INDUSTRY CONSULTATION PAPER

INDUSTRY GOOD PRACTICE GUIDELINES
ON PILLAR 3 DISCLOSURE REQUIREMENTS
FOR SEURITISATION

30 June 2008
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Introduction

This consultation paper sets out proposed guidance to practitioners for the implementation of the securitisation disclosure requirements in the Capital Requirements Directive (CRD)\(^1\). These disclosure requirements, and therefore this consultation, are relevant to banks and investment firms who engage in securitisation activity that falls within Articles 94 to 101 and Annex IX of the Consolidated Banking Directive (2006/48/EC).

The objective of the overall disclosure component within the Basel 2 / CRD framework, commonly known as Pillar 3, is to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution. Experience resulting from the financial turmoil that originated from the deterioration of the U.S. subprime mortgage market has further highlighted the importance of disclosure for the securitisation business at the current time.

These draft Industry Good Practice Guidelines (hereafter also referred to as Good Practice Guidelines or Guidelines) have been developed by a working group comprising of industry practitioners and trade associations (hereafter referred to as Working Group) on the basis of the CRD requirements.

The consultation on these Guidelines is open to all parties who either prepare or will use the information compiled and will close on 15 September 2008, 11 weeks after publication. Responses to the consultation should be sent to Mrs. Diane HILLEARD (diane.hilleard@liba.org.uk) and Mr. Wilfried WILMS (W.Wilms@ebf-fbe.eu). Based on the feedback received the Working Group will finalise the Industry Good Practice Guidelines by 31 October 2008.

This consultation focuses on the implementation of the existing CRD disclosures, possible further disclosures and the likely use made by firms of the Guidelines. In the relevant sections specific questions are addressed to the audience of this consultation paper, however, respondents’ views are welcomed on any other aspects pertaining to securitisation disclosure.

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\(^1\) The CRD is comprised of two Directives – the recast Consolidated Banking Directive (2006/48/EC) and the recast Capital Adequacy Directive (2006/49/EC).
Executive Summary

Transparency is a key element in building and maintaining market confidence, in particular in times of stress. In light of the ongoing market turmoil the industry is undertaking a multitude of initiatives to address – amongst others – transparency issues, in particular in relation to securitisation. This consultation of industry developed Good Practice Guidelines is at the core of one of these initiatives, with the primary focus on promoting sound, consistent and appropriately granular implementation of the Capital Requirements Directive (CRD) disclosure requirements relating to securitisation.

The Good Practice Guidelines now being consulted are reflecting the results of an Industry Survey of Market Participants, who provide short term liquidity, to identify their informational needs in relation to securitisation, a Comparative Analysis of CRD Implementation in EU Member States and implementation issues identified by firms. In addition, the Guidelines consider the recent publications of the Financial Stability Forum (FSF) and the Committee of European Banking Supervisors (CEBS), where appropriate.

The industry developed Good Practice Guidelines are not only expected to contribute towards robust and meaningful risk disclosures; they will also be noteworthy input for the Basel Committee on Banking Supervision’s (BCBS) in its mandate to issue further guidance to strengthen disclosure requirements under Pillar 3 by 2009 as reflected in the recent FSF report.

Since the start of the market turmoil stemming from the subprime mortgage crisis a large number of firms has already adjusted their disclosures in order to address market participants’ needs for information in the context of this crisis. The Good Practice Guidelines are designed to further strengthen bank and investment firm disclosures and help the industry in its efforts to deliver relevant and meaningful disclosure. Also, to ensure that the Good Practice Guidelines remain a useful and relevant source of information for preparers and users alike, a review in 2009 is anticipated in order to reflect upcoming regulatory developments, both in the EU and globally, as well as market developments.
1 SECURITY DISCLOSURE

1.1 Objective of Pillar 3

The objective of Pillar 3, as set out in the Basel 2 Framework\(^2\) - the requirements of which have been transposed into the CRD, is to ‘encourage market discipline by developing a set of disclosure requirements which allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of a bank or investment firm.

Neither the Basel 2 Framework, nor the CRD, set out the intended audience for the Pillar 3 disclosure requirements, but the nature of the discipline that they provide will obviously be determined by their relationship with the bank or investment firm concerned.

The general audience for published financial data is usually considered to be shareholders, professional analysts, professional counterparties, and potentially retail counterparties. Given the highly specialised nature of the Pillar 3 information, relating as it does to the regulatory capital framework, the Working Group is of the view that the most likely audience for Pillar 3 securitisation disclosures will be professional analysts (e.g. equity analysts and rating agencies) and counterparty risk managers. As such this information will provide a supplement to the risk information already provided.

1.2 Scope of Pillar 3

Pillar 3 is intended to complement the minimum regulatory capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Therefore the disclosure requirements predominantly relate to the regulatory assessment of risk under the capital framework. The requirements, set out in Annex XII of Directive 2006/48/EC\(^3\), cover a range of disclosures, not just those regarding securitisation. The requirements include, for example, risk management objectives and policies, basis of accounting and regulatory consolidation, capital resources and credit risk capital requirements by asset class (as defined for regulatory capital purposes) and according to the methodology\(^4\) that a firm uses to calculate its capital requirements.

In relation to Pillar 3 securitisation disclosures, the CRD defines the relevant transactions as those that fall within Articles 94 to 101, i.e. the Pillar 1 securitised exposures, or securitisation positions held in the banking book, which meet the CRD securitisation definitions. The Working Group notes, however, that this is a narrower definition than the users of bank or investment firm disclosures might commonly use for the term ‘securitisation’. The Working Group has considered the expectation gap that might arise as a result in Section 6.2 of this consultation paper.

1.3 Implementation of Pillar 3

Although the CRD came into force across EU Member States at the start of 2007 many institutions did not adopt the new approaches until the start of 2008. Indeed the advanced approach was not available under the CRD until that time. Therefore, in particular large and sophisticated firms will only publish Pillar 3 disclosures once the first full year of operation of the revised capital framework has been completed, i.e. in 2009.\(^5\)

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\(3\) See Annex 1.

\(4\) Methodologies for calculating the credit risk capital differ in the level of sophistication. In the Standardised Approach supervisors set the risk capital according to counterparty type and in most cases external credit rating. Under the foundation internal ratings based approach firms determine their own assessment of the probability of default of the counterparty but the Supervisors set the other risk parameters of the calculation (i.e. loss given default and exposure at default). Under the advanced internal ratings based approach firms are allowed to set all three risk parameters.

\(5\) Some firms – in and outside Europe – have published Pillar 3 disclosures in 2007/8. Securitisation disclosures under the
1.4 Recent market events and international developments

The recent turmoil has highlighted the need to re-consider the appropriateness of the disclosures made in relation to securitisation. More targeted disclosures about exposures to structured products, beyond the scope of Pillar 3, have been highlighted by politicians and policy makers as a particular area for consideration. Analysis has been undertaken in a number of fora in relation to the causes for the turmoil and identification of areas where further action is required by both regulators and the industry. We would highlight particularly the work being undertaken in the EU by the European Commission (which is the origin of this work stream), the Committee of European Banking Supervisors6 and the Financial Stability Forum7.

The industry agrees that enhanced information on securitisation exposures would be helpful to market participants when making assessments of firms, where securitisation is a material consideration. Moreover, Pillar 3 disclosures in this area could be a meaningful and relevant tool to facilitate the dialogue between firms and the users of the information disclosed.

Financial Stability Forum

In April 2008, the Financial Stability Forum (FSF) published a report8 which endorsed the disclosure recommendations9 produced by a grouping of regulators known as the “Senior Supervisor Group” (SSG)10. These disclosure recommendations “are intended to supplement rather than replace existing risk disclosures, including those required under Pillar 3 of Basel 2”11. The SSG paper highlights what it regards to be leading practices identified from its review of twenty large internationally active groups’ existing disclosure practices. The leading practices identified cover five broad areas – special purpose entities, collateralised debt obligations, other sub-prime exposures, commercial mortgage backed securities and leveraged finance. As well as highlighting leading practices to address current market conditions, the SSG notes that the results of the survey indicate that disclosure practices can be enhanced without necessarily amending disclosure requirements.

The FSF identifies the disclosures listed by the SSG as a means of addressing the near term issue of enhancing transparency around securitisation and recommends the implementation of the SSG disclosures from the mid year.

To achieve a similar outcome in the medium term, the FSF indicates that future risk disclosures should focus on similar underlying principles, although the particular areas for additional disclosures will depend on market conditions at the time. This will require firms to maintain appropriate internal firm-wide risk measurement systems to deliver meaningful and timely risk disclosures. It also suggests that going forward, investors, financial industry representatives and auditors should work together to provide risk

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6 The Committee of European Banking Supervisors is a body set up by the Commission (comprised of national regulators and central banks) which is charged with providing advice on supervisory matters and developing convergent regulatory practices across the EU.

7 The Financial Stability Forum brings together, on a regular basis, national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.


10 The Senior Supervisors Group is comprised of regulatory bodies from France Germany, Switzerland, UK and US.

disclosures that are most relevant to the market conditions at the time of the disclosure. To this end:

- Investors, industry representatives and auditors should develop principles that should form the basis for useful risk disclosures.
- Investors, industry representatives and auditors should meet together, on a semi-annual basis, to discuss the key risks faced by the financial sector and to identify the types of risk disclosures that would be most relevant and useful to investors at that time.¹²

The FSF report also identified areas of work that the Basel Committee (a FSF Member body) would undertake over a longer time frame (see below).

In June 2008, the FSF produced a report, providing an update on the implementation of its recommendations.¹³ In relation to firm disclosure it indicated that national authorities have strongly encouraged their internationally active financial institutions to use the recommended leading risk disclosure practices as part of their upcoming mid-2008 reporting. It stated that some early reporting institutions have already implemented the disclosures, and that it will assess the results of these and those yet to report in September 2008.

**Basel Committee**

In relation to the longer term, the FSF report indicated that the Basel Committee would review the following¹⁴:

- Securitisation exposures, particularly exposures held in the trading book and related to re-securitisation;
- Sponsorship of off-balance sheet vehicles, to give the market greater insight into the extent of banks’ contractual and non-contractual obligations and exposures;
- Banks’ liquidity commitments to ABCP conduits, to ensure that disclosure is as clear as for on-balance sheet credit exposures; and
- Valuations, including the methodologies and uncertainties related to those valuations.

In April 2008, the Basel Committee also issued a press release which stated:

The Committee will promote enhanced disclosures relating to complex securitisation exposures, ABCP conduits and the sponsorship of off-balance sheet vehicles. Disclosure is a critical element of the Basel 2 Framework and Pillar 3 (market discipline) and provides the Committee with the necessary leverage to achieve these enhancements; as such disclosures are a prerequisite for banks’ being able to use the advanced approaches under Basel 2. The Committee will issue further guidance in this area by 2009.

¹² FSF Report, pages 24 and 25.
¹⁴ FSF Report, pages 25.
Since the Basel Committee’s recommendations are as yet unclear, and some of the areas under review are beyond the current Pillar 3 scope, the Working Group has not sought to pre-empt guidance but will seek to engage with the Basel Committee in developing relevant and appropriate guidance in this area. The Working Group also commits to update the Industry Guidelines in light of the Basel Committee’s recommendations once they are available.

This means that for the time being the Good Practice Guidelines will, in particular, not address securitisation positions held in the trading book and specific issues that relate to re-securitisation in their entirety. To some extent, however, the Guidelines do address qualitative trading book aspects, sponsored vehicles and liquidity provision as well as valuation issues.

EU

ECOFIN (part of the EU Council of Ministers, dealing with economic and financial affairs) identified a series of action points in response to recent market events in October 2007. One of those action points refers to the necessity to consider the adequacy of securitisation disclosure under the CRD. It charged the Economic and Financial Committee (EFC) to co-ordinate the activities necessary to deliver these action points. Various European bodies have taken responsibility with regard to different aspects of this work. In relation to securitisation disclosure the two relevant bodies are the European Commission (EC) and the Committee of European Banking Supervisors (CEBS).

European Commission

The European Commission has been in dialogue with industry associations and practitioners since late 2007 to identify the most appropriate way forward in relation to securitisation disclosure. In keeping with the Better Regulation Agenda, the Commission has looked to the industry first to come up with proposals to address these difficult issues. The industry has created a number of work streams (see Annex 2) which not only seek to address the items identified by ECOFIN but which also deliver a broad range of enhanced transparency and disclosure measures. One working group set up as part of this process is on Pillar 3 of the CRD, the Working Group responsible for this consultation. Other working groups are looking at a range of good practice guidance regarding issuer transaction disclosure, both at inception and ongoing pool information. Additionally there is a working group that is developing, as far as possible, standard product definitions. Various other initiatives are underway to improve accessibility of transaction information, such as a directory of information sources to aid the investor community. Furthermore, an aggregated statistical report on securitisation activity, covering aspects of primary and secondary market activity, will be published quarterly.

Committee of European Banking Supervisors (CEBS)

At the request from ECOFIN, CEBS has conducted an analysis of the disclosures made by a sample of 20 large European banks and a few non-EU banks with respect to securitisation and structured finance products affected by the market turmoil. CEBS has published its final report on 18 June 2008. The analysis covered a wide range of sources (published reports, presentations, slides, trading reports, websites, etc) and adopted a phased approach as snapshots were taken at certain points (Q3 2007, Q4 2007 and 2007 audited financial statements & annual reports).

15 The EFC reports to ECOFIN. The EFC is comprised of expert officials from the administration and central banks of Member States, the Commission and the European Central Bank.

16 CEBS report on banks’ transparency on activities and products affected by the recent market turmoil, June 18 2008 [http://www.c-eubs.org/PRESS/documents/20080618a_transparency.pdf].
The analysis showed differences in terms of the content, level of detail as well as their presentation. These differences can be explained, to some extent, by varying levels of involvement in the respective lines of business. The overall conclusion of CEBS is, however, that although progress towards increased transparency is being made, there is still room for improvement.

CEBS concluded that there is a need for additional granularity in the disclosures provided around securitisation at the current time. Its assessment, in this regard, concurs to a large extent with the recommendations made by the SSG. However, CEBS does not discuss how the current disclosures would compare to disclosures prepared under Pillar 3. Also, CEBS does not suggest that additional regulation is necessarily needed or that supervisory authorities would necessarily have to make use of the powers which they have under the CRD to impose additional disclosures. In that regard it helpfully distinguishes between what it regards as core Pillar 3 disclosures and other broader disclosures that may be relevant in the short term. It recognises, therefore, that the forthcoming Pillar 3 and accounting disclosure requirements are likely to improve the quality, granularity and comparability in the disclosure of exposures.

However, one output from the CEBS disclosure debate is the development of a disclosure structure which it believes will not only be useful in the context of the current market turmoil, but which might be useful in response to future market events with disclosure implications. The proposed structure is as follows:

- Institution’s business model and its objectives;
- Impact of the market turmoil and level of exposures;
- Role and extent of its involvement in the activities under consideration;
- Risk information and risk management; and
- Accounting policies and valuation issues.

The Industry Working Group has also considered the CEBS proposals as part of the development of the draft Good Practice Guidelines. It welcomed in particular the suggestion to recommend firms to provide sufficient explanations on their business model. However, some of the recommendations made fall outside of Pillar 3.
As noted in Section 1, a Working Group was set up by the industry to examine the CRD Pillar 3 requirements. The objective of the Working Group is to achieve sound, consistent and appropriately granular implementation of the securitisation related CRD disclosure requirements by means of Industry Good Practice Guidelines, hereafter referred to as Good Practice Guidelines or Guidelines. As a result, clarity and comparability of Pillar 3 securitisation disclosure will be enhanced. The European industry has committed to developing these Guidelines in a letter to the Commission in February 2008 (see Annex 1). The respective associations will share the Guidelines with their members, and firms will be strongly encouraged to adopt them.

The Working Group is chaired by Mr. Ralf LEIBER of Deutsche Bank and composed of the European Banking Federation, London Investment Banking Association, European Savings Banks Group and the European Association of Public Banks, as well as a number of firms.

In developing the Good Practice Guidelines, this Working Group has completed two supporting work streams:

(i) A Survey of Market Participants regarding the information needs of providers of short term liquidity to the market hereafter referred to as Industry Survey, or as Survey;

(ii) A Comparative Analysis of CRD Pillar 3 Implementation in Member States hereafter also referred to as Implementation Study.

Survey of Market Participants

A questionnaire was circulated amongst market participants to determine the factors that influenced their decision to fund the bank and investment firm sector (either directly or through the purchase of structured products) during the second half of 2007. It furthermore enquired about the appropriateness of the information that they currently receive. Finally, it asked respondents' opinion on the usefulness of the various securitisation disclosures requested by the CRD, and where they may require further elaboration to ensure that relevant and useful information is produced.

The report (attached in Annex 3) summarises the findings from the 32 responses received. Of these, 18 responses were from banks (including commercial, public, savings and development banks); 4 from investment managers; 4 from investment firms; 3 from insurers; 2 from trade associations (representing members from the banking industry); and 1 from a building society. Respondents came from firms with their head offices in 10 countries: France, Germany, Italy, Netherlands, Slovenia, Spain, Sweden, Switzerland, UK, and USA.

Although the number of responses was lower than anticipated, we believe that the results of the Survey still provide a useful input into the development of the Good Practice Guidelines, and support for its role as an educational tool for users.

Overall the Survey results demonstrate that there is room for improvement in the current disclosures, even when recognising the developments that occurred as a direct response to recent market events. They also demonstrate that the Pillar 3 disclosures are likely to be useful to users. Although only a small percentage of respondents thought that these disclosures would have ‘definitely influenced’ their decision on the level of funding they would have provided the market in the second half of 2007, over half though that they would ‘probably’ or ‘possibly’ influenced their behaviour. Respondents also indicated a strong desire for consistency of presentation of the disclosures and for a consistent definition of ‘exposure type’ (which underpins many of the disclosures). The

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17 These requirements are set out in Directive 2006/48/EC Annex XII paragraph 14, see Annex 2.
Working Group believes this, along with the expressed desire for granularity, demonstrates that there is a role for the Good Practice Guidelines on Pillar 3 securitisation disclosures.

Other issues to note from the Survey were that respondents’ viewed global consistency as being a very important issue. Comments also indicated that it was important to keep in mind that disclosure relating to securitisation is only one factor in the decision whether to advance funds. In addition, the majority of participants indicated that they did not perceive gaps in the Pillar 3 framework.

Comparative Analysis of CRD Pillar 3 Implementation

The Working Group undertook an analysis of the way in which Pillar 3 securitisation disclosure requirements of the CRD have been implemented in Europe. The analysis revealed that the transposition of the CRD in the Member States’ legislations basically followed three different implementation schemes.

a) In principle ‘copy-out’ of the CRD

Most of the Member States have implemented the relevant CRD provisions by merely copying them as such into national legislation. Examples here are Austria, the Benelux countries, Cyprus, Greece, Ireland and the UK. Some Member States such as France have used wording which differs to some extent from the one used in the CRD. However there is no indication that the differences in wording were intended to materially dissent from the CRD. None of the Member States in this first implementation category provided implementation guidance explaining how the legal provisions need to be interpreted.

b) Basel influenced implementation

Italian legislation took the CRD as a point of departure but included some footnotes from the original Basel 2 text which were meant to provide additional guidance how to interpret the Pillar 3 requirements. However, implementation guidance beyond that was not provided.

c) Additional country-specific guidance

Germany is the only example where specific regulatory guidance was made available aiming at providing additional interpretation support on the legislative provisions. This was done by providing a significant number of implementation examples as well as a list of explanations which were the outcome of an intensive and fruitful dialogue between the German Supervisory Authorities, various German banking associations and the industry.

Since the Implementation Study revealed that implementation was undertaken predominantly by copy out of the CRD, it is possible to contend that implementation across Member States reveals no significant differences and therefore that there is convergence. However, this convergence is limited to the high level kind of regulation as contained in the CRD. Due to the absence of implementation guidance it is possible that different interpretations of the requirements are being taken by different firms and national authorities across the various jurisdictions.

Some of the issues that have been identified by the Working Group as to where different interpretations may arise in this context are as follows:

- Identification of the possible roles that firms may undertake and what they entail.
- Establishing a common understanding on the underlying asset types/exposure types.
- Scope of the requirements in relation to user expectations – the Pillar 3 disclosures relate to the Pillar 1 definition of the securitisation framework.
However, this will be a subset of the transactions that may be regarded as falling within the user’s view of what constitutes a securitisation.

- The detail of the quantitative disclosures – for example the requirement to disclose securitisation positions held broken down by a meaningful number of risk weight bands raises questions as to what constitutes a risk weight band (is it a credit quality step or does it actually refer to a percentage band of risk weights) and indeed what constitutes a meaningful number.

In addition to the two supporting work streams discussed above, the Working Group has also considered the information available, so far, from the international regulatory bodies, to determine whether further guidance, or enhancement, to the Pillar 3 disclosures should be deemed necessary.
3 OVERARCHING ISSUES

3.1 Introduction

This section of the consultation seeks respondents’ views on a number of overarching issues regarding the proposed Good Practice Guidelines. In particular it considers the issues raised in the Industry Survey over the need for global consistency of Pillar 3 disclosures, the status and format of the Guidelines, how comparability and consistency might be obtained, the level of detail in the disclosures, the level of application, comparative information and materiality levels for making disclosures.

3.2 Global considerations

As an EU industry group, the Working Group has taken the CRD as the basis of its Guidelines. However, the groups that operate in the EU are not purely European in their business operations. Many have their parent entities located in other jurisdictions and may therefore be subject to the Basel 2 Framework, which has been adopted across a much broader range of countries. Many also have subsidiaries outside the EU where the Basel Pillar 3 requirements may be imposed at the local level. As noted in the Implementation Study, there are some small differences between the text of the Basel 2 Framework and the CRD. This raises questions regarding the consistency of disclosure globally (particularly given that disclosures will predominantly be made at the consolidated level – see level of application in Section 3.6 below), the implementation decisions made in different jurisdictions, the interaction between disclosure developments by the authorities in the EU and globally and the use that will ultimately be made of the Guidelines by firms. The potential for inconsistency at a global level, given the international nature of financial markets, was highlighted by participants in the Survey as an important issue.

The Working Group acknowledges that a set of Guidelines produced at an EU level will not be able to deliver global consistency, but hopes that since they are one of the few sources of guidance on the implementation of the Pillar 3 securitisation disclosures, they will form a core source of information, even for firms outside the EU, and therefore encourage more consistent implementation.

As regards international regulatory developments, the Working Group does not propose to disband in October 2008 once the Guidelines have been finalised, but will review them in light of regulatory developments both in the EU and globally to ensure that they remain a useful and relevant source of information for preparers and users alike.

3.3 Status and implementation of the Guidelines

Since the Guidelines are being developed by industry participants and trade associations they cannot have a binding effect on industry participants. In addition, while the associations participating in this exercise will obviously promulgate the existence of the Guidelines and encourage their use to Members, they have no enforcement powers to ensure their use.

However, the usefulness of the Guidelines will ultimately be determined by whether or not they gain general acceptance amongst the preparers of Pillar 3 securitisation disclosures. The Working Group identified a number of options to encourage the use of these Guidelines, and therefore demonstrate their usefulness, as follows:

a) **Central register of firms adhering to the Guidelines**: Firms proposing to adhere to the Guidelines would be invited to notify a central register operated by LIBA/EBF. The benefits of such an option would be to create a single location where users of Pillar 3 securitisation disclosure would be able to check the basis on which it had been prepared. This option would require resource to maintain the central register and for firms to notify their compliance in a timely manner, otherwise incorrect information may be presented.

b) **Firm declaration**: As part of their Pillar 3 securitisation disclosure package firms could state whether they had prepared their disclosures in accordance with the Guidelines, or if not why this is the case. This option has the benefit of
simplicity and ease for both preparers and users. However, it will only be effective if firms undertake to make the declaration.

c) Implementation survey: a report could be produced by LIBA/EBF in the first half of 2009 – i.e. once all Member State banks will have made their first-time Pillar 3 disclosures – on the extent to which the Industry Guidelines were observed. Post the event this option would provide a useful summary to users as to the extent of implementation. However, it will be less useful to them at the point at which the disclosures are made by each firm and it may be difficult to establish in practice whether the Guidelines have been used in all areas.

On the grounds of simplicity, ease of understanding for users as well as implementation efforts, the Working Group proposes that firms should include a declaration of whether they have prepared their Pillar 3 securitisation disclosures in accordance with the Guidelines, or provide an explanation as to why they have not, i.e. option (b).

Q1: How do you think the effective use of the Guidelines can be best achieved?

3.4 Format of the Guidelines

The Working Group is strongly supportive of a principles based approach to regulation. However, the nature of the Pillar 3 requirements is such that they largely do not lend themselves to such an approach when drafting an implementation guideline because they prescribe particular content. The Working Group has therefore addressed this issue by developing what it believes are the objectives of each of the specific requirements.

In addition, because the detail of the requirements can be open to a number of interpretations, and consistency was a key theme of the Industry Survey, the Working Group has sought to identify the possible implementation options in the consultation text and recommend one interpretation for the Guidelines. There are only a few areas where the consultation does not make a recommendation. Views are sought on both those areas where the Working Group has sought to make a recommendation and also those where it was thought that the options were more finely balanced. In addition, and where appropriate, the interpretation guidance is supplemented by examples. A complete version of the draft Industry Good Practice Guidelines is included in Annex 4.

Q2: Do you agree with the format (objectives, guidance and examples) of the Guidelines?

3.5 Comparability and granularity

By definition, Pillar 3 disclosures need to be consistent with the way senior management assesses and manages the risks, and the market should play a role in guiding each bank to provide the appropriate information, depending on its size, level of sophistication, business mix, risk appetite, and performance.

However, one striking outcome of the responses to the Survey was that the use of a common format, and therefore consistency of presentation, was viewed as important by a large majority of respondents and that greater granularity of disclosures came through as a theme regarding existing disclosures. However the answers to the Survey regarding the precise level of detail, or granularity, were inconclusive.

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18 See Annex 3, Question 23 of the Industry Survey.
Four options for comparability would seem to be available:

a) **Common templates:** The Guidelines could recommend the use of set templates for completion by firms. This would have the benefit of maximum comparability and consistent level of detail. However, the involvement of EU firms in securitisation can vary significantly. Therefore information could be produced that has no real value. In other words, some flexibility may be necessary to address the diverse nature of firms’ business.

b) **Example templates:** The Guidelines could include suggestions for presentation of the data by way of example. Although not recommending a common format, examples would encourage more consistent implementation but provide sufficient flexibility to allow firms to present data that is relevant to their business.\(^{19}\)

c) **Recommendations on the level of materiality for providing a break down:** Firms would decide for themselves the appropriate format, but the Guidelines would recommend, where appropriate, the level of detail that should be provided. For example a single exposure type underlying more than 10% of the total securitisation investments held should be disclosed as a separate item. It would not provide commonality of presentation but would promote comparability of the detail of the breakdowns provided.

d) **Combination of (b) and (c):** This option would combine flexibility, with comparability.

The Working Group proposes option (d), i.e. a combination of example templates and materiality thresholds to encourage a minimum level of comparability and granularity.

**Q3:** How do you think sufficient comparability and granularity of presentation can best be obtained?

**3.6 Level of application: solo or consolidated basis?**

Annex XII, Part 1, Paragraph 5 of Directive 2006/48/EC, indicates that disclosures under Pillar 3 should be made at the group level, although significant subsidiaries are required to disclose information on capital resources in relation to capital resources at the solo or sub-consolidated level\(^{20}\). However, Article 149 of Directive 2006/48/EC does give Supervisors the power to require any of the disclosures (including securitisation) to be published at the individual entity level.

Since the general presumption of the CRD is that disclosure should be made on a consolidated basis, and since firms tend to manage their risks, including securitisation, at the group level, the Working Group proposes that the level of application of the Guidelines should also be on that basis, i.e. at the consolidated level only. Therefore these Guidelines have been developed for application at the consolidated level.

However, where a Supervisor has specified that securitisation disclosures must be made for local subsidiaries, these must also be provided, and the Guidelines should be considered as appropriate.

**Q4:** Do you agree with the proposal to apply the Guidelines to disclosures at the consolidated level only (except where there is a local regulation override)? If not, what alternative would you suggest?

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\(^{19}\) This approach would be in line with the implementation guidance already provided in Germany.

\(^{20}\) CRD, Article 72(1) and (2) of Directive 2006/48/EC.
3.7 Comparative information

The CRD does not specify whether information be prepared allowing a comparison of the Pillar 3 disclosure made by the firm in previous years. However, in light of one comment received in the Survey regarding trend data, the fact that the issue was raised as an implementation issue, and because recent events make securitisation disclosure very topical, the Working Group decided to address this issue in this consultation.

It was the view of the Working Group that comparative information from the prior year therefore would be useful for Pillar 3 securitisation disclosures with regard to the disclosure of securitisation positions retained or purchased by a firm - this being considered the most important disclosure item by participants of the Survey. However, in the first year of Pillar 3 disclosures, the comparative data will not be available because this year represents the first full year of operation of the new capital requirements regime.

Q5: Do you agree that comparative prior year information should be provided for Pillar 3 securitisation disclosures on securitisation positions retained or purchased by a firm, except in the first year of implementation? If not, what alternative would you suggest?

3.8 Materiality exemption

Although the CRD requires all Pillar 3 disclosures to be made, it does provide for a firm to omit one or more where these are not deemed to be material\(^2\). Materiality is defined in Annex XII of Directive 2006/48/EC as information that if omitted or misstated could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. In light of current market conditions, the Working Group discussed whether it would be appropriate to develop guidance beyond that provided within the CRD regarding when securitisation information can be omitted and concluded that the CRD definition remains appropriate. This definition appropriately highlights the need to take account of the needs of users when determining whether to disclose information or not.

Q6: Do you agree that the Guidelines should refer to the CRD definition when determining whether a disclosure can be omitted on materiality grounds? If not what alternative would you suggest?

3.9 Location and medium of disclosures

Article 145 of Directive 2006/48/EC requires the Pillar 3 disclosures to be made public. However, Article 148 of the Directive permits firms to determine for themselves the location and medium of those disclosures. Article 149 does give Supervisors the power to specify both, where these do not relate to the financial statements. In light of current market conditions the Working Group discussed whether it was necessary to specify a location and medium for the Pillar 3 securitisation disclosures but concluded that clarity of location and medium was more important. Therefore the Working Group recommends that firms should clearly signpost the location and medium of their Pillar 3 securitisation disclosure on their websites and/or in their financial statements (as appropriate).

Q7: Do you agree with the proposed approach to location and medium of disclosures? If not, what alternative would you suggest?

\(^2\) CRD, Article 146, Annex XII, Paragraph 1, of Directive 2006/48/EC.
3.10 Frequency of disclosure

Article 147 of Directive 2006/48/EC requires the Pillar 3 disclosures to be made annually at a minimum. Credit institutions are required to determine whether more frequent disclosure is necessary in accordance with the factors set out in Annex XII Part 1, Paragraph 4. The factors listed are the relevant characteristics of their business, scale of operations, range of activities, presence in different countries, involvement in different financial sectors and participation in international financial markets and payment, clearing and settlement systems and items that are prone to rapid change. Frequency of disclosure is required to be set down in the firms’ formal policy for Pillar 3 disclosures.

The Working Group considered whether it was necessary to specify a level of frequency for the Pillar 3 securitisation disclosures. Given the differing nature and scale of firms’ involvement in securitisation, the fact that the CRD already requires firms to consider if more frequent disclosure is necessary taking into account a range of relevant factors, and that frequency was only considered an issue by a slight majority of participants in the Industry Survey, the Working Group proposes not to determine a separate level of frequency for the securitisation Pillar 3 disclosures alone, but to include the CRD requirements on frequency within the Guidelines.

Q8 Do you agree with the proposed approach to frequency of disclosures? If not what alternative would you suggest?
4 PROCESS ISSUES

4.1 Introduction

The Working Group identified two process issues in relation to the Guidelines, whether they should be reviewed, and where they should be located to ensure that users can access them easily.

4.2 Review of the Guidelines

In its April 2008 report, the Financial Stability Forum recognised that risk disclosures may need to focus on information needs which are most relevant to the market conditions at the time of disclosure and recommended that, “going forward investors, financial industry representatives and auditors should work together” to make this happen\(^\text{22}\). The Working Group concurs with this view and believes that the Guidelines should not be static but be open to review and revision.

The Working Group recommends that the Guidelines should be reviewed in light of the final recommendations from the Basel Committee and CEBS, and would therefore propose that the first review should be after the publication of both, the Basel Committee and CEBS recommendations. A review of the Guidelines is therefore expected to take place in 2009.

Q9: Do you agree with the approach to reviewing the Guidelines? If not, what alternative would you suggest?

4.3 Location of the Guidelines

The usefulness of the Guidelines, as indicated earlier, will be determined by whether they are used by preparers of Pillar 3 securitisation disclosures. An important aspect of that will be the ease with which the Guidelines can be located by firms. The trade associations participating in this initiative have agreed that they will circulate the Guidelines to their Members and that they will maintain an up to date copy on their websites. The web addresses of where the most up to date version of the Guidelines can be found will be included within the Guidelines.

\(^\text{22}\) FSF Report, pages 24 and 25.
5 DEFINITIONS

5.1 Introduction

Given the importance that respondents to the Industry Survey placed on consistency of presentation, the Working Group has examined whether there is sufficient clarity over the definitions of the various terms within the CRD securitisation framework. The Working Group has identified two key definitions, where there is significant scope for implementation to differ: (i) the roles that a firm undertakes in relation to securitisation and (ii) exposure type. Other specific definitional issues have been identified in the area of (iii) impaired and past due disclosures as well as (iv) risk weight bands. In light of the responses to the Industry Survey, the Working Group also proposes to include a number of other definitions within the Guidelines, see Section 5.4.

5.2 Roles

Relevant roles

The CRD requires firms to disclose qualitative information on the different roles which the firm takes up as regards to securitisation transactions. Although suggested definitions were not put forward by participants to the Survey, a number of responses indicated that a common interpretation of the requirements would be helpful. The Working Group therefore decided that establishing a common set of roles and their respective definitions would enhance the usefulness of the Guidelines and enhance comparability of Pillar 3 disclosures.

In considering which roles were relevant the Working Group looked first to the Comparative Analysis, which revealed that the CRD and its implementation within Member States is not specific on which roles should be disclosed. However, the CRD does provide definitions for two – originator and sponsor. The Basel 2 Framework, on the other hand, while referring to a number of roles that could be disclosed in a footnote to the securitisation disclosures (originator, investor, servicer, provider of credit enhancement, sponsor of asset backed commercial paper facility, liquidity provider, swap provider), only provides a definition for originator, whereas this definition also includes sponsors as a subset of originator.

As indicated earlier, there is little extant guidance available on this issue. The German implementation of the CRD is the only other source that specifically defines three roles – originator, sponsor and investor within a strict hierarchy. Originator and sponsor are defined in accordance with the CRD, and investor is a catch-all category for cases where a firm is neither originator nor sponsor.

On the basis of the above, the Working Group determined that sponsor, originator and investor are primary roles anticipated by the CRD securitisation framework, as all firm’s securitisation activities can always be slotted into these three categories. And therefore the Working Group concluded that disclosures should be made by all firms with reference to these three roles.

In determining whether further roles should be identified and defined, the Working Group looked at the responses to the Industry Survey. The role that appeared to be of most interest to respondents, particularly in light of recent market events, was that of liquidity provider. It was noted that firms may undertake the role as liquidity provider while simultaneously being originator, sponsor or investor. As such the Working Group proposes that this should be a product linked secondary role.

The Working Group further considered whether additional roles such as those identified in the Basel 2 footnote should be used and defined. However, given the results of the Industry Survey, which indicated information on other roles was not particularly useful, the Working Group proposes not to identify and define further secondary roles, but notes that firms can and should supplement their disclosure of the three primary roles where it would be useful to disclosure recipients to do so.
Therefore the Working Group proposes that the Guidelines set out three primary roles: originator, sponsor and investor. In addition, the Working Group recommends that firms should disclose their activities in relation to being liquidity provider.

The important issue of how to address the fact that a firm may play more than one of the three identified roles with respect to one securitisation transaction is considered below.

Q10: Do you agree that originator, sponsor, and investor are the primary roles? If not, what alternative would you suggest?

Q11: Do you agree with the proposed approach to the role of liquidity provider? If not, what alternative would you suggest?

Definitions

It was noted by the Working Group that the CRD definitions for certain roles may not accord with the general meaning of these terms attributed by market participants unfamiliar with the regulatory requirements. Therefore the Working Group concluded that it would be necessary to provide definitions of the four roles identified above.

**Originator**

According to the CRD, originator is defined as either of the following:\(^{23}\):

(a) An entity which, either itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposure being securitised, or

(b) An entity which purchases a third party’s exposures on to its balance sheet and then securitises them.

According to Basel 2, a bank is considered to be an originator with regard to a certain securitisation if it meets either of the following conditions:\(^{24}\):

(a) The bank originates directly or indirectly underlying exposures included in the securitisation; or

(b) The bank serves as a sponsor of an asset-backed commercial paper (ABCP) conduit or similar programme that acquires exposures from third-party entities. In the context of such programmes, a bank would generally be considered a sponsor and, in turn, an originator if it, in fact or in substance, manages or advises the programme, places securities into the market, or provides liquidity and/or credit enhancements.

The Working Group exchanged views on the merits of those various definitions. It concluded that it would not be appropriate to propose a new definition of the concept of “originator”\(^{25}\) and agreed that the most appropriate way for firms would be to refer to the CRD definition and to provide some supplementary examples. While this may appear to introduce an inconsistency with Basel 2, the Working Group concluded that this would not be material because there are footnotes in the Basel 2 Framework that recommend the separate presentation of information relating to securitisations that have been sponsored. As regards examples the Working Group identified the following:

- A firm will be an originator if it provides assets into the pool of a securitisation transaction, for example into a conduit, even if there are other counterparties who also provide assets to that vehicle (“multi seller conduit”), i.e. there can be more than one originator to one securitisation transaction.

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\(^{23}\) See Article 4, Paragraph 41 of Directive 2006/48/EC.


\(^{25}\) The proposal which is currently being examined by the industry to launch an Industry Portal with links to the various websites at which information on securitisation issues is available may be helpful to providing for a solution over time.
• Where Firm A sells assets to Firm B and Firm B then securitises them, Firm A would not normally be regarded as originator even though they ultimately end up in a securitisation transaction. The exception to this example would be where Firm A sells the assets to Firm B, expressly for the purpose of Firm B arranging a securitisation for Firm A.

• If the securitisation paper resulting from a transaction originated by a firm forms part of a re-securitisation, the firm would not normally be regarded as the originator to the re-securitisation, unless the re-securitisation was a transaction it had arranged itself.

Q12: Do you agree with the proposed approach to the definition of originator?

Sponsor

The CRD defines “sponsor” as a ‘credit institution other than an originator credit institution that establishes and manages an asset backed commercial paper programme or other securitisation scheme that purchases exposures from third party entities’26. As noted above, the Basel 2 Framework defines the sponsor as part of the originator role, whereas within the CRD a sponsor by definition is other than an originator.

In light of the proposal by the Working Group above to define originator in accordance with the CRD it is proposed that the definition of sponsor should also follow that of the CRD.

Q13: Do you agree with the proposed approach to the definition of sponsor?

Investor

Investor is not defined by the CRD or the Basel 2 Framework. The German implementation defines investor as a residual category to originator and sponsor.27 As it is proposed to limit the roles in the Guidelines to originator, sponsor and investor, the Working Group considers it appropriate to use the German approach as a basis for the definition of investor; i.e. this is a residual category.

The Working Group discussed the following examples:

• Where a firm provides liquidity facilities to a third party transaction, i.e. it has not originated any of the assets, nor is it the sponsor because it has not arranged and does not manage the transaction, it would be regarded as an investor.

• Where a firm merely provides foreign exchange (FX) or interest rate swaps to a third party transaction, it would be regarded as an investor.

Q14: Do you agree with the proposed approach to investor?

Liquidity provider

Liquidity provider is not defined in the CRD or in any guidance. However a liquidity facility is defined as a certain product categorisation, independent of whether the provider is regarded originator, sponsor or investor with respect to the respective transaction. As a result the Working Group proposes the following definition:

A liquidity provider to a securitisation transaction that falls within the scope of Articles 94 to 101 of Directive 2006/48/EC is a bank or investment firm that records

26 See Article 4, Paragraph 42 of Directive 2006/48/EC.

27 See Section 229 of the German Solvability Act.
a securitisation position arising from a contractual agreement to provide funding to ensure timeliness of cash flows to investors.

By way of example this would include banks or investment firms that provide backstop liquidity lines to conduits or SIVs in their banking book.

Q15: Do you agree with the proposed approach to liquidity provider

Multiple roles
As noted above, it is possible for a firm to materially act in more than one of the roles specified with regard to any given transaction. This obviously raises the question as to how a firm should present its Pillar 3 disclosures as some of the qualitative and quantitative requirements appear to be aimed at particular roles. In particular, it raises the question whether for Pillar 3 disclosure the roles originator, sponsor and investor ought to be regarded as exclusive roles with regard to any given transaction, i.e. that only one role can be taken by the disclosing firm with regard to one specific transaction. Several options were identified:

a) Strict hierarchy of roles – i.e. originator, sponsor and investor as identified under Pillar 1 regulation. A firm would first determine whether it is an originator in relation to any of the assets in a particular securitisation transaction and then be regarded as originator for all securitisation exposures resulting from the securitised assets. Therefore a firm is originator for the entire transaction even if part of the assets securitised are provided by third parties and irregardless of whether the firm manages and arranges (i.e. sponsors) a programme or whether it retains (i.e. invests into) any securitisation positions.

In case the firm is not regarded originator it will be sponsor if it serves as a manager, arranger or adviser of an (ABCP-) programme that securitises third party assets. If the firm’s relationship with the transaction fits neither of these definitions of originator or sponsor then it would be regarded as an investor.

This approach would appear to be in line with the approach taken by the CRD Pillar 1 regulation.

Examples:

- A firm originates a pool of own mortgage assets and holds the first loss piece in the resulting transaction – in this example the firm would be regarded as originator, but not investor.
- A firm originates a pool of own and third party mortgage assets, manages the programme, and holds a mezzanine piece in the resulting transaction – in this case the firm would be regarded solely as originator, but not sponsor or investor as the originating role overrules any other function.
- A firm originates a pool of receivables to a multi seller conduit, which it also arranges and manages and provides programme wide enhancement for – similar to the previous example the firm would be regarded as originator only.
- A firm holds CP issued by a multi seller conduit and also provides liquidity support to the conduit but has not provided any of the underlying assets and acts as arranger and manager of the entire transaction – the firm would be regarded as sponsor.
- A firm holds CP issued by a multi seller conduit and also provides liquidity support but has not provided any of the underlying assets and is not responsible for arranging or managing the transaction – the firm would be regarded as investor.
b) Relative hierarchy of roles: In general the strict hierarchy as described above forms the starting point. However, because the originator role would displace the sponsor role due to the strict exclusiveness - in the strict hierarchy discussed under a) above - there would be no disclosure with regard to any sponsoring activity in the case that a firm is regarded originator in the first place. This becomes apparent in the above mentioned example:

- A firm originates a pool of receivables to a multi seller conduit, which it also arranges and manages and provides programme wide enhancement for. If the firm would only be regarded as originator for the purpose of Pillar 3 there would be no additional disclosure with regard to its sponsoring activity.

The Working Group therefore discussed the option that with regard to Pillar 3 a firm should after identifying its role as originator also identify and disclose its sponsoring activity.

Examples:

- A firm originates a pool of own mortgage assets and also arranges and manages the programme. For disclosure purposes the firm would be regarded as originator for the entire pool of assets. Also the firm would be regarded as sponsor.

- A firm originates a pool of receivables to a multi seller conduit, which it also arranges and manages and provides programme wide enhancement for. The firm would be regarded originator in relation to the assets it has originated (from its own balance sheet) and for the portion of the programme wide enhancement equivalent to its share of assets in the scheme. It would be regarded as sponsor for the whole scheme and the full amount of the programme wide enhancement. Partly this would lead to double counting, as the assets originated would also be considered as subject to sponsoring.

The concept of relative hierarchy is limited to the duality of originator and sponsor activity. The role of an investor should only apply if the firm is neither originator nor sponsor with respect to the transaction in focus. The latter appears appropriate for disclosure purposes, since positions that constitute an investment into a specific securitisation transaction must in any case be disclosed within the disclosure of *securitisation positions retained or purchased* - independent of the role played in the relevant transactions.

c) Balance of business: In determining the role played a firm should reflect the balance of business in relationship to the securitisation transaction. This would add complexity and would be contrary to the CRD as can be seen from the example below.

Example:

- The firm originates less than half the assets in a multi seller conduit that it has arranged and manages – the firm would be regarded as sponsor but not originator.

In determining guidance the Working Group recognises that the strict hierarchy as outlined under a) above is required for Pillar 1 purposes in order to define the respective regulatory requirements, e.g. the requirements concerning the effective risk transfer.

However, with regard to Pillar 3 this would not necessarily lead to a full disclosure of a firm’s involvement as a manager or arranger in securitisation transactions. In light of the fact that especially sponsoring activities are of a peculiar interest within the securitisation disclosure, the Working Group proposes the application of the concept of relative hierarchy as outlines under b). The Working Group recognises that the resulting issue of double counting will need to be addressed in the quantitative disclosures.
Q16: How do you think the issue of firms acting in multiple roles should be addressed for disclosure purposes?

5.3 Exposure, asset type and underlying assets

A common interpretation of exposure type was highlighted as an issue where respondents to the Industry Survey indicated a strong desire to see consistent interpretation. Breakdown of securitisation positions by exposure type was also highlighted in the SSG report as an area where they are looking for enhanced disclosure (underlying assets for conduits or SIVs, collateral of interest in light of current market conditions that underpin CDOs, subprime and Alt-A disclosures and commercial mortgage backed securities were all highlighted).

The CRD uses the terms ‘exposure type’, ‘asset type’ and ‘underlying assets’ in the Pillar 3 securitisation disclosure requirements. However, they all seem to be addressing the same issue, i.e. the assets that are contained in the pools on which the securitisation paper is issued. Therefore the Working Group decided to tackle them as one topic and they are hereon after referred to as ‘exposure type’.

The definition of exposure type requires the following two issues to be clarified:

- The categories to be used.
- The definition of those categories.

Categories to be used

The CRD does not provide guidance on either of these points. However the Basel 2 Framework, as regards categories, includes a footnote that provides the following examples: ‘credit cards, home equity, auto etc’. The Working Group identified three possible options:

a) Categories as identified by CEBS as part of the solvency reporting guideline (known as COREP28), i.e. the basis for regulatory reporting: COREP defines the following categories:
   - residential mortgages;
   - commercial mortgages;
   - credit card receivables;
   - leasing;
   - loans to corporates or small and medium sized enterprises (where they are treated as corporates for capital purposes);
   - consumer loans;
   - trade receivables;
   - securitisations (re-securitisations);
   - and other.

The benefit of this approach for firms in jurisdictions where this element of COREP has been implemented in full is that the respective data split will already be available. However, not all jurisdictions have implemented this aspect of COREP. For firms in these jurisdictions, such as the UK, there will be an additional systems cost.

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28 COREP: Guidelines on a common reporting framework (COREP) to be used by credit institutions and investment firms when reporting their solvency ratio to supervisory authorities under the Capital Requirements Directive (CRD) [http://www.cebs.org/standards.htm].
b) Basel 2 footnote: As noted above, Basel 2 identifies credit cards, home equity, auto etc. However, it is evident that this is not a complete list and would therefore need to be supplemented.

c) CRD exposure categories: Article 79 of Directive 2006/49/EC defines the following categories of exposure for firms using the Standardised Approach to calculating credit risk capital requirements: governments and central banks; regional governments or local authorities; administrative bodies and non-commercial undertakings; multilateral development banks; international organisations; banks and investment firms; corporates; retail; claims secured by real estate; past due items; regulatory high risk categories; covered bonds; securitisation positions; short term claims on banks and investment firms and corporates; collective investment undertakings; other items.

A very similar list is included in Article 86 of Directive 2006/49/EC for firms using the more advanced approaches to credit risk capital requirements. Where firms have originated transactions this information on the underlying assets should also be available to firms. However, a purchaser of a securitisation position may not have recorded the transaction on this basis, unless this is the basis used for solvency reporting (this is the case in the UK). Additionally, this breakdown may not give users such useful information.

The Working Group proposes that the Guidelines will use the categories designated in COREP. However, the Working Group also discussed whether any additional categories were necessary, especially in face of multi asset securitisation transactions.

Definition of categories
As noted above, neither the CRD, nor CEBS or Basel 2 provide definitions for exposure types. The Working Group considered whether it was appropriate to develop its own definitions for these exposure types. In this context, it is important to note that another industry transparency and disclosure initiative is developing what it terms ‘product definitions’. At the time of publication of this consultation paper, this work stream is working on the definition of residential and commercial real estate backed securities and the sub-categorisations within those overall headings (for example sub-prime). It is proposed that this work stream expands its scope to other asset classes over time. In some of the sub-categorisations, the work stream has already identified that it will not be possible to generate a common definition across the EU. In these cases, it proposes to provide a table of definitions across jurisdictions. Although this work is not complete, the Working Group considered that it would be more appropriate to use these definitions, where possible and once they become available rather than develop another set that might contradict and therefore create confusion.

5.4 Other definitions
In the Industry Survey, participants were asked whether there were any particular terms that they would like to see defined. Although the majority of participants either did not respond to this point or thought the terms were well understood, some participants did suggest terms where they would like to see common interpretations. Of these, two terms resulted in the Working Group identifying different and legitimate interpretations on which respondents’ views are particularly sought:

Impaired and past due – The Working Group identified two possible options for defining exposures, i.e. pool assets that might be regarded impaired or past due:
a) Financial statements definition for impaired and past due; or

b) Regulatory default definition as defined in Pillar 1.

The regulatory default definitions as used in Pillar 1 are designed to make specific adjustments within the complex solvability framework of Pillar 1. For this purpose the CRD uses different definitions for the Standardised Approach on the one hand and for the IRB Approach on the other. It must be noted that in this context the CRD does not use the terminology of items “impaired and past due”. In fact the CRD adopts its own rather complex system of defining defaulted positions, whereas in the Standardised Approach the CRD refers to “past due items” and in the IRB Approach it refers to items that are in “default”.

The Working Group concluded that the use of the typical accounting terminology of “impaired and past due” within the Pillar 3 disclosure requirements clearly indicates that in this regard financial accounting standards should be referred to when determining impaired or past due status of exposures securitised.

Q17: Do you agree with the definition provided for impaired and past due?

Risk weight bands – To give an indication of the regulatory risk assessment of investments in securitisations the CRD requires that firms provide a breakdown by a meaningful number of risk weight bands. The Working Group identified two possibilities for creating risk weight bands:

a) Bands related to credit quality steps: to determine capital charges under the Ratings Based Approach in the securitisation framework, Supervisors have mapped credit rating agency grades to credit quality steps, which then, combined with seniority and the number of assets in the underlying pool, determine the capital charge. For example an S&P rating of AAA under this Approach would equate to credit quality step 1. However, the capital charge for securitisation positions in this category could range from 7 to 20%. Furthermore, since capital charges for credit quality step 2 would be between 8 and 25%, a disclosure of securitisation positions by credit quality steps would lead to overlapping risk weight charges. Still, this option would have the benefit of being accessible to users due to the direct link to external ratings, provided the mappings were clear. However, it would pose greater problems for exposures where capital charges are determined under the Internal Assessment Approach or the Supervisory Formula Approach, unless a separate category for these exposures or a mapping was created.

b) Bands of risk weights determined from the actual calculation of capital requirements: The German guidance includes the following categories:
- less than or equal to 10%;
- greater than 10%, but less than or equal to 20%;
- greater than 20%, but less than or equal to 50%;
- greater than 50% but less than or equal to 100%;
- greater than 100% but less than or equal to 650%;
- greater than 650% but less than 1250%;
- 1250% or deduction.
This would have the benefit of accuracy and simplicity. In particular it would be easy to apply to exposures under the Rating Based Approach as well as those for which the Internal Assessment Approach and the Supervisory Formula are used. However, the approach would not necessarily be as meaningful to users who are more used to the rating agency terminology, which stands behind the concept of credit quality steps.

The Working Group saw merit in both of these options and since the Industry Survey did not provide a clear indication as to what users might want, a recommendation has been delayed until after this consultation. Within the consultation it may also be considered whether firms should give verbal explanations with regard to the disclosed risk bands in order to clarify which positions in the waterfall structure are broadly represented by the respective risk bands (e.g. senior, mezzanine, junior, equity peaces).

**Q18: How do you think risk weight band should be defined?**

The Working Group also addressed the call for further definitions for the following terms:
- Approaches to calculating risk weighted exposure amounts;
- Retained interests;
- Securitisation types;
- Securitisation framework;
- Revolving exposures;
- Originator’s interest;
- Investor’s interest;
- Gain or loss on sale;
- Securitised exposure; and
- Securitisation position.

The definitions of these terms are contained in the Glossary to the Industry Guidelines.

**Q19: Do you agree with the definitions provided for the above listed terms and/or do you see any need for further terms to be defined?**
6 CRD REQUIREMENTS FOR SECURITISATION DISCLOSURE

6.1 Introduction

This section of the consultation takes each of the CRD Pillar 3 disclosure requirements in turn. For each it indicates whether there was any relevant feedback from the Industry Survey, the implementation issues that were identified by the Working Group and a proposal for implementation guidance. In addition it considers the pronouncements of international regulatory and policy making bodies and recommends areas where firms may want to consider additional enhancements to the Pillar 3 disclosures to address recent market events.

QUALITATIVE DISCLOSURES

6.2 Business model: objectives, roles and extent of involvement in securitisation

CRD Requirements

Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

(a) a description of the credit institution’s objectives in relation to securitisation activity;
(b) the roles played by the credit institution in the securitisation process;
(c) an indication of the extent of the credit institution’s involvement in each of them;

Industry Survey

The responses to the Survey revealed that respondents were more interested in the roles played by the firm rather than in its objectives. On a weighted average basis the rank for the various roles was as follows: investor, originator, sponsor and other. They also indicated that qualitative disclosure regarding a firm’s involvement in the roles would be difficult to interpret without quantitative details.

Implementation issues

In assessing the Industry Survey results and discussing how the requirements should be met, the Working Group concluded that these three items are closely interrelated and therefore discussed them together.

It concluded that the purpose of these requirements is to provide an introduction to a firm’s securitisation business and provide context for any quantitative information provided later. The Working Group in determining a contextual purpose to these disclosures, considers that the qualitative disclosures are extremely important to the usefulness of the securitisation disclosures overall.

The first requirement regarding objectives appears to be seeking an insight into the firm’s rationale and basic business strategies, explaining the firm’s engagement in securitisation activity. It is complemented by the second requirement regarding the roles in the securitisation process, i.e. the types of relationships the firm has with securitisation transactions. The third requirement assists the user in understanding the significance of securitisation to the firm’s activities, in terms of capacity and level.

In developing the guideline, the Working Group drew on a suggestion made by CEBS that firms’ disclosures should primarily explain their business model (which includes the objectives which they pursue with securitisation activity).

As noted earlier in the consultation, the Working Group identified that there is a potential gap between the common interpretation of the term ‘securitisation’ and the specific
meaning of that term within the CRD. In addition, the Working Group notes the intentions of the international regulatory and policy making bodies like FSF and CEBS in relation to providing useful and relevant information regarding firm’s exposures to securitisation transactions, particularly at the current time. The Working Group, therefore, considers that the qualitative disclosures would be an appropriate place to bridge that gap.

The third requirement raises questions in respect of what is meant by ‘extent’. As this is a qualitative requirement rather than quantitative, the Working Group believes that it would be inappropriate for the Industry Guidelines to be prescriptive in this regard, as these disclosures should be tailored to the risks run by the individual firm. However, in addition to more qualitative information, firms could provide some indications of a quantitative nature, or refer to the quantitative disclosures below to help explain extent.

Proposed implementation guidance

Objective
To provide users with a context to the quantitative disclosures by providing a meaningful analysis of the firm’s business model with regard to securitisation.

1) The disclosures should provide meaningful and relevant information in relation to the firm’s business model and business strategy underpinning the securitisation activity. Business model, in this context means the basic business logic for engaging in securitisation, in whatever capacity; the relationships and nature of the exposures that result and their expected contribution to the value of the firm. What types of transactions is it involved in, giving an indication of which are the most important? What value do these activities add to the firm?

Examples
- Securitisation could be used for funding, concentration risk management, to meet client risk requirements, as a trading strategy etc.
- The types of structures that a firm may be involved in may be product related e.g. residential mortgages, commercial mortgages, conduits; and may be synthetic or traditional cash based structures.

2) Where the business model has materially changed, for example as a result of recent market events, a firm should communicate this accordingly.

3) All relevant securitisation activities of the firm should be explained - not just those within the specific definition in the CRD. A firm should provide qualitative information on its trading book activities and in relation to banking book securitisation transactions that are not within the scope of the CRD securitisation definition. Firms should explain how this qualitative analysis relates to the quantitative analysis provided in later disclosures.

4) When commenting on the roles that it plays, a firm should use the following terms: originator, sponsor and investor. As part of its participation in these primary roles, a firm should also indicate whether it acts as liquidity provider.

5) When providing information on the extent of its involvement in securitisation, firms should consider whether it is appropriate to include quantitative information, or provide references to the quantitative information provided in other disclosures, as well as qualitative discussion.
Possible additional disclosures

Since the Working Group is already proposing a broad based discussion of the firm’s business model within the guidance to these disclosures, i.e. beyond the narrow Pillar 1 definition of securitisation (including the CEBS proposal and recognising the forthcoming Basel work on the trading book), there is no recommendation for possible additional disclosures in this section.

Q20: Do you agree with the proposed implementation guidance on objectives, roles and extent of involvement in securitisation? If not, how do you think it could be improved?

6.3 Regulatory Capital Calculation Methods Used

CRD Requirements

Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

(d) the approaches to calculating risk weighted exposure amounts that the credit institution follows for its securitisation activities.

Basel Footnote

E.g. RBA, IAA and SFA. 29

Industry Survey

A large majority of respondents to the Survey thought that information on the risk weighting approach used for securitisation exposures would be either useful or very useful. One respondent explained this score by highlighting that this information was not available elsewhere.

Implementation issues

As this requirement informs users about the methodologies used in the calculation of capital requirements the Working Group thought that the purpose of this requirement was to give an indication of the sophistication of the firm and to enable comparisons to be made of the quantitative information.

The Working Group also discussed which approaches were expected to be covered. In line with the Basel 2 Framework explanatory note (which is not included within the CRD text), the Working Group thinks it is appropriate to go beyond the Standardised Approach and IRB Approach, but also look at the various approaches outlined in the IRB hierarchy.

Finally, the Working Group discussed the issue that many large groups will face, which is that they may be on the IRB Approach for some parts of the group but not all. Since the Working Group had already concluded that the disclosures should be made at the consolidated level (unless regulators in jurisdictions in which they operate specify otherwise), it is proposed that the approaches used in the consolidated calculation should be the basis for this disclosure. Where firms have parts of the group on IRB Approach and others on Standardised Approach it will be necessary to disclose both and the extent to which they are used.

29 See Basel 2, Revised Framework, Part 4, Table 9.
If disclosures are required at the individual entity level in certain jurisdictions, then it would be appropriate to disclose the methods used at the local level, but, if relevant, it would be helpful to explain that there is a difference of approach at the group level.

**Proposed implementation guidance**

**Objective**

To allow users to make a more meaningful comparison of different firms’ quantitative disclosures for securitisation positions retained or purchased by providing an understanding of the calculation methods used.

1) Firms should disclose whether they are using the Standardised or Internal Ratings Based Approach when calculating capital requirements. If they are an IRB firm, they should also outline which of the methods in the hierarchy of approaches (RBA, IAA or SFA) they are using and for what type of exposures.

2) The firm should outline all the methods used to perform the consolidated capital calculation.

3) Where disclosures are required at a local level, the approaches used in that jurisdiction should be set out and if necessary and where appropriate an explanation that the group approach is different.

**Q21:** Do you agree with the proposed implementation guidance on the approaches to regulatory capital requirements? If not, how do you think it could be improved?

**6.4 Valuation and Accounting Policies**

**CRD Requirements**

Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: *The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:*  

(e) a summary of the credit institution’s accounting policies for securitisation activities, including:  

(i) whether the transactions are treated as sales or financings;  

(ii) the recognition of gains on sales;  

(iii) the key assumptions for valuing retained interests; and  

(iv) the treatment of synthetic securitisations if this is not covered by other accounting policies.

**Industry Survey**

The responses to the Industry Survey revealed that disclosure of the treatment of synthetic securitisations was considered to be the most useful, followed by whether transactions are treated as sales or financing; the key assumptions for valuing retained interests; and, lastly, the recognition of gains on sales.
Implementation issues

The focus of Pillar 3 is providing risk information relating to the regulatory framework. It is only part of the disclosures made by firms in relation to securitisation and their business in general. Disclosure requirements are also being imposed by International Financial Reporting Standards (IFRS). IFRS 7, in particular, requires firms to make information available about the significance of financial instruments as well as about the nature and extent of risks arising from financial instruments. The CRD requirement does not seem to overlap with IFRS 7 requirements which do not go into much detail in respect of securitisation transactions. However, IFRS 7 requirements in this area are currently being re-considered.

The Working Group discussed the purpose of this requirement and concluded that it was primarily to allow users to understand the basic underlying accounting principles and to identify the main differences between the accounting and regulatory treatments of securitisation transactions undertaken. Since the accounting and regulatory treatments are not precisely aligned, it is important to provide context to the following quantitative disclosures to allow users to understand the information they are obtaining.

The Working Group also discussed the role or roles to which the disclosures were likely to be relevant and concluded that given the nature of the specific requirements listed, the role of originator appears to be the predominant focus. However, the Working Group also thought that the role of investor should also be considered (see possible additional disclosures below).

Proposed implementation guidance

Objective

To provide a more detailed explanation of the accounting policies used in respect of securitisation, where these are not explicitly covered elsewhere, and to provide a context to the quantitative disclosure requirements by outlining the main differences between the regulatory and accounting treatments.

1) A firm should either provide discrete disclosures referring to the accounting treatments for securitisations originated within their Pillar 3 disclosures or provide a reference to where these can be found.

2) A firm should provide explanation of where the accounting and regulatory treatments diverge. For example, transactions may be considered financings and on balance sheet for accounting purposes but may be treated as off balance sheet for regulatory purposes because the de-recognition / transfer requirements are different and remaining exposures are captured by other means in the regulatory framework.

Possible Additional Disclosures

The Working Group also considered whether any of the concepts in the FSF recommendations would be relevant in this area and concluded that those relating to SPEs required further review, and in particular consolidation. Consolidation policies at an overall level are already a disclosure requirement in the CRD, and in relation to securitisation were mentioned by some participants in the Industry Survey as an area where they would like further information. Additionally the accounting consolidation and the regulatory consolidations may be different in scope and therefore impact the assets that may be subject to regulatory de-recognition. The Working Group recommends that additional disclosures are made in relation to the consolidation policies and the types of structures to which they apply. As such, the Guidelines would integrate the FSF’s recommendation to disclose the ‘reason for consolidation’ in the context of Pillar 3 securitisation disclosure.
3) Firms should provide, or reference to, high level information on consolidation policies, the types of structures to which they apply and explanations of the difference in scope between the regulatory and accounting consolidations, where material.

The Working Group also noted that the FSF recommends disclosure of valuation assumptions and inputs. As noted above, the Working Group believes that the role of investor is of relevance and as such proposes that as far as investments in the non-trading book are concerned firms should also provide, or reference, disclosures on valuation assumptions.

4) A firm should also provide, or reference, the assumptions used for the valuation of securitisation positions in the non-trading book.

Q22: Do you agree with the proposed implementation guidance on valuation and accounting policies? If not, how do you think it could be improved?

6.5 Rating Agencies Used

CRD Requirement

Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

(f) the names of the ECAs used for securitisations and the types of exposure for which each agency is used;

Industry Survey

The Industry Survey indicated that this was one of the least useful disclosures within the Pillar 3 securitisation requirements, with around 60% considering the information to be only ‘slightly useful’ or ‘not useful’ at all.

Implementation issues

The Working Group discussed the likely objective of this requirement and concluded that the purpose is to give users an understanding of the inputs into the capital calculation rather than an explanation of why a rating agency has been used to rate securitisation originated or sponsored. This is because the details of who rates particular securitisation transactions will be incorporated in the information provided to investors and that information is only relevant to the Pillar 1 definition of securitisation to the extent that the ratings are on securitisation positions held, which may be a broader set of transactions than those originated.

The methodology for picking between ratings, where more than one is available, is set within the CRD. This requires that if two ratings are available, the lower of the two ratings should be used. If more than two ratings are available, the higher of the lowest two should be used. Since this approach is pre-determined within the CRD, the Working Group does not propose to include guidance on disclosure around the rating selection.
Implementation Guidance

Objective
To give users an understanding of the inputs into the capital calculation.

1) Rating agencies specified should relate to those used for the calculation of capital requirements relating to securitisation positions.  
2) Where relevant exposure types can be differentiated in accordance with the following categories: residential mortgages, commercial mortgages, credit card receivables, leasing, loans to corporates or small and medium sized enterprises (where they are treated as corporates for capital purposes), consumer loans, trade receivables, securitisations (re-securitisations), and other (e.g. multi asset structures).

Potential additional disclosures
Given the purely factual nature of this disclosure and its low level of perceived usefulness, the Working Group did not identify any additional potential disclosures in this area.

Q23: Do you agree with the proposed implementation guidance on rating agencies used? If not, how do you think it could be improved?

QUANTITATIVE DISCLOSURES

6.6 Exposures securitised – by transaction type and exposure type

CRD Requirement
Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

(g) the total outstanding amount of exposures securitised by the credit institution and subject to the securitisation framework (broken down into traditional and synthetic), by exposure type;

Basel Footnotes

224. Securitisation transactions in which the originating bank does not retain any securitisation exposure should be shown separately but need only be reported for the year of inception.

225. Where relevant, banks are encouraged to differentiate between exposures resulting from activities in which they act only as sponsors, and exposures that result from all other bank securitisation activities that are subject to the securitisation framework.

Industry Survey
Respondents to the Industry Survey considered disclosure of exposures securitised to be one of the more important aspects of the securitisation disclosure requirements with nearly three quarters of respondents indicating that this information is either ‘very useful’ or ‘useful’. The disclosure of those transactions where the originator retains no further

30 See section 5.4 for proposed definition of securitisation positions.
31 See Basel 2, Revised Framework, Part 4, Table 9.
Implementation issues

The Working Group discussed the likely objective of the requirement to provide a picture of the total outstanding amount of assets originated into securitisation transactions at the reporting date. As such its purpose was believed to be to provide an understanding of the importance of a firm’s non-trading book securitisation to its business.

Given the proposed definition of the securitisation framework, the Working Group determined that, for the originator, the disclosures only relate to transactions where regulatory de-recognition has been achieved under Pillar 1. This may be a narrower sub-set of transactions than users of firm disclosure might normally take from the term securitisation as it will exclude transactions where the risk transfer requirements have not been met, or those transactions within the trading book.

The Working Group also discussed the Basel 2 footnotes cited above, which are not included within the CRD text. As currently drafted the CRD, by defining originator in a different way to Basel 2, would not seem to require disclosure of transactions which are ‘only’ sponsored. However, in light of the positive response by participants in the Industry Survey, the Working Group proposes to recommend that disclosure of the outstanding stock of securitised exposures should also be provided where a firm acts as sponsor.

Where from a functional perspective a firm takes multiple roles as originator and sponsor within a securitisation transaction the firm will be regarded originator in relation to the portion of assets it has originated (from its own balance sheet) and for the portion of the programme wide enhancement equivalent to its share of assets in the scheme. It would be regarded as sponsor for the whole scheme and the full amount of the programme wide enhancement. This is in line with the reasoning provided in Section 5.2 and also applies if all underlying pool assets have their origin in the sponsoring firm, which acts as originator and sponsor. In that case the entire exposure securitised shall be disclosed as originating as well as sponsoring activity by that firm.

The Basel 2 footnote regarding the disclosure in the year of inception only for originated transactions where there is no retained interest raised some issues regarding the scope of transactions to be covered. In particular, since the footnote has not been included in the CRD, it is questionable whether it is allowed to exclude transactions where no positions have been retained on an ongoing basis, i.e. to only record them in the year of inception. As noted above the Industry Survey indicated that such a disclosure would not be particularly useful to users.

However, the Working Group noted that where a firm retains no interest in a transaction it may not have retained information on the securitised pool on an ongoing basis. In that case it will be difficult to provide the information on the underlying exposures for past transactions. In addition it was reported that US reporting requirements only call for the disclosure of transactions in which the firm retains an interest. Hence, it is proposed that the disclosures should cover all transactions extant at the date of the disclosures. However, as regards pre-existing transactions extant at the first reporting there will need to be some flexibility around the level (in particular length of history included) and form of the disclosures made.

The Working Group further discussed the relevant point of time regarding the respective exposure value that would need to be disclosed in relation to this requirement. Several options were identified:

32 See section 5.4 for proposed definition of securitisation framework.
a) The sum of the outstanding exposure values at the time when the
securitisation transactions were undertaken: - This value should be relatively
easily obtained for both originators and sponsors. However, since transactions
may amortise over time, or assets repaid may be replaced in the pool with cash,
may overstate the firm’s current position.

b) The sum of the outstanding exposure values at the date for the disclosures: -
Where a firm retains no interest in the transaction, especially if it is not the
servicer, this information may be very difficult to obtain for originators where the
firm retains no further interest in the transaction and for sponsors because they
are third party assets. However, this is likely to be a more accurate
representation of the firm’s current position in relation to securitisation.

c) The outstanding sum of the notes in issue: – This value is not strictly speaking
the value of the exposures securitised, but would provide a sufficient proxy for
the firm’s current position in relation to securitisation.

It is proposed that the aggregate exposure value should be the amount of assets
securitised at the date of the disclosure, i.e. option (b). However, where this information
is not available for prior year originated transactions or for sponsored transactions, it is
recommended that firms use one of the other two options, and should provide an
explanation of the basis of presentation.

As regards the calculation of the exposure value to be recorded, the Working Group
identified two options:

   a) Regulatory exposure values as defined in Pillar 1.

   b) Financial statement values.

Both options were perceived to have merit. However, given the difficulties in obtaining
exposure value information where the firm retains no further interest in the transaction,
the Working Group proposes that the financial statement values should be used.
Regarding the underlying asset information this is in line with the Working Group’s
assessment that also the impaired and past due definition should be based on the
financial statements definition (see Section 5.4). For the benefit of consistent disclosure
regarding the assets securitised it is therefore required to also base the calculation of
the exposure amounts of the underlying pool on the applicable accounting standard, in
Europe generally IFRS.

For the sake of clarity, it was concluded that these values should be considered before
provisions.

As regards exposure type, the recommended categories from COREP in section 5.3 of
the consultation would apply. It was noted that firms involvement in the various exposure
types could vary significantly and in line with the proposal for comparability and
granularity contained in Section 3.5, it is proposed that firms would not necessarily have
to disclose all categories if they are not relevant to the business, but that any category
that represents over 10% of the total should be separately disclosed. Where categories
are disclosed together because they are individually less than 10% of the total, an
explanation should be provided of the asset classes covered.

Implementation guidance

Objective

To provide users with an understanding of the importance of its non-trading book
securitisation origination to the firms business. This disclosure is not about investments
but what has been securitised.

The scope of transactions to be disclosed by the originator should be those in the non-
trading book where regulatory de-recognition has been obtained for the purposes of
calculating Pillar 1 capital requirements.
1) Disclosures on the outstanding stock of exposures securitised should also be provided by the sponsor separately.

2) Aggregate exposure value should be the outstanding amount as of the date of the disclosures. Where this information is not available for prior year originated transactions or for sponsored deals, either exposure value at the date of transaction inception, or the current amount of notes outstanding should be used, and the basis for presentation should be explained.

3) Exposure values (where outstanding notes is not being used) should be calculated in accordance with the financial statements, gross of the application of provisions.

4) Relevant exposure types are: residential mortgages, commercial mortgages, credit card receivables, leasing, loans to corporates or small and medium sized enterprises (where they are treated as corporates for capital purposes), consumer loans, trade receivables, securitisation (re-securitisation), and other (e.g. multi asset structures).

5) Where the aggregate exposure value for an individual exposure type is 10% or more of the total of all exposure values, the category should be separately disclosed. A qualitative explanation of the categories that make up the residual balance should be provided.

**Example format**

<table>
<thead>
<tr>
<th>Originator</th>
<th>Traditional</th>
<th>Synthetic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exposure type</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sponsor</th>
<th>Traditional</th>
<th>Synthetic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exposure type</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Possible Additional Disclosures**

As noted in Section 1.4 above, the FSF report indicated that the Basel Committee will issue further guidance, designed to strengthen the Pillar 3 disclosures in a number of areas. While the Working Group is not seeking to pre-empt guidance from Basel, by including ‘re-securitisations’ as an asset class and recommending the separate disclosure of sponsored securitisations, the proposed Guidelines do go some way to addressing some of the issues outlined for review.

The Working Group also examined whether it would be appropriate for the Pillar 3 disclosures to provide quantitative information on the amount of consolidated and unconsolidated SPEs by SPE type, in line with the FSF recommendations. However, the FSF recommendations relate to the accounting designations for transactions rather than regulatory. In addition the types of SPEs indicated by the ‘leading disclosure practices’ would also only be relevant in the context of the US, since designations such
as QSPE do not exist e.g. under IFRS. Therefore the Working Group believes that the qualitative discussion recommended in Section 6.2 is more appropriate at this juncture.

The Working Group also considered whether it was appropriate to recommend further breakdowns of exposures securitised, for example by geography. However, since the Industry Survey indicated that participants’ primary interest was in relation to the securitisation positions held, the Working Group decided not to recommend further breakdowns in this area.

Q24: Do you agree with the proposed implementation guidance for exposures securitised broken down by transaction and exposure type? If not, how could it be improved?

6.7 Impaired and Past Due exposures securitised – by exposure type and losses

CRD Requirement

Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

(h) for exposures securitised by the credit institution and subject to the securitisation framework, a breakdown by exposure type of the amount of impaired and past due exposures securitised, and the losses recognised by the credit institution during the period.

Basel Footnote

225. Where relevant, banks are encouraged to differentiate between exposures resulting from activities in which they act only as sponsors, and exposures that result from all other bank securitisation activities that are subject to the securitisation framework.

Industry Survey

The breakdown of securitisations by exposure type of the amount of impaired and past due exposures was also considered useful by the respondents to the Industry Survey with approximately two thirds of respondents indicating that it would be useful or very useful. The disclosure of the distinction between transactions sponsored and own originated for impaired and past due, as provided for in the Basel 2 footnote, was considered by respondents to be slightly less relevant than the original CRD requirement, although the majority of respondents still indicated that they would find this ‘very useful’ or ‘useful’.

Implementation issues

As this requirement provides information on impaired and past due exposures of the underlying pool, the Working Group concluded that the objective of this requirement is to provide insight into the credit quality of the underlying pool of a securitisation transaction. Further to that this disclosure illustrates the relating losses recognised by the firm.

For the discussion of the definition of impaired and past due, see Section 5.4, for exposure types, for exposure value and granularity of disclosure see Section 6.6.

The Working Group considered the Basel 2 footnote regarding the provision of this information by sponsors as well as originators and came to the conclusion that next to originators also sponsors should disclose information regarding the performance of the underlying pools of programmes sponsored by them.

As noted above, participants in the Industry Survey thought that aggregate past due and impaired information on transactions sponsored would provide a useful insight. Although this information may be more difficult to obtain, since it may not be retained on the firm’s financial reporting systems, it should be available to the sponsor though other
means. Therefore it is proposed that the Guidelines recommend that sponsors also provide this disclosure.

Regarding multiple roles scenarios of originator and sponsor activities, see Section 6.6.

As far as losses are to be disclosed within this disclosure item only the loss on the underlying pool is considered (i.e. charge-offs and allowances) and not the overall (net-) position of the firm. Therefore, with regard to synthetic securitisation where a loss is recorded in one part of the accounts relating to the exposures securitised and the gain on the credit derivatives is reflected elsewhere no specific guidance is required because only the losses are considered by this disclosure.

Proposed implementation guidance

Objective

To provide insight into the credit quality of the underlying pool of a securitisation transaction and to give an indication of how well an originator has performed, from an investor perspective, in comparison to its peers.

1) The scope of originated transactions to be assessed for this disclosure requirement should be those in the non-trading book where regulatory derecognition has been obtained for the purposes of calculating Pillar 1 capital requirements.

2) Disclosures of aggregate impaired, past due and loss information should also be provided for transactions sponsored by the firm separately.

3) Impaired and past due should be defined in relation to the financial statement classification rather than the regulatory designation.

4) Exposure value should be calculated based on financial statement values before provisions. Exposure value should be the outstanding amount as for the date of the disclosures. Where this is information is not available for prior year originated transactions or for sponsored deals, either exposure value at the date of transaction inception, or the current amount of notes outstanding should be used and the basis for presentation should be explained.

5) Relevant exposure types are: residential mortgages, commercial mortgages, credit card receivables, leasing, loans to corporates or small and medium sized enterprises (where they are treated as corporates for capital purposes), consumer loans, trade receivables, securitisations (re-securitisations), and other (e.g. multi asset structures).

6) Where the aggregate exposure value for an individual exposure type is 10% or more of the total of all impaired or past due exposure values, the category should be separately disclosed. A qualitative explanation of the categories that make up the residual balance should be provided.

7) With regard to losses to be disclosed these need to be shown on a gross basis and not on basis of the overall position of the firm. This applies equally to traditional and synthetic securitisation transactions.

Example format

<table>
<thead>
<tr>
<th>Exposure type</th>
<th>Impaired and past due</th>
<th>Losses</th>
</tr>
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</table>
Possible Additional Disclosures

The Working Group has noted the recommendation of CEBS in its proposed structure to disclosure which advocates the explanation of the impact of a market turmoil event. For example:

- Discussion of results and losses, or else write- or mark-downs;
- Breakdown of the write- or markdowns / losses by types of products (CMBS, RMBS, CDO / ABS further broken down by different criteria);
- Reasons and the factors responsible for the impact;
- Comparison of impacts between (relevant) periods;
- Comparison of income statement balances before and after the impact of the crisis.

Where material and required for a meaningful disclosure the Working Group recommends reflecting these points in firm’s disclosures. However, these issues will have to be further assessed in a later stage of the development of Pillar 3 disclosure.

Q25: Do you agree with the proposed guidance on the disclosure of impaired and past due exposures securitised and losses. If not, how could this guidance be improved?

6.8 Securitisations Positions, retained and purchased, by exposure type

CRD Requirement

Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

(i) the aggregate amount of securitisation positions retained or purchased, broken down by exposure type.

Industry Survey

Respondents top the Industry Survey regarded the breakdown of securitisation positions held by the firm to be most important element of the CRD requirements, with in excess of 80% of respondents indicating that this information would be ‘very useful’ or ‘useful’.

Implementation issues

The Working Group concluded that the likely objective of this requirement was to give an indication of the dispersion of a firm’s holdings, thereby providing information on concentrations or likely sector risks.
The Working Group discussed the roles to which this disclosure requirement would apply and concluded that all three roles, originator, sponsor and investor, were relevant, since the requirement applies to both retained interests and purchased securitisation positions. As the CRD clearly shows that the primary focus of the disclosure is the breakdown by exposure type, it is not proposed that it would be necessary to disclose the portfolio according to a further split by role. In line with this a split is also not required from the risk perspective because in so far it makes no difference in what role the individual securitisation position is retained or purchases by the firm. Also, to accurately reflect the risk a firm is exposed to with regard to securitisation positions each position should only be counted once, even if the firm takes multiple roles as originator, sponsor or investor regarding any securitisation position. A double counting of securitisation positions would draw an overbooked and therefore misleading picture of the securitisation risk a firm is exposed to in regard to retained interests and purchased securitisation positions.

As regards the amounts to be disclosed, the Working Group identified two possible options:

a) Regulatory exposure value as defined in the Pillar 1 securitisation framework (Standardised Approach and IRB Approach) before applying credit risk mitigation or credit conversion factors (CCF).

b) Financial statement values as discussed above with regard to the disclosure of the underlying pool asset.

The Working Group concluded that with regard to the disclosure of retained or purchased securitisation positions the Pillar 3 disclosure is directly linked to the Pillar 1 treatment of such positions. The relevant exposures should therefore reflect the exposure values that form the basis for the calculation of the capital requirement of these positions in accordance to the standardised and to the IRB Approach. For discussion of exposure type see Section 5.3.

Proposed implementation guidance

Objective

To give an indication of the dispersion of a firm’s holdings, thereby providing information on concentrations or likely sector risks

1) This disclosure applies to the firm in respect of its primary roles as originator, sponsor and investor on an aggregate basis.

2) This disclosure applies to securitisation positions held in the non-trading book.

3) The aggregate amount of positions retained or purchased should be based on the exposure values calculated according to the CRD prior to the application of credit risk mitigation techniques and credit conversion factors.

4) Relevant exposure types are: - residential mortgages, commercial mortgages, credit card receivables, leasing, loans to corporates or small and medium sized enterprises (where they are treated as corporates for capital purposes), consumer loans, trade receivables, securitisations (re-securitisations and other (e.g. multi asset structures).

5) Where the aggregate exposure value for an individual exposure type is 10% or more of the total of positions held, the category should be separately disclosed. A qualitative explanation of the categories that make up the residual balance should be provided.

6) Comparative information with regard to the prior year should be made available.
### Possible Additional Disclosures

As well as highlighting particular exposure types for which it recommends particular disclosure, the SSG sets out more detailed expectations in relation to those exposure types. In particular it recommends disclosure by geography and vintage and hedging. Of these geographical breakdowns were suggested by several participants in the Industry Survey in response to areas of the Pillar 3 that could be usefully enhanced; vintage was not identified as a further disclosure by any of the participants and hedging was mentioned by just one participant. In light of this and on the basis that the Working Group noted that hedging would be a more important consideration in relation to trading book securitisation positions, the Working Group proposes that firms might consider providing an additional breakdown of securitisation positions by geographic region where this is material.

7) Where material, firms should also consider providing a breakdown of securitisation positions retained or purchased according to geographic region.

Q26: Do you agree with the proposed implementation guidance for securitisation positions broken down by exposure type? If not, how could they be improved?

Q27: How useful to you is an additional breakdown by geographic region?

### 6.9 Securitisations Positions, retained and purchased, by risk weightings

#### CRD Requirement

Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

- (j) the aggregate amount of securitisation positions retained or purchased, broken down into a meaningful number of risk weight bands. Positions that have been risk weighted at 1250 % or deducted shall be disclosed separately.

#### Industry Survey

Approximately two thirds of the respondents to the Industry Survey believed this information to be very useful or useful.

#### Implementation issues

The Working Group concluded that the likely objective of this requirement is to assist users understanding of the credit quality of the firm’s exposure to securitisation transactions.
As noted in Section 5.4, the Working Group has identified two options for determining risk weight bands – bands related to credit quality steps and bands of risk weights determined from the actual calculation of capital requirements. The Working Group is awaiting the outcome of the consultation to develop guidance in this area.

For both options it may be appropriate to aggregate adjacent bands if the exposures within them are immaterial. In line with the approach being taken in Section 6.8 the Working Group recommends that individual bands should be separately disclosed if the exposures within them are greater than or equal to 10%.

In line with discussion earlier, the Working Group proposes to adopt the same approach to roles and exposure value as in Section 6.8.

**Proposed implementation guidance**

**Objective**
To assist users understanding of the credit quality of the firm’s exposure to securitisation transactions.

1) This disclosure applies to the firm in respect of its primary roles as originator, sponsor and investor on aggregate basis broken down to risk bands.
2) This disclosure applies to securitisation positions held in the non-trading book.
3) The amount of positions retained or purchased should be based on the exposure values calculated according to the CRD prior to the application of credit risk mitigation techniques and any credit conversion factors.
4) Relevant risk weight bands are: [pending consultation].
5) Comparative information with regard to the prior year should be made available.

**Example format**

<table>
<thead>
<tr>
<th>Risk weight band</th>
<th>Positions retained and purchased</th>
<th>Current year</th>
<th>Positions retained and purchased</th>
<th>Prior year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Possible Additional Disclosures**
The Working Group noted that the Basel 2 text also requires that the capital charges associated with the securitisation positions should be disclosed. The Working Group concluded that this information should be recommended for inclusion as an aggregate amount supplementing the risk weight band disclosure required by the CRD. Rational: The risk weight band disclosure entails the capital charge as the latter is the product of exposure and risk weight. However, since only risk weight *bands* are disclosed the exact capital charge cannot be determined which led to the Working Groups’ recommendation to disclose the aggregate capital charge.

As regards the FSF/SSG disclosures, the Working Group noted the recommendation to include a breakdown of securitisation positions by rating grade. The Working Group concluded that either of the discussed options of how to present risk weight bands would provide the disclosure recipients with an understanding of the risk gradings of a firm’s securitisation position. It was noted that credit quality steps would directly address the
FSF/SSG recommendation, at least for securitisation positions treated under the Rating Based Approach. However, if a percentage based approach is selected, then it would be necessary to provide additional explanation on how the risk weight bands relate to rating agency scales.

**Q28:** Do you agree with the proposed guidance on the breakdown of securitisation positions retained and purchased by a meaningful number of risk weight bands? If not, how could this guidance be improved?

### 6.10 Exposure to securitisations of revolving assets

**CRD Requirement**

Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: *The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:*

- (k) *the aggregate outstanding amount of securitised revolving exposures segregated by the originator’s interest and the investors’ interest.*

**Industry Survey**

The disclosure of originators’ and investors’ interest in securitisations of revolving assets was regarded by respondents to the Industry Survey as being one of the least useful disclosures, with over half of respondents indicating that it would be ‘slightly useful’ or ‘not useful’.

**Implementation issues**

The Working Group discussed the objective of this requirement and came to the conclusion that it is to provide users with an understanding of the extent of funding provided by securitisation to pools of revolving assets (usually credit cards), where if the transaction were to unwind the firm would have liquidity risk and face additional capital requirements. As a result this disclosure was considered relevant to the firm acting as originator for these transactions. Definition of originator’s interest and investor’s interest were also discussed. The Working Group concluded that the definitions provided in the CRD should be used in line with the approach proposed for the outstanding assets of securitisations originated; the Working Group proposed that the amount to be disclosed should be the exposure value, determined in accordance with the Pillar 1 requirements, as at the disclosure date.

**Proposed implementation guidance**

**Objective**

To provide users with an understanding of the extent of funding provided by securitisation to pools of revolving assets (usually credit cards), and the extent to which firms would face liquidity risk and a need for capital to support the asset pools if the transactions were to hit unwind triggers.

1) This disclosure is relevant to the firm’s role as originator in securitisations of revolving assets that achieve regulatory de-recognition under Pillar 1.

2) The amounts disclosed are the exposure values for originators interest and investors’ interest, determined in accordance with the CRD, as at the disclosure date.
Example format

<table>
<thead>
<tr>
<th></th>
<th>Exposure value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Originators interest</td>
<td></td>
</tr>
<tr>
<td>Investors interest</td>
<td></td>
</tr>
</tbody>
</table>

Possible additional disclosures

The Working Group identified no potential additional disclosures in this area.

Q29: Do you agree with the proposed implementation guidance for originators and investors interest in relation to the securitisation of revolving exposures? If not, how could this guidance be improved?

6.11 Securitisation Activity during the Year

CRD Requirement

Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

(l) a summary of the securitisation activity in the period, including the amount of exposures securitised (by exposure type), and recognised gain or loss on sale by exposure type.

Industry Survey

The responses to the Industry Survey demonstrate that market participants are more interested in the stock of outstanding transactions than they are in the activity during the period. That said, however, over half of respondents thought that this information would be ‘very useful’ or ‘useful’.

Implementation issues

The Working Group concluded that the objective of this requirement is to give users an understanding of the trend in usage of securitisation as a risk management or funding tool by giving the securitisation flow over the year.

Since the exposure securitised is required to be disclosed as described in Section 6.6 above, the Working Group concluded that the most appropriate approach to meet this requirement would be to adopt the Guidelines provided in that section. The Working Group therefore proposes to repeat the guidance given there, where appropriate.

Proposed implementation guidance

Objective

To give users an understanding of the trend in usage of securitisation as a risk management or funding tool.
1) The scope of transactions to be disclosed by the originator should be those in the non-trading book where regulatory de-recognition has been obtained for the purposes of calculating Pillar 1 capital requirements.

2) Separate disclosures on the securitisation activity during the year should also be provided regarding the securitisation activity as a sponsor. Where a firm acts both as an originator and sponsor with regard to one transaction both activities shall be disclosed.

3) Aggregate exposure value should be the outstanding amount as for the date of the disclosures. Where this is information is not available, either exposure value at the date of transaction inception, or the current amount of notes outstanding should be used and the basis for presentation should be explained.

4) Exposure values should be calculated in accordance with the financial statements, gross of the application of provisions.

5) Relevant exposure types are: residential mortgages, commercial mortgages, credit card receivables, leasing, loans to corporates or small and medium sized enterprises (where they are treated as corporates for capital purposes), consumer loans, trade receivables, securitisations (re-securitisations), and other (e.g. multi asset structures).

6) Where the aggregate exposure value for an individual exposure type is 10% or more of the total of all exposure values, the category should be separately disclosed. A qualitative explanation of the categories that make up the residual balance should be provided.

7) Gains or losses are to be reported for assets derecognised for financial statement purposes during the year and which are subject to the securitisation framework.

### Example Format

**Originator**

<table>
<thead>
<tr>
<th>Exposure type</th>
<th>Amount securitised</th>
<th>Gains or loss on sale</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Sponsor**

<table>
<thead>
<tr>
<th>Exposure type</th>
<th>Amount securitised</th>
<th>Gains or loss on sale</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Possible additional disclosures**

The Working Group identified no potential additional disclosures in this area.
PART 1

General criteria

1. Information shall be regarded as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

2. Information shall be regarded as proprietary to a credit institution if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render a credit institution's investments therein less valuable.

3. Information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding a credit institution to confidentiality.

4. Competent authorities shall require credit institution to assess the need to publish some or all disclosures more frequently than annually in the light of the relevant characteristics of their business such as scale of operations, range of activities, presence in different countries, involvement in different financial sectors, and participation in international financial markets and payment, settlement and clearing systems. That assessment shall pay particular attention to the possible need for more frequent disclosure of items of information laid down in Part 2, points 3(b) and 3(e) and 4(b) to 4(e), and information on risk exposure and other items prone to rapid change.

5. The disclosure requirement in Part 2, points 3 and 4 shall be provided pursuant to Article 72(1) and (2).

PART 2

General requirements

1. The risk management objectives and policies of the credit institution shall be disclosed for each separate category of risk, including the risks referred to under points 1 to 14. These disclosures shall include:
   (a) the strategies and processes to manage those risks;
   (b) the structure and organisation of the relevant risk management function or other appropriate arrangements;
   (c) the scope and nature of risk reporting and measurement systems; and
   (d) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

2. The following information shall be disclosed regarding the scope of application of the requirements of this Directive:
   (a) the name of the credit institution to which the requirements of this Directive apply;
   (b) an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities that are:
      (i) fully consolidated;
      (ii) proportionally consolidated;
      (iii) deducted from own funds; or
      (iv) neither consolidated nor deducted;
(c) any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries;

(d) the aggregate amount by which the actual own funds are less than the required minimum in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries; and

(e) if applicable, the circumstance of making use of the provisions laid down in Articles 69 and 70.

3. The following information shall be disclosed by the credit institutions regarding their own funds:

   (a) summary information on the terms and conditions of the main features of all own funds items and components thereof;

   (b) the amount of the original own funds, with separate disclosure of all positive items and deductions;

   (c) the total amount of additional own funds, and own funds as defined in Chapter IV of Directive 2006/49/EC;

   (d) deductions from original and additional own funds pursuant to Article 66(2), with separate disclosure of items referred to in Article 57(q); and

   (e) total eligible own funds, net of deductions and limits laid down in Article 66.

4. The following information shall be disclosed regarding the compliance by the credit institution with the requirements laid down in Articles 75 and 123:

   (a) a summary of the credit institution's approach to assessing the adequacy of its internal capital to support current and future activities;

   (b) for credit institutions calculating the risk weighted exposure amounts in accordance with Articles 78 to 83, 8 percent of the risk weighted exposure amounts for each of the exposure classes specified in Article 79;

   (c) for credit institutions calculating risk weighted exposure amounts in accordance with Articles 84 to 89, 8 percent of the risk weighted exposure amounts for each of the exposure classes specified in Article 86. For the retail exposure class, this requirement applies to each of the categories of exposures to which the different correlations in Annex VII, Part 1, points 10 to 13 correspond. For the equity exposure class, this requirement applies to:

       (i) each of the approaches provided in Annex VII, Part 1, points 17 to 26;

       (ii) exchange traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;

       (iii) exposures subject to supervisory transition regarding capital requirements; and

       (iv) exposures subject to grandfathering provisions regarding capital requirements.

   (d) minimum capital requirements calculated in accordance with Article 75, points (b) and (c); and

   (e) minimum capital requirements calculated in accordance with Articles 103 to 105, and disclosed separately.

5. The following information shall be disclosed regarding the credit institution's exposure to counterparty credit risk as defined in Annex III, Part 1:

   (a) a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures;

   (b) a discussion of policies for securing collateral and establishing credit reserves;
(c) a discussion of policies with respect to wrong-way risk exposures;

(d) a discussion of the impact of the amount of collateral the credit institution would have to provide given a downgrade in its credit rating;

(e) gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements;

(f) measures for exposure value under the methods set out in Parts 3 to 6 of Annex III, whichever method is applicable;

(g) the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure;

(h) credit derivative transactions (notional), segregated between use for the credit institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group; and

(i) the estimate of $\alpha$ if the credit institution has received the approval of the competent authorities to estimate $\alpha$.

6. The following information shall be disclosed regarding the credit institution's exposure to credit risk and dilution risk:

(a) the definitions for accounting purposes of 'past due' and 'impaired';

(b) a description of the approaches and methods adopted for determining value adjustments and provisions;

(c) the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes;

(d) the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate;

(e) the distribution of the exposures by industry or counterparty type, broken down by exposure classes, and further detailed if appropriate;

(f) the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;

(g) by significant industry or counterparty type, the amount of:

(i) impaired exposures and past due exposures, provided separately;

(ii) value adjustments and provisions; and

(iii) charges for value adjustments and provisions during the period;

(h) the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of value adjustments and provisions related to each geographical area;

(i) the reconciliation of changes in the value adjustments and provisions for impaired exposures, shown separately.

The information shall comprise:

(i) a description of the type of value adjustments and provisions;

(ii) the opening balances;

(iii) the amounts taken against the provisions during the period;
(iv) the amounts set aside or reversed for estimated probable losses on exposures during the period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between provisions; and

(v) the closing balances.

Value adjustments and recoveries recorded directly to the income statement shall be disclosed separately.

7. For credit institutions calculating the risk weighted exposure amounts in accordance with Articles 78 to 83, the following information shall be disclosed for each of the exposure classes specified in Article 79:

(a) the names of the nominated ECAIs and ECAs and the reasons for any changes;

(b) the exposure classes for which each ECAI or ECA is used;

(c) a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;

(d) the association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Annex VI, taking into account that this information needs not be disclosed if the credit institution complies with the standard association published by the competent authority; and

(e) the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Annex VI, as well as those deducted from own funds.

8. The credit institutions calculating the risk weighted exposure amounts in accordance with Annex VII, Part 1, points 6 or 19 to 21 shall disclose the exposures assigned to each category in Table 1 in point 6 of Annex VII, Part 1, or to each risk weight mentioned in points 19 to 21 of Annex VII, Part 1.

9. The credit institutions calculating their capital requirements in accordance with Article 75, points (b) and (c) shall disclose those requirements separately for each risk referred to in those provisions.

10. The following information shall be disclosed by each credit institution which calculates its capital requirements in accordance with Annex V to Directive 2006/49/EC:

(a) for each sub-portfolio covered:

(i) the characteristics of the models used;

(ii) a description of stress testing applied to the sub-portfolio;

(iii) a description of the approaches used for back-testing and validating the accuracy and consistency of the internal models and modelling processes.

(b) the scope of acceptance by the competent authority; and

(c) a description of the extent and methodologies for compliance with the requirements set out in Annex VII, Part B to Directive 2006/49/EC.

11. The following information shall be disclosed by the credit institutions on operational risk:

(a) the approaches for the assessment of own funds requirements for operational risk that the credit institution qualifies for; and

(b) a description of the methodology set out in Article 105, if used by the credit institution, including a discussion of relevant internal and external factors considered in the credit institution’s measurement approach. In the case of partial use, the scope and coverage of the different methodologies used.
12. The following information shall be disclosed regarding the exposures in equities not included in the trading book:

   (a) the differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices;

   (b) the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value;

   (c) the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;

   (d) the cumulative realised gains or losses arising from sales and liquidations in the period; and

   (e) the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds.

13. The following information shall be disclosed by credit institutions on their exposure to interest rate risk on position not included in the trading book:

   (a) the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk; and

   (b) the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.

14. The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

   (a) a description of the credit institution's objectives in relation to securitisation activity;

   (b) the roles played by the credit institution in the securitisation process;

   (c) an indication of the extent of the credit institution's involvement in each of them;

   (d) the approaches to calculating risk weighted exposure amounts that the credit institution follows for its securitisation activities;

   (e) a summary of the credit institution's accounting policies for securitisation activities, including:

      (i) whether the transactions are treated as sales or financings;

      (ii) the recognition of gains on sales;

      (iii) the key assumptions for valuing retained interests; and

      (iv) the treatment of synthetic securitisations if this is not covered by other accounting policies;

   (f) the names of the ECAIs used for securitisations and the types of exposure for which each agency is used;

   (g) the total outstanding amount of exposures securitised by the credit institution and subject to the securitisation framework (broken down into traditional and synthetic), by exposure type;
(h) for exposures securitised by the credit institution and subject to the
securitisation framework, a breakdown by exposure type of the amount of
impaired and past due exposures securitised, and the losses recognised
by the credit institution during the period;

(i) the aggregate amount of securitisation positions retained or purchased,
broken down by exposure type;

(j) the aggregate amount of securitisation positions retained or purchased,
broken down into a meaningful number of risk weight bands. Positions
that have been risk weighted at 1250 % or deducted shall be disclosed
separately;

(k) the aggregate outstanding amount of securitised revolving exposures
segregated by the originator's interest and the investors' interest; and

(l) a summary of the securitisation activity in the period, including the
amount of exposures securitised (by exposure type), and recognised gain
or loss on sale by exposure type.

PART 3
Qualifying requirements for the use of particular instruments or methodologies

1. The credit institutions calculating the risk weighted exposure amounts in accordance
with Articles 84 to 89 shall disclose the following information:

(a) the competent authority's acceptance of approach or approved transition;

(b) an explanation and review of:

(i) the structure of internal rating systems and relation between internal
and external ratings;

(ii) the use of internal estimates other than for calculating risk weighted
exposure amounts in accordance with Articles 84 to 89;

(iii) the process for managing and recognising credit risk mitigation; and

(iv) the control mechanisms for rating systems including a description of
independence, accountability, and rating systems review.

(c) a description of the internal ratings process, provided separately for the
following exposure classes:

(i) central governments and central banks;

(ii) institutions;

(iii) corporate, including SMEs, specialised lending and purchased
corporate receivables;

(iv) retail, for each of the categories of exposures to which the different
correlations in Annex VII, Part 1, points 10 to 13 correspond; and

(v) equities.

(d) the exposure values for each of the exposure classes specified in Article 86.
Exposures to central governments and central banks, institutions and
corporates where credit institutions use own estimates of LGDs or conversion
factors for the calculation of risk weighted exposure amounts shall be disclosed
separately from exposures for which the credit institutions do not use such
estimates;

(e) for each of the exposure classes central governments and central banks,
institutions, corporate and equity, and across a sufficient number of obligor
grades (including default) to allow for a meaningful differentiation of credit risk,
credit institutions shall disclose:
(i) the total exposures (for the exposure classes central governments and central banks, institutions and corporate, the sum of outstanding loans and exposure values for undrawn commitments; for equities, the outstanding amount);

(ii) for the credit institutions using own LGD estimates for the calculation of risk weighted exposure amounts, the exposure-weighted average LGD in percentage;

(iii) the exposure-weighted average risk weight; and

(iv) for the credit institutions using own estimates of conversion factors for the calculation of risk weighted exposure amounts, the amount of undrawn commitments and exposure-weighted average exposure values for each exposure class.

(f) for the retail exposure class and for each of the categories as defined under point (c)(iv), either the disclosures outlined under (e) above (if applicable, on a pooled basis), or an analysis of exposures (outstanding loans and exposure values for undrawn commitments) against a sufficient number of EL grades to allow for a meaningful differentiation of credit risk (if applicable, on a pooled basis);

(g) the actual value adjustments in the preceding period for each exposure class (for retail, for each of the categories as defined under point (c)(iv) and how they differ from past experience;

(h) a description of the factors that impacted on the loss experience in the preceding period (for example, has the credit institution experienced higher than average default rates, or higher than average LGDs and conversion factors); and

(i) the credit institution's estimates against actual outcomes over a longer period. At a minimum, this shall include information on estimates of losses against actual losses in each exposure class (for retail, for each of the categories as defined under point (c)(iv)) over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each exposure class (for retail for each of the categories as defined under point (c)(iv)). Where appropriate, the credit institutions shall further decompose this to provide analysis of PD and, for the credit institutions using own estimates of LGDs and/or conversion factors, LGD and conversion factor outcomes against estimates provided in the quantitative risk assessment disclosures above.

For the purposes of point (c), the description shall include the types of exposure included in the exposure class, the definitions, methods and data for estimation and validation of PD and, if applicable, LGD and conversion factors, including assumptions employed in the derivation of these variables, and the descriptions of material deviations from the definition of default as set out in Annex VII, Part 4, points 44 to 48, including the broad segments affected by such deviations.

2. The credit institutions applying credit risk mitigation techniques shall disclose the following information:

(a) the policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting;

(b) the policies and processes for collateral valuation and management;

(c) a description of the main types of collateral taken by the credit institution;

(d) the main types of guarantor and credit derivative counterparty and their creditworthiness;

(e) information about market or credit risk concentrations within the credit mitigation taken;
(f) for credit institutions calculating risk weighted exposure amounts in accordance with Articles 78 to 83 or 84 to 89, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered — after the application of volatility adjustments — by eligible financial collateral, and other eligible collateral; and

(g) for credit institutions calculating risk weighted exposure amounts in accordance with Articles 78 to 83 or 84 to 89, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches provided in Annex VII, Part 1, points 17 to 26.

3. The credit institutions using the approach set out in Article 105 for the calculation of their own funds requirements for operational risk shall disclose a description of the use of insurance for the purpose of mitigating the risk.
8 February 2008

Summary of European Industry Commitments to the European Commission regarding Transparency in the European Securitisation Market

Preamble

The European financial services industry is aware of the concerns expressed by policy makers and politicians relating to transparency and disclosure in the European securitisation market. All the major trade associations named above are committed to working closely together and with other interested stakeholders to make timely improvements in this area.

The associations are working on three initiatives identified with the European Commission as priorities. Under each of these initiatives, there are a number of different work streams. Different associations will be responsible for delivering the outputs of their particular work streams in accordance with their own areas of specialisation.

The overarching initiatives and the associations responsible for particular work streams within them are listed below.

1. CRD Pillar 3 – Securitisation Exposure Reporting: EBF, LIBA, ESBG and EACB;

2. Industry Market Data Report: ESF, SIFMA, CMSA and ICMA;

3. Investor Information Initiatives: ESF, SIFMA, ICMA, CMSA, EBF, LIBA, ESBG and EACB.

1. CRD Pillar 3 – Securitisation Exposure Reporting

Pillar 3 forms a key part of the Capital Requirements Directive (CRD), bringing market discipline to the fore of financial regulation by implementing comprehensive disclosure requirements.
In order to address current market concerns regarding the transparency of investment firms’ and credit institutions’ exposures to securitisation, the European industry is undertaking a programme of work with the objective of sound and consistent implementation of the securitisation related CRD disclosure requirements. An assessment of proposed implementation and the information needs of providers of short term liquidity to the market will be carried out.

This work will culminate in the development of EU CRD good practice guidelines on securitisation disclosures to be published for consultation at the end of June 2008. In particular, these guidelines will be designed to ensure:
- that the disclosures are made at a sufficient level of granularity; and
- that the CRD terminology is used consistently.

As a result, clarity and comparability of Pillar 3 securitisation disclosure will be enhanced. The European industry is committed to implementing these guidelines within their upcoming Pillar 3 disclosures. The respective associations will share the guidelines with their members and firms will be strongly encouraged to adopt them.

2. Industry Market Data Report

The European industry is committed to transparency and providing public information on the market. At present, information on the public securitisation markets needs to be collected from a wide variety of sources. In order to assist politicians and policy makers in monitoring the evolution of these markets, the European industry has committed to provide a periodic report on market data, starting in June 2008.

The report, which will be produced on a frequent and regular basis will initially include data that is currently available from existing sources, newly aggregated and will develop over time. The report will provide information in a consolidated format and in some instances may rely on estimates. The aim is to include information on a wide variety of instruments, including ABCP, term ABS, and CDOs. Information will include aggregate data on primary (i.e. new issuance) activity by type and location of investors as well as by region and asset class, and in respect of secondary market activity, summary changes in ratings and spreads. Such aggregate information may differ according to instrument type.

Further work will be undertaken over time by market participants, regulators, and the European Commission to identify information that would be relevant and useful in achieving an appropriate level of transparency in respect of the secondary market for securitisation.

The report will also include a selection of summary data from the US markets.

3. Investor Information Initiatives

The European industry believes that no public securitisation transaction should be sold unless the issuer provides enough regular information for third parties to assess it. Investors not only need upfront disclosure information on each public transaction structure and initial portfolio, but also ongoing data on the performance of the pool assets and information on rating changes. Although generally information is currently available, not all of the information is easily accessible to all market participants. The European industry is committed to increasing transparency to investors in the securitisation markets. This will involve making initial prospectus and ongoing investor pool reports on term public transactions openly accessible. Provision of information is subject to legal and technical feasibility review, including the ability to provide this information without liability, on either future or existing term transactions. Lastly, a working group has been formed to develop, to the extent possible, standardised definitions used in various countries for various products, in order to improve consistency and investor understanding. The European industry believes that these initiatives
will improve market transparency and will help in promoting better understanding of transaction structures and performance.

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INTRODUCTION

Further to the October ECOFIN meeting, and the discussions between the industry and the Commission regarding the EU roadmap, the European industry set up a number of work streams to address disclosure and transparency. One of these working groups is focusing on Pillar 3 securitisation disclosures and the development of industry good practice guidelines, which will be published for consultation by the end of June 2008. As an input into this process, the working group decided to undertake a survey of market participants to determine the factors that influenced their decision to fund the bank and investment firm sector during the second half of 2007, the appropriateness of the information that is currently received and the likely usefulness of the various securitisation disclosures required by the CRD and where they may require further elaboration to ensure that relevant and useful information is produced.

The report is structured in two sections, an executive summary of the key findings and an analysis of each of the questions. The questionnaire is contained as Annex.

EXECUTIVE SUMMARY

This report summarises the findings from the 32 responses received. Of these, 18 responses were from banks (including commercial, public, savings and development banks); 4 from investment managers; 4 from investment firms; 3 from insurers; 2 from trade associations (representing members from the banking industry); and, 1 from a building society. Respondents come from firms with their head offices in 10 countries: France, Germany, Italy, Netherlands, Slovenia, Spain, Sweden, Switzerland, UK and USA. Not all respondents answered all questions.

Since the Pillar 3 disclosures were generally not available at the time of the questionnaire, the results therefore reflect firms’ views on the likely usefulness of these disclosures in their decision-making.
The number of responses received was lower than anticipated particularly as many industry associations, who had strongly encouraged their membership to respond, supported the initiative. In the absence of further responses it is obviously not possible to determine with certainty whether this is due to a perception that the Pillar 3 disclosures or of low significance, or a lack of understanding of what they might deliver (the questionnaire could only ask about expected usefulness, since actual Pillar 3 disclosures were not available). However, we believe that the results of the questionnaire still provide a useful input into the development of the good practice guidelines and possibly provide support for its role as an educational tool for users.

Overall, the survey results demonstrate that there is room for improvement in the current disclosures, even when recognising the improvements in disclosures made as a direct response to recent market events. In particular the expressed desire for more consistent and granular disclosures does demonstrate that there is a role for the good practise guidelines on Pillar 3 securitisation disclosures.

Current disclosures

The questions in this section were to determine the value that counterparties place on the current information provided. The majority of respondents believed that the current disclosures are slightly less than necessary, although just over a quarter thought that they were adequate and only a fifth thought that they are inadequate. There was recognition by some that current disclosures had responded to recent market events. Frequency of current disclosures was an issue for a slight majority, although generally participants thought that the information was provided in a timely manner.

The key drivers of information used to determine the level of funding provided to the bank and investment firm sector in the second half of 2007 fell into three broad categories: financial strength of the bank or investment firm counterparty; liquidity and funding issues in respect of the counterparty or the liquidity provider itself; and, general market conditions.

In respect of the type of involvement a firm has in securitisation, participants were most interested in the level of investment, followed by origination and then sponsoring.

Key information sources currently (in order of importance34) were: investor reports, rating agencies, annual accounts and bilateral information.

Pillar 3 disclosures

These questions were aimed at assessing the likely usefulness of the forthcoming Pillar 3 securitisation disclosures (which were not available during the second half of last year or at the time of the questionnaire) and identifying the areas where guidance might be necessary to ensure sound and consistent implementation.

The results of the survey provide support for the development of industry good practice guidelines on the Pillar 3 securitisation disclosures. Although only a small percentage of respondents thought that these disclosures would have ‘definitely

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34 Determined on a weighted average basis.
influenced’ their decision on the level of funding they would have provided the market in the second half of 2007, over half thought that they ‘probably’ or ‘possibly’ would have influenced their behaviour.

In addition respondents indicated a strong desire for consistency of presentation of the disclosures and for a consistent definition of ‘exposure type’ (which underpins many of the disclosures).

Of the specific CRD Pillar 3 disclosures the top 3 items considered most useful (based on weighted average responses) were:

- breakdown of securitisation positions held by exposure type (Q19)
- role as investor (Q9)
- role of originator (Q9)

The fact that participants viewed the breakdown of securitisation positions held by exposure type (Q19) as being the most important disclosure mirrors the feedback received on the relevant importance of current disclosures. Notably, the survey results accorded the qualitative disclosure on a firm’s role as investor and originator the 2nd and 3rd rank, respectively, in terms of usefulness.

Based on a weighted average of responses, the next 5 disclosures considered as useful were:

- outstanding amount of securitised exposures (Q14)
- qualitative indication of the extent of investor activity (Q10)
- impaired and past due information on exposures securitised (Q17)
- objectives as investor (Q8)
- objectives as originator (Q8)

Looking at the bottom of the list, the items considered least useful were:

- originators’ and investors’ interest in revolving securitisations (Q21)
- disclosure of securitisations in the year of inception only where the originator retains no further interest (Q15)
- qualitative indication of the extent of involvement in other roles, i.e. not originator, investor or sponsor (Q10)
- information on other roles performed (Q9)
- objective of the firm in relation to other roles (Q8)

Only a minority of respondents indicated that there were terms that needed to be defined, although, as noted above, there was a strong desire for consistency of interpretation of exposure type.

Approximately half of the participants responded to the question on granularity of information desired. However, it has not been possible to draw any meaningful conclusions from the information provided because of the dispersion of results. The working group will consider this issue further as part of the development of the guidelines.

As to whether there were perceived gaps in the Pillar 3 requirements, the majority of respondents either did not comment or indicated that there were no significant deficiencies. Some respondents, however, did provide some suggestions on disclosures.
In relation to the role of disclosure, global consistency was highlighted as an important issue. It was also emphasised that securitisation disclosure is only one aspect of the information necessary for firms to make funding decisions and that information needs vary between counterparties. In relation to the current market environment it was noted that there is a difference between the information needs now and those in a future steady state and that the market will find its own level in terms of the amount of disclosure it requires.
DETAILED RESULTS OF THE QUESTIONNAIRE

Question 1
What were the key factors that influenced your decision on the level of funding that you provided (or the reduction in the level of funding you would have provided) to the bank and investment firm sector during the second half of 2007? Please include both internal and external (general market and idiosyncratic) factors and please rank in order of importance.

Although the precise language of the submissions varied, three broad drivers underpinned the majority of factors listed in determining the level of funding provided to bank and investment firm counterparties: financial strength of the bank or investment firm; liquidity and funding issues in respect of the counterparty or the funding firm itself; and, general market conditions/liquidity. Overall, financial strength was the primary driver across all the rankings. Liquidity and funding and market factors were the second and third most important factors at Rank 1.

Also mentioned were the availability of hedging instruments such as collateral; transaction specific issues; existing relationships with the counterparties, the location of the counterparty, the importance of the counterparty to that location and the economic environment in which it operates. Interestingly only two respondents indicated that the level of disclosure was a factor in their decision making (both at Rank 4).

Many firms directly cited financial strength or financial standing. Other factors that were cited that are illustrative of this driver include:
- ‘share price’
- ‘external rating’
- ‘latest reports about profitability’
- ‘detailed exposure by asset class’
- ‘significance of exposure to securitisation markets’
- ‘earnings diversification’
- ‘business model (retail bank, wholesale bank, broker)’
- ‘capital ratios (tier 1 particularly)’

In relation to liquidity/funding issues, examples of factors cited include:
- ‘liquidity position and cash-flow’
- ‘sources of funding (diversification/stability)’
- ‘maturity profile’
- ‘liquidity facilities/commitments’
- ‘own liquidity position and forecast’

Factors cited in relation to market conditions included:
- ‘perception of market liquidity’
- ‘pricing’
- ‘general market cds/cash spread levels’
- ‘economic conditions’

In answering this question, several participants pointed out that the factors that influenced decisions would depend on the type of business being undertaken i.e. the blend of factors of importance will vary between different businesses within a firm. For example one firm indicated that from a liquidity providers’ point of view it was very important to know how much the counterparty relies on securitisation

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35 Some factors cited were attributed to more than one driver.
for funding. For that reason several respondents either did not or only partially ranked the factors. Other participants highlighted that securitisation is only a part of the information necessary to make funding decisions. As a result there are always likely to be follow-up questions from any data provided.

One respondent highlighted that the funding tensions were caused not only to multilateral mistrust between banks but also the closure of all major primary markets. Another indicated that recent events had not materially changed the amount of funding that they had provided to the market. Yet another highlighted the importance of the ongoing relationship with the counterparty in determining funding decisions.

**Question 2**

*What aspect of firms’ exposures to securitisation is most important to you when making your funding decision: origination, investment or arranging?*

The graph below illustrates that when looking at securitisation information as part of the funding decision, the extent of securitisation investments is the most important factor: In the comments received with this question, one respondent noted that investment positions will vary over time. Another indicated that information on holdings should include liquidity facilities provided to conduits and SIVs.

Origination and sponsorship are quite clearly of second and third order importance respectively.
Question 3
Where do you get most of your information on firms’ exposures to securitisation currently? (e.g. annual accounts, investor reports, rating agency reports, bilateral information provided by counterparty, etc)

In weighted average terms, investor reports were the most important source of information for users currently, followed by annual accounts/firm publications of results and rating agency reports. In absolute terms, annual reports and investor reports scored equal top for rank 1. Rating agencies scored highest at ranks two and three. Bilateral information scored evenly across the rankings, but was highest ranking at rank 5. One firm highlighted that it was difficult to provide a ranking for information because different things will be relevant to different departments of the firm depending on the transactions being undertaken. Several respondents cited more than one information source in a particular ranking.

Although bilateral information did not feature that strongly in the rankings, one respondent indicated that where the nature of the transaction is time critical, bilateral information is crucial. Another respondent also noted that at the start of the market turmoil information gathering was difficult. Yet another indicated that there is no one source of information about a firm’s exposure to securitisation, the closest information source that provides this is the rating agencies.

Question 4
Do you think that the level of information you receive at the moment on firms’ exposures to securitisation (public and bilateral information) is generally inadequate, slightly less than necessary, appropriate, or more than necessary

[^36]: Not all respondents provided five factors or ranked them.
The fact that the majority considers the current level of disclosure to be slightly inadequate indicates that there is room for improvement. One market participant did note, however, that disclosure had increased in response to recent events.

One respondent noted that the level and content of information provided did vary from firm to firm, whilst another observed that more consistency of presentation would be helpful. This comment is supported by the answer to question 23 below. Several respondents did note that the level of information provided on exposure to securitisation could be improved.

Question 5
If you ticked 'slightly less than necessary' or 'inadequate', please specify what additional information you think should be produced.

The majority of market participants responding to this question (i.e. a subset of respondents) indicated that they are seeking greater granularity in the information provided in terms of investments and origination, but there were also a number of references to valuation information. However, although greater granularity came through as a theme, the precise detail varied between respondents, examples below:

- asset type underlying the securitisations positions held
- the products themselves – traditional, synthetic
- ratings/risk of positions held
- vintages
- seasoning of portfolios
- exposure to conduits and SIVs including liquidity provision
- whether SPVs are consolidated or not
- third party insurance and guarantees
- risk assessment and stress testing of securitisations originated
- where profit is generated in the value chain
- impairment levels
Two respondents indicated that information should be provided on the trading book, although one respondent commented that investments obviously change over time. A further two respondents commented on frequency of provision of data, but it was not clear as to whether this related to ongoing frequency of data production or availability of information during the current market turmoil. They also did not specify the frequency that they were seeking.

**Questions 6 and 7**

**Is the (public and bilateral) information you receive produced at an appropriate frequency?**  
**Is the information received in a timely fashion?**

The results to questions 6 and 7 would tend to suggest that frequency of disclosure is an issue for a marginal majority of respondents. However, a significant majority of participants are content that information is provided in a timely manner.

**Question 8**  
**A description of the firm’s objectives in relation to securitisation activity (BCD Annex XII, para 14(a))**

On a weighted average basis, the most useful disclosure as regards objectives was for the firm as investor. However this was closely followed by originator and then sponsor. Objectives regarding other roles were considered less useful. The dispersion of responses is shown in the chart below.

Some respondents indicated that information on objectives was already available (for example as part of the general corporate strategy) or could be obtained bilaterally. One respondent indicated that it was not clear how useful it would be to separately identify securitisation objectives from the overarching corporate objectives. Another thought that the objectives would be very similar between firms.
One participant indicated that it is important to have a clear understanding of the roles (and other terms). This was supported by the answer to Question 24 where several participants indicated that definitions of roles would be helpful.

Two respondents indicated that they thought there should be differentiation between originators who securitise their own assets and those that purchase assets to securitise. However, this was not suggested by other respondents.

**Question 9**
**The roles played by the firm in the securitisation process (BCD Annex XII, para 14(b))**

On a weighted average basis, the results for information on the roles followed those for the objectives, i.e. in order of usefulness: investor, originator, sponsor other. However the weighted averages for investor, originator and sponsor were even closer than for objectives. The dispersion of results is shown in the graph below.

As with question 8, the definition of roles was identified as an important consideration by one respondent, which is supported by the answers to Question 24. Two respondents commented that – within or outside these roles - disclosures should be made on the provision of liquidity facilities or on whether liquidity provision was taken up as a separate role.

One participant indicated that this information is already available bilaterally if requested. However, another thought that the information provided here would be more useful than the objectives as it would be institution specific (objectives are more likely to be generic across institutions).
**Question 10**  
*An (qualitative) indication of the extent of the firm’s involvement in each role (BCD Annex XII, para 14(c))*

On a weighted average basis the order of usefulness of the disclosures was the same as for Questions 8 and 9, i.e. investor, originator, sponsor and other. The scores between investor and originator were slightly less close than for Questions 8 and 9.

Although the majority of respondents indicated that qualitative disclosure regarding a firm’s involvement in the roles would be useful, some respondents indicated that this information will be difficult to interpret without quantitative details. As with objectives and roles, one respondent indicated that this information is already available bilaterally, i.e. the information is available if the counterparty asks.

**Question 11**  
*The approaches to calculating risk weighted exposure amounts that the firm follows for its securitisation activities (BCD Annex XII, para 14(d))*

Nearly two thirds of respondents thought that information on the risk weighting approach used for securitisation exposures would be either useful or very useful. One respondent explained this score by highlighting that this information was not available elsewhere.

One respondent did note that in relative terms, this information was much less useful than the quantitative information on the securitisation exposures themselves. Another respondent indicated that information on the risk weighting approach would only be useful if it was accompanied by detailed information on how the capital requirement was calculated.
Question 12
A summary of the firm’s accounting policies for securitisation activities including (BCD Annex XII, para 14(e)):

(a) whether the transactions are treated as sales or financing  
(b) the recognition of gains on sales  
(c) the key assumptions for valuing retained interests; and  
(d) the treatment of synthetic securitisations if this is not covered by other accounting policies

On a weighted average basis disclosure of the treatment of synthetic securitisations was considered to be the most useful, followed by whether transactions are treated as sales or financing; the key assumptions for valuing retained interests; and, lastly, the recognition of gains on sales. The dispersion of results is set out in the graph below.

There were relatively few comments on this question. They observed the following:

- the information is already available bilaterally;  
- further clarity would be helpful in respect of what disclosures (a) and (b) were intended deliver;  
- it is important to understand if the transaction is treated as a standard securitisation or for synthetics the treatment of the derivative;  
- requirements set by the local regulator need to be explained;  
- distinction was sought between those transactions sold to the market and those retained as part of a warehousing arrangement.
Question 13
The names of the credit rating agencies used for securitisations and the types of exposure for which each agency is used (BCD Annex XII, para 14(f))

Information on the rating agencies used by the firm is considered by respondents to be one of the less useful disclosures, with nearly 60% of respondents considering it to be only ‘slightly useful’ or ‘not useful’ at all. This is perhaps because structured finance transactions tend only to be rated by the major players.
Questions 14 and 15
The total outstanding amount of exposures securitised by the firm and subject to the securitisation framework broken down by traditional and synthetic, and by asset type (BCD Annex XII, para 14(g))

How useful to you would it be if securitisation transactions in which the originating firm does not retain any exposures were disclosed separately, but only reported in the year of inception as part of the disclosures in question 14?

Disclosure of exposures securitised is considered by respondents to be one of the more important aspects of the securitisation disclosure requirements with nearly three quarters of respondents indicating that this information is either ‘very useful’ or ‘useful’.

Common definitions were noted by two recipients as being important for the usefulness of the disclosures made. One participant indicated that the split between traditional and synthetic is the less important element of this disclosure. Another indicated that information about financing structures would be helpful.

The disclosure of those transactions where the originator retains no further interest in the year of inception was not considered that helpful. Some respondents think that the outstanding stock of securitised exposures should be disclosed on an ongoing basis. Another respondent, in contrast, took the view that disclosing those transactions where originators retain no interest in the transaction merely creates noise.

Question 14
Question 15

[Pie chart showing responses to Question 15]

Question 16

In relation to the disclosures in Q14, the Basel Accord includes the following footnote: ‘Where relevant, banks are encouraged to differentiate between exposures resulting from activities in which they act only as sponsors, and exposures that result from all other bank securitisation activities that are subject to the securitisation framework.’ How useful would it be to you to have this information disclosed?

The separate disclosure of sponsored transactions from own originated transactions was also regarded by participants as useful, with approximately two thirds of respondents indicating that this is either ‘very useful’ or ‘useful’. Two participants who commented on this question raised the issue of how firms who sponsor transactions that include some of their own assets would be treated for the purposes of this disclosure.

[Pie chart showing responses to Question 16]
Questions 17 and 18

For exposures securitised by the credit institution and subject to the securitisation framework, a breakdown by exposure type of the amount of impaired and past due exposures securitised, and the losses recognised by the firm during the period (BCD Annex XII, para 14(h))

In relation to the disclosures in Q17, the Basel Accord also includes the footnote: ‘Where relevant, banks are encouraged to differentiate between exposures resulting from activities in which they act only as sponsors, and exposures that result from all other bank securitisation activities that are subject to the securitisation framework.’ How useful would it be to you to have this information disclosed?

The breakdown of securitisations by exposure type of the amount of impaired and past due exposures is also considered useful with approximately two thirds of respondents indicating that it would be ‘useful’ or ‘very useful’.

One respondent indicated that this information is only really meaningful if impairment details are provided at the transaction level. However we note that such an approach would be inconsistent with the general premise of data aggregation that underpins the Pillar 3 disclosure requirements. Such transaction level disclosures are already available, as another participant pointed out, in the trustee and rating agency reports. Another respondent suggested that impairment information is only useful if the firm is retaining exposures to an originated securitisation. Definition of impaired and past due was raised as an issue, which accords with the answers received to Question 24.

The disclosure of the distinction between transactions sponsored and own originated for impaired and past due, as provided for in the Basel footnote set out in Question 18, was considered by respondents to be slightly less relevant than the original CRD requirement, although the majority of respondents still indicated that they would find this ‘very useful’ or ‘useful’.

![Question 17 Pie Chart]

- 27% not useful
- 3% slightly useful
- 30% useful
- 40% very useful
Question 19
The aggregate amount of securitisation positions retained or purchased, broken down by exposure type (BCD Annex XII, para 14(i))

Given the response to question 2, it is hardly surprising that the breakdown of securitisation positions held by the firm is regarded to be most important element of the CRD requirements, with in excess of 80% of respondents indicating that this information would be ‘very useful’ or ‘useful’. One respondent indicated that it would be helpful to provide a further breakdown of positions held between those that are retained and those that have been purchased. However, we note that this would raise the issue of how to allocate positions in own securitisations purchased at a later date. Definitions were again raised as an issue for further consideration.
**Question 20**
The aggregated amount of securitisation positions retained or purchased, broken down into a meaningful number of risk weight bands. Exposures that have been risk weighted at 1250% or deducted should be disclosed separately (BCD Annex XII, para 14(j))

Since the breakdown of securitisation positions held by risk weight bands give an indication of the perceived risk in the portfolio (from a regulatory perspective) it is surprising that the percentage of respondents who thought that this information would be very useful or useful falls to 67%. This is perhaps because regulatory risk weight bands are a less well understood concept than rating grades. One participant did suggest that the disclosures in 19 and 20 would be more useful if they were to be combined.

![Question 20 Pie Chart](chart.png)

**Question 21**
The aggregate outstanding amount of securitised revolving exposures segregated by the originator’s interest and the investor’s interest (BCD Annex XII, para 14(k))

The disclosure of originators’ and investors’ interest in securitisations of revolving assets is regarded by participants as being one of the least useful disclosures, with over half of respondents indicating that it would be ‘slightly useful’ or ‘not useful’. This is possibly because, as indicated by one of the respondents, there is a lack of clarity as to what this disclosure would entail. Another respondent indicated that this disclosure would not deliver meaningful risk information. This participant thought that size and type of structure would be more helpful information.
Question 22

A summary of the securitisation activity in the period including the amount of exposures securitised (by exposure type) and recognised gain or loss on sale by exposure type (BCD Annex XII, para 14(l))

The responses to this question demonstrate that market participants are more interested in the stock of outstanding transactions than they are in the activity during the period. That said, however, over half of respondents thought that this information would be ‘very useful’ or ‘useful’. Although one commentator indicated that trend data would be more useful than a one period ‘snapshot’. Recognised gain or loss on sale was identified as a definitional issue.
Question 23
How important is it to you that the information you find ‘useful’ or very useful (in questions 8 to 21 above) be presented in a common format?

As can be seen below common format, and therefore consistency of presentation, was viewed as important by over 90% of respondents. Support for the development of industry guidelines enhancing convergence in the presentation of Pillar 3 disclosures is therefore evident.

Question 24 and 25
From questions 8 to 14, 17 and 19 to 22, are there any terms for which you think it would be helpful to have common definitions?

In particular how useful would it be to have common definitions for exposure type

Given the response to question 23 regarding formats, surprisingly few participants identified terms that they thought required defining (approximately one third). However consistency of definition of exposure type was considered to be ‘very important’ or ‘helpful’ by over 80% of respondents to question 25.

Of those that responded to question 24 the most popular terms for which definitions were sought were:

- ‘originator, sponsor, investor and other roles’
- ‘asset type’
- ‘impaired’ and ‘past due’

The second most popular terms were:

- ‘synthetic securitisation’
- ‘meaningful number of risk weight bands’
Question 26
In questions 14, 17, 19, and 22 where disaggregated information is required by asset type, exposure type or risk weight band, what level of granularity would you find relevant to your decision making?

Approximately half of respondents provided comments on this question. However, it has not been possible to develop any meaningful conclusions from the answers provided given the range of responses provided because the answers ranged from 0% to 100%. The Working Group proposes to consider this issue further as part of the development of the guidelines and will consult with market participants as part of that process.

Question 27
Is there any information that you think would be very useful to you but is not covered by the CRD disclosure requirements?

The majority of respondents either did not comment or indicated that there were no significant gaps in the disclosure requirements outlined in Pillar 3. Those that did respond suggested the following areas where more information would be helpful:

- disclosure of liquidity arrangements
- re-securitisations (particularly of own originated transactions)
- synthetic securitisations of securitisations
- own securitisations repo’d
- use of off balance sheet vehicles
- breakdown of securitisation positions by asset class and geography
- valuation methodologies used for pricing securitisation positions held
- securitisation positions in the trading book
- distinction between positions retained and purchased
- qualitative information on investments, for example how much relates to originated securitisations
- qualitative information on the disclosure of impaired and past due securitisations, for example in relation to geography
- consistency between the disclosures in question 14 and 22, with respect to total outstanding securitisations and the activity during the period
- information on hedging
- whether SPEs are consolidated or not and the volume of exposure to them
- credit support arrangements (e.g. indemnities provided)
- capital savings from securitisation

**Question 28**

Any other comments on the role of firms’ disclosure of securitisation activities in the current market conditions

From the responses received and subsequent commentary we have received from other firms, the need for consistency at a global level is considered important (particularly if there are going to be changes to the Pillar 3 framework). It has been emphasised that securitisation disclosures are only one element in the decision making process. There is also a balance to be struck between the information provided (there are different appetites between counterparties as to the amount of information desired), the delicacy of the current market situation and the cost benefit associated with expanded disclosure. In respect of the current market situation, one respondent did comment that since the market is undergoing a period of dramatic change, it is important to re-consider the relevance of the Pillar 3 disclosures in the context of both the current position (where increased disclosure is necessary) and the future steady state (where the relevant information may be different). Additionally the market is likely to find its own level as to the amount of disclosure that it requires.

**Question 29**

Overall, do you think the disclosures outlined in Questions 8 to 14, 17 and 19 to 22 would have positively influenced you to provide more funding to banks and investment firms in the second half of 2007?

Although only a small percentage of participants indicated that the Pillar 3 disclosures would have ‘definitely influenced’ their decision on the level of funding that they provided to the market in the second half of last year, a significant proportion thought that it would ‘probably’ or ‘possibly’ have influenced their behaviour.

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37 The majority of respondents did not answer this question.
Question 29

- Not influenced: 11%
- Possibly influenced: 25%
- Probably influenced: 35%
- Definitely influenced: 29%
ANNEX 4: DRAFT INDUSTRY GOOD PRACTICE GUIDELINES

INTRODUCTION

1 GENERAL ISSUES

1.1 Status and implementation of the guidelines

These guidelines were developed by the industry with the objective of sound, consistent and
granular implementation of the CRD Pillar 3 securitisation requirements. While these
guidelines are not binding in a legal sense, firms are encouraged to take account of them in
the preparation of their disclosures.

Where a firm has prepared its disclosures in accordance with these guidelines this fact should
be disclosed. Where this is not the case, in full or in part, it is recommended that the firm
provide an explanation for the different approach to enhance user understanding.

1.2 Level of application

Pillar 3 securitisation disclosures should be made at the consolidated level only. However,
where a local regulator has specified particular disclosures at the entity level for that
jurisdiction, these must obviously be prepared.

1.3 Comparative information

Comparative information should be made available from the second year of operation of the
Pillar 3 securitisation disclosures for securitisation positions retained or purchased.

1.4 Materiality

Firms may only omit some or all of the Pillar 3 securitisation disclosures if they are not
material. For these purposes, Annex XII, Part 1, Point 1 of Directive 2006/48/EC defines
materiality as information that if omitted or misstated could change or influence the
assessment or decision of a user relying on that information.

1.5 Location and Medium of disclosures

In accordance with Article 148 of Directive 2006/48/EC, firms should determine the location
and medium of the securitisation disclosure requirements. The location and medium should be
consistent with the other Pillar 3 disclosures. Firms should clearly signpost where these
disclosures can be found on their website and/or in their annual accounts.

1.6 Frequency of disclosure

In accordance with Article 147 (1) of Directive 2006/48/EC, Pillar 3 securitisation disclosures
should be made at least annually. In determining whether disclosures should be made more
frequently (Article 147(2) of Directive 2006/48/EC) firms should take account of Annex XII,
Part 1, Point 4; i.e. the relevant characteristics of their business such as scale of operations,
range of activities, presence in different countries, involvement in different financial sectors,
and participation in international financial markets and payment, settlement and clearing
systems.
2 DETAILED CRD REQUIREMENTS

QUALITATIVE DISCLOSURES

2.1 Business model: objectives, roles and extent of involvement in securitisation

CRD Requirements

Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

(a) a description of the credit institution's objectives in relation to securitisation activity;
(b) the roles played by the credit institution in the securitisation process;
(c) an indication of the extent of the credit institution's involvement in each of them;

Objective

To provide users with a context to the quantitative disclosures by providing a meaningful analysis of the firm’s business model with regard to securitisation.

Implementation Guidance

1) The disclosures should provide meaningful and relevant information in relation to the firm’s business model and business strategy underpinning the securitisation activity. Business model, in this context means the basic business logic for engaging in securitisation, in whatever capacity; the relationships and nature of the exposures that result and their expected contribution to the value of the firm. What types of transactions is it involved in, giving an indication of which are the most important? What value do these activities add to the firm?

Examples

- Securitisation could be used for funding, concentration risk management, to meet client risk requirements, as a trading strategy etc.
- The types of structures that a firm may be involved in may be product related e.g. residential mortgages, commercial mortgages, conduits; and may be synthetic or traditional cash based structures.

2) Where the business model has materially changed, for example as a result of recent market events, a firm should communicate this accordingly.

3) All relevant securitisation activities of the firm should be explained - not just those within the specific definition in the CRD. A firm should provide qualitative information on its trading book activities and in relation to banking book securitisation transactions that are not within the scope of the CRD securitisation definition. Firms should explain how this qualitative analysis relates to the quantitative analysis provided in later disclosures.

4) When commenting on the roles that it plays, a firm should use the following terms: originator, sponsor and investor. As part of its participation in these primary roles, a firm should also indicate whether it acts as liquidity provider.

5) When providing information on the extent of its involvement in securitisation, firms should consider whether it is appropriate to include quantitative information, or provide references to the quantitative information provided in other disclosures, as well as qualitative discussion.
2.2 Regulatory Capital Calculation Methods Used

CRD Requirements
Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

(d) the approaches to calculating risk weighted exposure amounts that the credit institution follows for its securitisation activities;

Basel Footnote
E.g. RBA, IAA and SFA.

Objective
To allow users to make a more meaningful comparison of different firms' quantitative disclosures for securitisation positions retained or purchased by providing an understanding of the calculation methods used.

Implementation Guidance
1) Firms should disclose whether they are using the Standardised or Internal Ratings Based Approach when calculating capital requirements. If they are an IRB firm, they should also outline which of the methods in the hierarchy of approaches (RBA, IAA or SFA) they are using and for what type of exposures.
2) The firm should outline all the methods used to perform the consolidated capital calculation.
3) Where disclosures are required at a local level, the approaches used in that jurisdiction should be set out and if necessary and where appropriate an explanation that the group approach is different.

2.3 Valuation and Accounting Policies

CRD Requirements
Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

(e) a summary of the credit institution’s accounting policies for securitisation activities, including:

(i) whether the transactions are treated as sales or financings;
(ii) the recognition of gains on sales;
(iii) the key assumptions for valuing retained interests; and
(iv) the treatment of synthetic securitisations if this is not covered by other accounting policies;

Objective
To provide a more detailed explanation of the accounting policies used in respect of securitisation, where these are not explicitly covered elsewhere, and to provide a context to the quantitative disclosure requirements by outlining the main differences between the regulatory and accounting treatments.
Implementation Guidance

1) A firm should either provide discrete disclosures referring to the accounting treatments for securitisations originated within their Pillar 3 disclosures or provide a reference to where these can be found.

2) A firm should provide explanation of where the accounting and regulatory treatments diverge. For example, transactions may be considered financings and on balance sheet for accounting purposes but may be treated as off balance sheet for regulatory purposes because the de-recognition / transfer requirements are different and remaining exposures are captured by other means in the regulatory framework.

2.4 Rating Agencies Used

CRD Requirement

Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

(f) the names of the ECAIs used for securitisations and the types of exposure for which each agency is used;

Objective

To give users an understanding of the inputs into the capital calculation.

Implementation Guidance

1) Rating agencies specified should relate to those used for the calculation of capital requirements relating to securitisation positions.

2) Where relevant exposure types can be differentiated in accordance with the following categories: residential mortgages, commercial mortgages, credit card receivables, leasing, loans to corporates or small and medium sized enterprises (where they are treated as corporates for capital purposes), consumer loans, trade receivables, securitisations (re-securitisations), and other (e.g. multi asset structures).
2.5 Exposures securitised – by transaction type and exposure type

CRD Requirement
Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

(g) the total outstanding amount of exposures securitised by the credit institution and subject to the securitisation framework (broken down into traditional and synthetic), by exposure type.

Basel Footnotes
224. Securitisation transactions in which the originating bank does not retain any securitisation exposure should be shown separately but need only be reported for the year of inception.
225. Where relevant, banks are encouraged to differentiate between exposures resulting from activities in which they act only as sponsors, and exposures that result from all other bank securitisation activities that are subject to the securitisation framework.

Objective
To provide users with an understanding of the importance of its non-trading book securitisation origination to the firm’s business. This disclosure is not about investments but what has been securitised.

The scope of transactions to be disclosed by the originator should be those in the non-trading book where regulatory de-recognition has been obtained for the purposes of calculating Pillar 1 capital requirements.

Implementation Guidance
1) Disclosures on the outstanding stock of exposures securitised should also be provided by the sponsor separately.
2) Aggregate exposure value should be the outstanding amount as of the date of the disclosures. Where this information is not available for prior year originated transactions or for sponsored deals, either exposure value at the date of transaction inception, or the current amount of notes outstanding should be used, and the basis for presentation should be explained.
3) Exposure values (where outstanding notes is not being used) should be calculated in accordance with the financial statements, gross of the application of provisions.
4) Relevant exposure types are: residential mortgages, commercial mortgages, credit card receivables, leasing, loans to corporates or small and medium sized enterprises (where they are treated as corporates for capital purposes), consumer loans, trade receivables, securitisation (re-securitisation), and other (e.g. multi asset structures).
5) Where the aggregate exposure value for an individual exposure type is 10% or more of the total of all exposure values, the category should be separately disclosed. A qualitative explanation of the categories that make up the residual balance should be provided.
### Example format

<table>
<thead>
<tr>
<th>Originator</th>
<th>Traditional</th>
<th>Synthetic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exposure type</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sponsor</th>
<th>Traditional</th>
<th>Synthetic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exposure type</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 2.6 Impaired and Past Due exposures securitised – by exposure type and losses

**CRD Requirement**

Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: *The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:*

(h) *for exposures securitised by the credit institution and subject to the securitisation framework, a breakdown by exposure type of the amount of impaired and past due exposures securitised, and the losses recognised by the credit institution during the period.*

**Basel Footnote**

225. Where relevant, banks are encouraged to differentiate between exposures resulting from activities in which they act only as sponsors, and exposures that result from all other bank securitisation activities that are subject to the securitisation framework.

**Objective**

To provide insight into the credit quality of the underlying pool of a securitisation transaction and to give an indication of how well an originator has performed, from an investor perspective, in comparison to its peers.

**Implementation Guidance**

1) The scope of originated transactions to be assessed for this disclosure requirement should be those in the non-trading book where regulatory derecognition has been obtained for the purposes of calculating Pillar 1 capital requirements.

2) Disclosures of aggregate impaired, past due and loss information should also be provided for transactions sponsored by the firm separately.

3) Impaired and past due should be defined in relation to the financial statement classification rather than the regulatory designation.
4) Exposure value should be calculated based on financial statement values before provisions. Exposure value should be the outstanding amount as for the date of the disclosures. Where this is information is not available for prior year originated transactions or for sponsored deals, either exposure value at the date of transaction inception, or the current amount of notes outstanding should be used and the basis for presentation should be explained.

5) Relevant exposure types are: - residential mortgages, commercial mortgages, credit card receivables, leasing, loans to corporates or small and medium sized enterprises (where they are treated as corporates for capital purposes), consumer loans, trade receivables, securitisations (re-securitisations), and other (e.g. multi asset structures).

6) Where the aggregate exposure value for an individual exposure type is 10% or more of the total of all impaired or past due exposure values, the category should be separately disclosed. A qualitative explanation of the categories that make up the residual balance should be provided.

7) With regard to losses to be disclosed these need to be shown on a gross basis and not on basis of the overall position of the firm. This applies equally to traditional and synthetic securitisation transactions.

**Example format**

<table>
<thead>
<tr>
<th>Originator</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exposure type</td>
<td>Impaired and past due</td>
<td>Losses</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sponsor</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exposure type</td>
<td>Impaired and past due</td>
<td>Losses</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**2.7 Securitisations Positions, retained and purchased, by exposure type**

**CRD Requirement**

Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: *The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:*

- (i) the aggregate amount of securitisation positions retained or purchased, broken down by exposure type;
Objective
To give an indication of the dispersion of a firm’s holdings, thereby providing information on concentrations or likely sectoral risks.

Implementation Guidance
1) This disclosure applies to the firm in respect of its primary roles as originator, sponsor and investor on an aggregate basis.
2) This disclosure applies to securitisation positions held in the non-trading book.
3) The aggregate amount of positions retained or purchased should be based on the exposure values calculated according to the CRD prior to the application of credit risk mitigation techniques and credit conversion factors.
4) Relevant exposure types are: residential mortgages, commercial mortgages, credit card receivables, leasing, loans to corporates or small and medium sized enterprises (where they are treated as corporates for capital purposes), consumer loans, trade receivables, securitisations (re-securitisations and other (e.g. multi asset structures).
5) Where the aggregate exposure value for an individual exposure type is 10% or more of the total of positions held, the category should be separately disclosed. A qualitative explanation of the categories that make up the residual balance should be provided.
6) Comparative information with regard to the prior year should be made available.

Example format

<table>
<thead>
<tr>
<th>Exposure type</th>
<th>Retained and purchased</th>
<th>Retained and purchased</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current year</td>
<td>Prior year</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.8 Securitisations Positions, retained and purchased, by risk weightings

CRD Requirement
Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

(j) the aggregate amount of securitisation positions retained or purchased, broken down into a meaningful number of risk weight bands. Positions that have been risk weighted at 1250 % or deducted shall be disclosed separately;

Objective
To assist users understanding of the credit quality of the firm’s exposure to securitisation transactions.
Implementation Guidance

1) This disclosure applies to the firm in respect of its primary roles as originator, sponsor and investor on aggregate basis broken down to risk bands.

2) This disclosure applies to securitisation positions held in the non-trading book.

3) The amount of positions retained or purchased should be based on the exposure values calculated according to the CRD prior to the application of credit risk mitigation techniques and any credit conversion factors.

4) Relevant risk weight bands are: [pending consultation].

5) Comparative information with regard to the prior year should be made available.

Example format

<table>
<thead>
<tr>
<th>Risk weight band</th>
<th>Positions retained and purchased</th>
<th>Positions retained and purchased</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current year</td>
<td>Prior year</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.9 Exposure to securitisations of revolving assets

CRD Requirement

Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

(k) the aggregate outstanding amount of securitised revolving exposures segregated by the originator’s interest and the investors’ interest;

Objective

To provide users with an understanding of the extent of funding provided by securitisation to pools of revolving assets (usually credit cards), and the extent to which firms would face liquidity risk and a need for capital to support the asset pools if the transactions were to hit unwind triggers.

Implementation Guidance

1) This disclosure is relevant to the firm’s role as originator in securitisations of revolving assets that achieve regulatory de-recognition under Pillar 1.

2) The amounts disclosed are the exposure values for originators interest and investors’ interest, determined in accordance with the CRD, as at the disclosure date.

Example format

<table>
<thead>
<tr>
<th></th>
<th>Exposure value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Originators interest</td>
<td></td>
</tr>
<tr>
<td>Investors interest</td>
<td></td>
</tr>
</tbody>
</table>
2.10 Securitisation Activity during the Year

CRD Requirement
Annex XII, Part 2, Paragraph 14 of Directive 2006/48/EC states: The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

(i) a summary of the securitisation activity in the period, including the amount of exposures securitised (by exposure type), and recognised gain or loss on sale by exposure type.

Objective
To give users an understanding of the trend in usage of securitisation as a risk management or funding tool.

Implementation Guidance
1) The scope of transactions to be disclosed by the originator should be those in the non-trading book where regulatory de-recognition has been obtained for the purposes of calculating Pillar 1 capital requirements.
2) Separate disclosures on the securitisation activity during the year should also be provided regarding the securitisation activity as a sponsor. Where a firm acts both as an originator and sponsor with regard to one transaction both activities shall be disclosed.
3) Aggregate exposure value should be the outstanding amount as for the date of the disclosures. Where this information is not available, either exposure value at the date of transaction inception, or the current amount of notes outstanding should be used and the basis for presentation should be explained.
4) Exposure values should be calculated in accordance with the financial statements, gross of the application of provisions.
5) Relevant exposure types are: - residential mortgages, commercial mortgages, credit card receivables, leasing, loans to corporates or small and medium sized enterprises (where they are treated as corporates for capital purposes), consumer loans, trade receivables, securitisations (re-securitisations), and other (e.g. multi asset structures).
6) Where the aggregate exposure value for an individual exposure type is 10% or more of the total of all exposure values, the category should be separately disclosed. A qualitative explanation of the categories that make up the residual balance should be provided.
7) Gains or losses are to be reported for assets derecognised for financial statement purposes during the year and which are subject to the securitisation framework.

Example Format

<table>
<thead>
<tr>
<th>Exposure type</th>
<th>Amount securitised</th>
<th>Gains or loss on sale</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sponsor</td>
<td>Exposure type</td>
<td>Amount securitised Current year</td>
</tr>
<tr>
<td>---------</td>
<td>---------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3 PROCESS ISSUES

3.1 Review of the guidelines.
These guidelines will be next be reviewed, and if appropriate updated by […].

3.2 Location of guidelines
Electronic copies of the latest version of the guidelines can be located at the following web addresses:

- European Association of Co-operative Banks […]
- European Banking Federation […]
- European Savings Banks Association […]
- London Investment Banking Association […]
GLOSSARY

Approaches to calculating risk weighted exposure amounts

The capital requirements framework for securitisation credit risk exposures has two main approaches:

- The Standardised Approach (SA), which is less complex and primarily based on external ratings; and,
- The Internal Ratings Based Approach (IRB), which is more complex. Within the IRB there are a hierarchy of methods for calculating capital requirements – the Ratings Based Approach (RBA) which is based on external ratings, Inferred Ratings, whereby a credit rating is inferred from the nearest more junior tranche that has an external rating, and then either the Internal Assessment Approach (IAA) or the Supervisory Formula Approach (SFA), followed by deduction. The IAA is only available for exposures to ABCP programmes and is based on rating agency methodologies but implemented by the bank or investment firm. The SFA is a regulatory specified formula based on five inputs - IRB capital charge had the underlying exposures not been securitised (KIRB); the tranche’s credit enhancement level (L) and thickness (T); the pool’s effective number of exposures (N); and the pool’s exposure-weighted average loss-given-default (LGD).

Gain or loss on sale

This means the accounting gain or loss recorded for assets derecognised in the firm’s financial statements.

Impaired or past due exposure

Any exposure that which would be regarded as impaired or past due for the purposes of preparing the financial statements.

Investor

A bank or investment firm, other than an originator, sponsor who records a securitisation position.

Investor’s interest

In relation to a securitisation of revolving exposures means the exposure value of the notional part of the pool of drawn amounts not falling within point (a) of the definition of originator’s interest plus the exposure value of that part of the pool of undrawn amounts of credit lines, the drawn amounts of which have been sold into the securitisation, not falling within point (b) of the definition of originator’s interest.

Liquidity provider

A bank or investment firm that records a securitisation position arising from a contractual agreement to provide funding to ensure timeliness of cash flows to investors.

Originator

(a) An entity which, either itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposure being securitised, or

(b) An entity which purchases a third party’s exposures on to its balance sheet and then securitises them.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Originator's interest</td>
<td>In relation to a securitisation of revolving assets is the sum of: (a) The exposure value of that notional Part of a pool of drawn amounts sold into a securitisation, the proportion of which determines the proportion of the cash flows generated by principal and interest collections and other associated amounts which are not available to make payments to those having securitisation positions in the securitisation; plus (b) The exposure value of that Part of the pool of undrawn amounts of the credit lines, the drawn amounts of which have been sold into the securitisation, the proportion of which to the total amount of such undrawn amounts is the same as the proportion of the exposure value described in point (a) to the exposure value of the pool of drawn amounts sold into the securitisation. To qualify as such, the originator's interest may not be subordinate to the investors' interest.</td>
</tr>
<tr>
<td>Retained interests</td>
<td>Non trading book securitisation positions held in own originated transactions. Such positions may take a number of forms, for example, securities in the transaction, fx or interest rate swaps with the SPV, or loans to / equity in the transaction</td>
</tr>
<tr>
<td>Revolving exposure</td>
<td>An exposure whereby customers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to an agreed limit. An example of a revolving exposure would be a credit card</td>
</tr>
<tr>
<td>Risk weight band</td>
<td>[o/s]</td>
</tr>
<tr>
<td>Securitisation/securitised exposure</td>
<td>This is an asset that is in the pool of assets that has been securitised, i.e. pre-securitisation</td>
</tr>
<tr>
<td>Securitisation framework</td>
<td>Securitisation transactions which fall within Articles 94 to 101 and Annex IX of 2006/48/EC, i.e. transactions that are treated as ‘securitisation’ within the Pillar 1 capital calculation. Transactions falling within this definition may be a smaller set of transactions than the common language interpretation of securitisation. This will be because of the boundary definition provided by the CRD.</td>
</tr>
<tr>
<td>Sponsor</td>
<td>A bank or investment firm other than an originator credit institution that establishes and manages an asset backed commercial paper programme or other securitisation scheme that purchases exposures from third party entities’ A securitisation where the tranching is achieved by the use of credit derivatives or guarantees, and the pool of exposures is not removed from the balance sheet of the</td>
</tr>
<tr>
<td>Synthetic securitisation</td>
<td>originator credit institution</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>Securitisation position</td>
<td>This is an exposure to a securitisation transaction, for example, a note, loan, tranched credit derivative, liquidity facility, for interest rate swap exposure to a securitisation transaction.</td>
</tr>
<tr>
<td>Traditional securitisation</td>
<td>A securitisation involving the economic transfer of the exposures being securitised to a securitisation special purpose entity which issues securities. This shall be accomplished by the transfer of ownership of the securitised exposures from the originator credit institution or through sub-participation. The securities issued do not represent payment obligations of the originator credit institution.</td>
</tr>
</tbody>
</table>