the pool

If the originator is an industrial corporation, it has fewer clients than financial institutions, which have unspecified large number of clients, and its underlying assets are less diversified. Thus, there could be a number of cases where the aggregated value of all exposures to a single obligor exceeds 1% or 2% of the aggregated outstanding exposure value of all exposures in the programme.

Therefore, the limit on the aggregated value of all exposures to a single debtor should be raised to 5% from the proposed level.

4. Timeline

It would take a substantial amount of time to establish a framework or develop/modify systems at each financial institution. We request the BCBS to set a realistic timeline which is, for example, changing the timing of initial implementation to January 2019 and/or determining an appropriate grandfathering, being aware of the

implementation situation in other foreign jurisdictions, so as not to impair Japanese bank's international competitiveness in the development of globalization.

[Response to the question]

Question 2 (With regard to the requirement to allow preferred capital treatment for sponsors' exposures) What are respondents' views on the baseline and alternative approaches being considered by the Committee?
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(Response)

We would like to confirm that, when there is a time lag between the acquisition of underlying assets and the issuance of ABCP or in other cases, the sponsor's loan to the conduit is treated as a sponsor's exposure.

Among the baseline approach, alternative approaches 1 and 2, we believe the alternative approach 2 is the most appropriate.

As described in the consultative document, in case STC capital treatment is assessed on a transaction-by-transaction basis in line with the alternative approach 2, even if a transaction that does not satisfy the STC criteria is included in an ABCP conduit, it may lead to provide with the sponsor an incentive to continuously increase STC-compliant transactions under the same conduit.