

August 21, 2020

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel, Switzerland



Japanese Bankers Association

JBA Comments on the BCBS Technical amendment: "*Capital treatment of securitisations of non-performing loans*"

Dear Basel Committee members:

We, the Japanese Bankers Association¹ (the JBA), appreciate the opportunity to provide comments on the Basel Committee on Banking Supervision's (the BCBS) Technical amendment: "*Capital treatment of securitisations of non-performing loans*"² (the Proposed amendment) on June 23, 2020.

The JBA understands the Proposed amendment mainly sets out the following treatment: (1) a definition of non-performing loan securitisations (NPL securitisations) is created, (2) the risk weight (RW) floor for the NPL securitisation exposures is set at 100%, (3) the RW for the most senior tranches of qualifying NPL securitisations is fixed at 100%, and (4) the ban on the use of FIRB parameters as inputs for SEC-IRBA for NPL securitisations.

However, the JBA would like to fully understand the underlying philosophy and the background why the BCBS decided the treatment in the Proposed amendment, and requests to clarify them and to give the opportunity to discuss the treatment with banking industry before finalization. Whilst such NPL securitisations have not been very common in Japan, they will be beneficial for banks in case such NPL securitisations become one of the risk-mitigating options.

In addition, the JBA believes that there remain several requirements that need further clarification. The following sections provide the details of our comments.

1. A fixed 100% RW to the most senior tranche of qualifying NPL securitisations

The JBA understands that the application of the Proposed amendment will prevent the RW from exceeding 100%, namely setting some cap, to certain NPL securitisations. The JBA would like to see any theoretical or any evidential background. Some evidence or background information is helpful to treat such assets consistently between under the regulatory framework and for the internal risk management purpose.

2. The ban on the use of FIRB parameters as inputs for SEC-IRBA for NPL securitisations

The Proposed amendment will ban on the use of FIRB parameters as inputs for SEC-IRBA for NPL securitisations. The JBA understands this means the use of SEC-IRBA for the NPL securitisations whose underlying assets include FIRB portfolios, such as exposures to large corporates and financial institutions, is not prohibited. To this point, the JBA would like the BCBS to provide clarifications.

Also, provided that our understanding above is correct, the JBA would seek clear guidance from the BCBS on how banks should calculate the capital requirements for underlying assets that contain FIRB portfolios, Kirb, including whether banks are required to use AIRB or SA.

¹ The Japanese Bankers Association is the leading trade association for banks, bank holding companies and bankers associations in Japan. As of August 21, 2020, JBA has 117 Full Members (banks), 3 Bank Holding Company Members (bank holding companies), 72 Associate Members (banks & bank holding company), 58 Special Members (regionally-based bankers associations) and one Sub-Associate Member for a total of 251 members.

² <https://www.bis.org/bcbs/publ/d504.htm>

In addition, the JBA understands it is required to cover at least 95% of the underlying exposure of the IRB pool to calculate Kirb³. The remaining 5% of SA pool is eligible for SEC-IRBA assuming IRB requirement is satisfied. The JBA requests clarification on whether banks can calculate the percentage of underlying exposure which satisfies the condition of IRB pool based on para.40.46 of CRE40, under the assumption that such assets are FIRB portfolios even if banks are required to use SA to calculate Kirb.

Furthermore, the Proposed amendment should clearly state AIRB portfolios such as exposures to SMEs are allowed to use as input parameters for SEC-IRBA.

The JBA would like the BCBS to implement the Proposed amendment without increasing operational burdens and to discuss the treatment with banking industry before finalization so that the objective of the Proposed amendment will be achieved.

(End)

³ In para.40.46 of CRE40, the Basel Framework